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Doubts over new 'stress tests'

By David Enrich
And Stephen Fidler

LONDON—As market sentiment toward the euro zone continues to sharply deteriorate, European plans for another round of bank "stress tests" next year are already beset by squabbling and the possibility that the test results won't become public.

European officials are planning a new round of bank "stress tests" that they say will be more rigorous than the widely discredited exams conducted earlier this year.

But the tests are already subject to bickering between countries. While some European leaders are pushing for next year's tests to be broader and more transparent than last summer's exercise, the agency that will oversee the tests says it might opt to not publicly disclose the results.

The planned European Union stress tests are a follow-up to last summer's exams of 91 European lenders, whose results were published in an attempt to restore confidence in the health of the continent's banks.

The exercise temporarily eased fears about European banks' vulnerabilities to the burgeoning sovereign-debt crisis. But those jitters have been steadily building since late July. The tests were largely discredited by revelations that they lacked rigor, including a Wall Street Journal report in September that the tests understated some banks' holdings of potentially risky sovereign bonds.

The eroding confidence is now accelerating, thanks to events like the international bailout of Ireland. Two big Irish banks that passed the tests have encountered trouble and are likely to end up majority-owned by the Irish government. This week, the stress tests' effectiveness—or lack thereof—was back in the spotlight as fears mount that financially shaky countries such as Portugal, Spain and Italy may follow in Ireland and Greece's footsteps and require foreign bailouts.

Yields on Spanish, Italian and Belgian bonds rose sharply Tuesday and the euro tumbled to a two-month low against the dollar. Also Tuesday, European Central Bank President Jean-Claude Trichet sought to allay financial market concerns over the procedure for dealing with possible sovereign defaults.

Europe's banks, holding tens of billions of euros worth of bonds issued by troubled governments, are caught in the crossfire. Investors are dumping the banks' shares, and the banks are growing nervous about lending to each other. It is precisely the situation the stress tests were meant to avert.

On Tuesday, a top European Union official for the first time publicly acknowledged problems with last summer's tests. "There was some variety in terms of rigor and application of these tests," European Economic and Monetary Affairs Commissioner Olli Rehn said in Brussels.

Mr. Rehn said the European Banking Authority, a newly created agency that is set to officially open its doors in early 2011, will have the power to conduct next year's tests in a more "rigorous" manner than last summer's exams. People familiar with the matter say the EBA's new tests may examine banks' access to funding—a major weakness for some European banks—in addition to the previous tests' focus on the banks' cushions to absorb losses.

The European Union's second stab at the stress tests will take place next year. The EBA is already working on the methodology and scope for

Please turn to page 4

Euro-zone crisis


Reuters
ECB President Jean-Claude Trichet sought to allay financial market concerns on Tuesday.

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Deloitte partner faces insider-trading charges

By Jessica Holzer

WASHINGTON—The Securities and Exchange Commission on Tuesday charged a Deloitte Tax LLP partner and his wife with passing nonpublic information about pending corporate deals to relatives in London.

The SEC, in a civil complaint filed in federal district court in Northern California, alleged that San Francisco residents Arnold McClellan and his wife Annabel alerted her sister and brother-in-law Miranda and James Sanders about at least seven pending transactions from 2006 to 2008.

The McClellans allegedly learned about the deals through Mr. McClellan's work leading one of Deloitte's regional mergers and acquisitions teams, the SEC said.

James Sanders, who cofounded a derivatives-trading firm in London, allegedly took financial positions in the acquisition targets based on the tips and shared the insider information with his colleagues at the firm, **Blue Index** Ltd.

The SEC said the Sanderses netted $3 million from transactions based on the tips, half of which they shared with the McClellans. Mr. Sanders's colleagues and clients made $20 million in profits from the tips, according to the SEC.

The U.K. Financial Services Authority last week announced charges against the Sanderses and three of James Sanders's colleagues. The SEC decided not to charge the Sanders to avoid duplicating efforts already being made by the U.K. authorities, the official said.

Lawyers for the three colleagues couldn't be reached when the charges were filed last week.

A lawyer for Arnold McClellan said he denies the charges. A lawyer for Annabel McClellan didn't immediately respond to a request for comment.

A Deloitte spokesman said the firm is cooperating with the SEC's investigation.

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For leadership, read stewardship

[Agenda]

By Ken Costa

We need to rethink leadership. The financial crisis and the continuing turbulence have exposed a crisis of values. Acres of newsprint have been consumed with what people did, but little serious consideration has been given to the moral underpinning to their behavior. There can be no lasting restoration of confidence without answering the question: What kind of leadership can take us through the transition to greater stability? I believe the answer is the leader as steward.

We live in a time of turbulence and transition. Mistakes of commercial judgment were made. But the roots of the crisis go much deeper. Finance became dominated by easy money and "originate and distribute"—disassembling and reassembling financial assets such as mortgages in ever more complex ways and passing the parcel as though production could be separated from responsibility.

The market was allowed to become a master instead of a servant. Too often finance ignored the silent partner—that great mass of the population that has been profoundly affected by the crisis but had little say in the decisions which precipitated it. In so doing, the moral, spiritual and financial dimensions of life were artificially sundered apart.

Nevertheless, capitalism did not fail. Rather, the principles that make capitalism so powerful a moral force—its capacity to promote freedom and improve lives—were neglected. Rewards were not based on genuine risk. Equity was neglected in favor of perverse ingenuity. Short-termism prevailed. Above all, the concept of service was impoverished.

Calamitous upheavals such as the near collapse of the financial system are frequently followed by transitions, a move from one set of attitudes and practices to another set. Critically, they lead to another state of mind—a future quite different from that previously envisaged. We cannot go through a crisis of this magnitude without deep soul-searching. Something went very wrong and we do not wish to repeat it.

Agence France-Presse/Getty Images

Capitalism was under fire at an autumn protest in Berlin.

Making the transition to where we want to be rather than wherever events take us is the terrain of leadership. But leadership today in any walk of life—business, politics, the military, charities—is fraught with difficulty. The turbulence in the euro zone is just the latest instance of what seems to be an increasingly volatile world in which events can move very fast. Distinguishing the valuable from the worthless in the deluge of information can be hard.

Stewardship might sound unrealistic. But what was the kind of leadership that led us into crisis?

This is an opaque period. Great global trends underlie the confusion: an epochal shift of power from West to East epitomized by a crisis that was made in London and New York and not in Mumbai and Shanghai; a sharpening contest of religious beliefs, although this century will be marked by a rise of faith rather than the march of secularism; and of course the digital revolution, which has turned **Facebook**'s 500 million users into the world's third-biggest country. Faced with such forces we must either shape or be shaped.

Leadership falls firmly into the category of things we think we recognize but find hard to define—love, truth, justice, an elephant. A good working summary, however, is that genuinely successful leaders can get a group to achieve an objective, quite possibly an objective they did not think they could reach or even thought they wanted to reach. Under such leaders, we buy into something that is bigger than ourselves.

The legitimacy of leaders comes from their followers. Command-and-control does not work in this Wiki-world of swirling ideas and data that reinforce informal power structures. The potentially undemocratic nature of leadership can be redeemed by the leader's values and behavior—above all, by achievements that followers see as based on good values and as beneficial to them. The leader, in short, is a steward of the community's interests.

Society partly recognizes this. Corporate managers are supposedly the agents of the shareholders. Generals place great store by the welfare of their troops. Religious leaders have certainly regarded themselves as serving their flocks. The integration of leader and servant is a profoundly Christian idea, though it can also be found in other faiths such as Buddhism.

But the steward does not just manage. He or she has a moral obligation to conserve resources for the future, if necessary by making cuts now to generate growth later. The most demanding test of the servant-leader is whether those served grow as people—the opposite of old-fashioned coercive leadership. In this sense, the steward is the moral spirit in action, the self confronting good and evil in the real world.

Stewardship has three elements. First, influence. The steward manages networks of resources and information to effect change. The steward may take the initiative, but it works only if influence is a two-way street.

Second, affluence. Good stewardship is rewarded by material affluence. With it comes moral affluence—a richness of spirit flowing from a constructive reciprocity between the present and the future, the leader and the followers, the self and the still, quiet voice of conscience.

Third, confluence. Leadership has to bring people together, not as a common-denominator consensus, but in a way that enables us to grow as people.

Stewardship might sound unrealistic. But what was the kind of leadership that led us into crisis? We need now to reintegrate the elements that make us human—the moral, spiritual and financial—to make what may be a long transition from turbulence to renewed confidence and greater stability. The leader as steward can take us there.

—The author is chairman of Lazard International and professor of commerce at Gresham College. This article is based on a lecture he gave at the college recently.

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NEWS

Strong Aussie dollar deflates Barmy Army

By Eva Szalay

LONDON—Few English cricket fans would have been thinking about U.S. monetary policy when they booked their trip to Australia for this year's Ashes series.

But now that the contest has begun, these cricket fanatics are paying a brutal price for everything from burgers to beers thanks to the sky-high Australian dollar.

The currency has been edging higher for some time, but it is now at dizzying levels as a mix of comparatively high interest rates, close economic links with China and a once-in-a-century rally in commodities has propelled it to new heights. Sterling, by contrast, is limping under the weight of a meek recovery from recession and feeble interest rates. The Aussie got an added boost in the run-up to November, when the U.S. Federal Reserve announced it was embarking on another round of bond-buying to try to stimulate economic growth.

That all adds up to bad news for hugely enthusiastic English cricket fans—known semi-affectionately as the Barmy Army—who travel the world to watch their beloved national team in action.

The Ashes series, against the once-indomitable Australians, attracts an almost religious following. Thousands of fans have made the trip, at a huge personal expense in terms of flights and accommodation.

But while the Barmy Army once chanted "we're fat, we're round, three dollars to the pound," at the opposing Australian fans, they are now wincing at the cost of everything.

"We are paying the equivalent of £6 to £7 per pint of beer. It has made a dramatic difference," said Stuart Kitching, a 53-year-old tax inspector from Newcastle-upon-Tyne, watching the showdown in Brisbane.

Mr. Kitching also visited Australia two years ago, and describes the change in the exchange rate since then—which leaves him paying twice as much for a beer as he does back home—as "horrendous."

His experience is common. Cricket Australia, the sport's governing body Down Under, says that thousands of tickets for the five-match series remain unsold, and travel experts expect to see Barmy Army numbers dwindle as fans grapple with the punishing exchange rate. Fewer than 20,000 English fans are thought to have made the trip this year, down almost 50% from 2006.

This time last year, £1 fetched A$1.80. Two years ago it was A$2.35, while four years ago during England's last cricket tour of Australia the rate was A$2.49. Now the pound buys just over A$1.60—sterling's weakest exchange rate since the Australian dollar first floated freely in 1983.

While that hasn't deterred all fans from making the trip, it is clearly hurting those who are there.

"We've had to tighten the money belts. On our first night in Brisbane, a burger and chips cost the equivalent of £15. After that we started going to the local supermarket for food. We've worked hard to get here and I don't want to chuck all our money away in Australia," said Norman Scott, a 48-year-old pub owner from Newcastle-upon-Tyne.

Still, the Australian dollar's strongest days may be behind it. The euro-zone debt crisis is tempering investors' enthusiasm for risky bets, China is trying to rein in credit growth and the Reserve Bank of Australia sounds more cautious on the future path of interest rates.

"The RBA may be nearing the peak of its current interest-rate cycle," said analysts at **UBS**, adding that commodity-linked currencies might see some weakness against the dollar going into the end of the year. They expect to see the Aussie trading between A$0.93 and A$0.97 against the U.S. dollar for the next month or so.

But this might be too little, too late for the Barmy Army, which for now has to face up to some sobering economic realities.

"After a good dinner out, it wakes you up from your hangover in the morning when you think about the money you spent," said Gareth Birch, a 37-year-old insurance broker from Cheltenham.

—Enda Curran in Sydney and Andrew People in Brisbane contributed to this article.

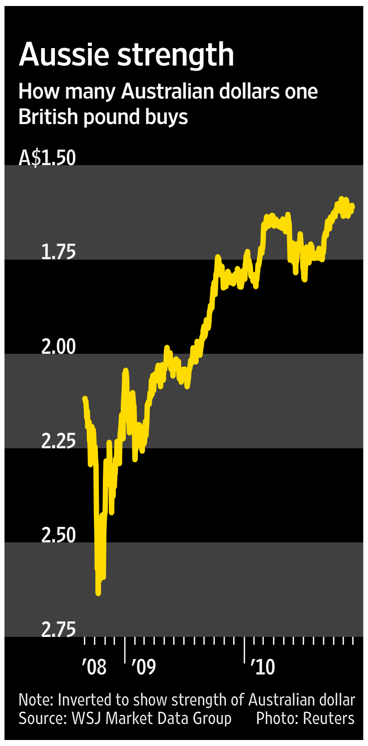
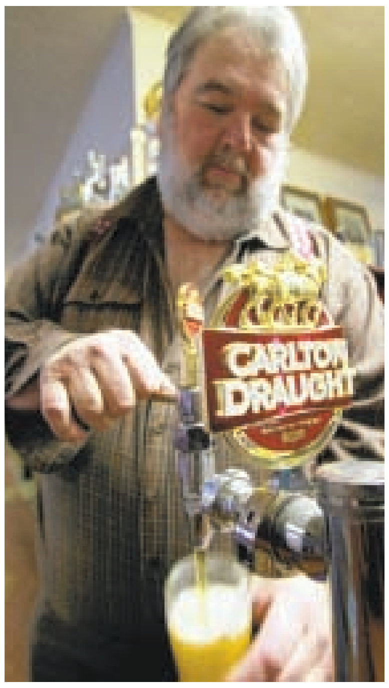


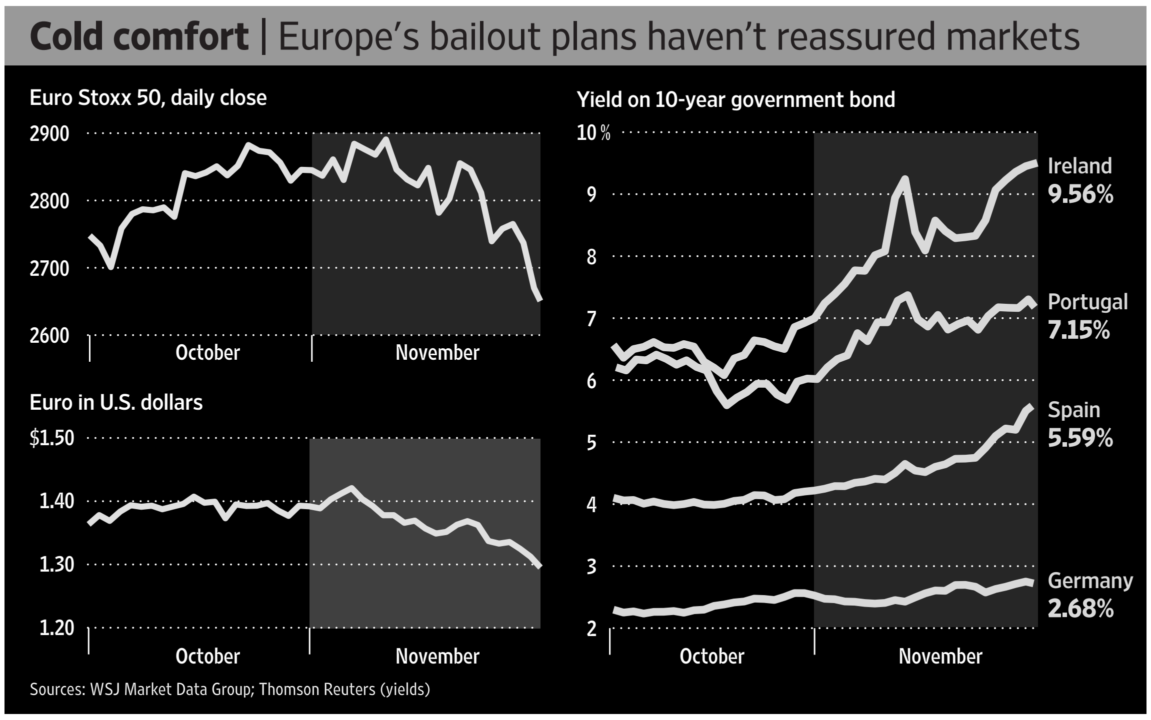
Photo: Reuters



A pub owner pours a Fosters Carlton Draught beer in Melbourne.

Crisis of confidence deepens

By Marcus Walker



Investors dismissed European leaders' latest attempt to restore market calm, raising doubts about whether governments have enough options and financial firepower to keep the region's common currency intact as signs emerge that the debt crisis is creeping deeper into the continent.

The euro fell to a 10-week low, slipping to close below $1.30. Bond markets across Europe's vulnerable fringe sank as the risk premium that investors attach to Spanish and Italian government bonds hit highs.

The selloff extended Monday's declines, suggesting that Sunday's agreement by European governments to bail out Ireland and set up a permanent European rescue fund has left investors cold.

Germany and other European governments hoped the twin announcement would end the near-panic that has gripped debt markets in recent weeks. Instead, a crisis of confidence that began last year in Greece has continued to spread, from Ireland to Portugal and Spain.

In addition to the enormous government debt weighing on periphery countries, investors also worry that the region's banks could face big shortfalls. If problems among the banks are greater than disclosed, that would affect these countries' budgets—and the size of the bailouts they would need. That concern is driven largely by a lack of trust in the integrity of stress tests undertaken by euro-zone banks earlier this year. Ireland's banks passed the tests, yet it was the weakness of those same banks that forced the country to seek a bailout.

Particularly worrying to Europe's leaders are early signs that the market turmoil is spilling into countries thought to be less at risk—Italy and Belgium.

"Tension is very high, in part because the market has already raided three countries," said Luca Cazzulani, deputy fead of fixed-income strategy at Italy's Unicredit bank.

Economists agree that Europe's current bailout fund is sufficient to rescue Spain. But if Italy, Europe's third-largest economy, teeters, a rescue would test both Europe's economic resources and the will of healthier countries, such as Germany, to shoulder the debts.

Italy is faring better economically than some of its neighbors and its budget deficit is among the lowest in the euro zone. But the country also boasts the region's second-largest debt burden.

Germany stands accused by many, from financial markets to European capitals, of fueling the current panic by insisting that Europe's future bailout facility include rules that could see bondholders take a hit if euro-zone governments need a rescue.

German Chancellor Angela Merkel pushed hard for that principle, insisting that it is unacceptable that private investors make profits from lending to governments while taxpayers must cover all of the losses. Even economists who believe she is right in principle say the timing of Germany's push was terrible, however, since it undermined fragile confidence in European debt markets.

German officials insist the future debt-restructuring rules will affect only future bonds, not existing euro-zone debt, which they say will be repaid in full even after bailouts. But merely talking about the issue has shattered the assumption that Western European governments don't default.

That means Germany, France and other financially strong countries in Europe are now increasingly likely to have to bail out Portugal and possibly Spain following the rescues of Ireland and Greece.

"By their actions, the Germans have unsettled the markets and brought about what they're hoping to prevent," says Simon Tilford, chief economist at the Center for European Reform, a London think tank.

Even the prospect of more and bigger bailouts of weaker euro-zone governments is no longer enough to win back investor confidence, because emergency loans don't solve the region's underlying problem, say economists: Several countries on the euro-zone periphery have more debt than their weak economies can cope with.

The rising cost of borrowing for countries on the euro-zone periphery bodes ill for their plans to issue hundreds of billions in new bonds in coming years. Ireland, Portugal, Spain and Italy need to issue close to €900 billion ($1.187 trillion) of government bonds over the next three years, with Italy alone accounting for about €500 billion, according to Citigroup estimates.

Many observers say the euro zone will eventually have to choose between unraveling or creating a deeper union that includes financial transfers from strong countries to weaker ones. Giving up on the euro would undermine 60 years of political effort to build a united Europe, and could cause devastating economic and financial disruption in the region.

—Alessandra Galloni, Stephen Fidler and Christopher Emsden contributed to this article.

Contagion fear hits bonds, euro

By Mark Brown
And Eva Szalay

LONDON—Yields on Spanish, Italian and Belgian bonds rose sharply and the euro tumbled to a two-month low against the dollar as investors continued to worry that the financial problems of some members of the euro zone would infect others in the 16-nation bloc.

The Dutch finance minister acknowledged that it "could take months" before stability returns to the euro zone, even as he sought to soothe investors in the wake of the bailout of Ireland, agreed to last weekend.

The head of the European Central Bank, meanwhile, sought to allay concerns over the procedure for dealing with a possible default of a euro-zone nation. He stressed that European finance ministers wouldn't necessarily demand, in advance, that private-sector creditors be forced to shoulder losses in the event of a default.

Germany had been demanding that bondholders should be forced to accept losses as part of any bailout after July 2013.

European governments "will do everything to defend the euro" and, if necessary, they will help out if other members of the euro zone run into trouble, Dutch Finance Minister Jan Kees de Jager told Dutch broadcaster RTL Z.

"Spain has a funding requirement in excess of €150 billion ($196.85 billion) for 2011 and Italy needs close to €340 billion," Gary Jenkins, head of fixed-income research at Evolution Securities in London, said in a note. "With the market moving rapidly onto Spain and Italy, it is possible that 'too big to fail' becomes 'too big to bail.' "

Spanish Deputy Finance Minister José Manuel Campa played down such concerns. He told legislators that the government has a "comfortable" cash-flow position and "won't have financing problems" this year.

Addressing the EU Parliament in Brussels, ECB President Jean-Claude Trichet stressed that finance ministers had agreed to stick closely to the precedents set by the International Monetary Fund and wouldn't necessarily demand in advance that private-sector creditors be forced to shoulder losses.


Agence France-Presse/Getty Images

Dutch Finance Minister Jan Kees de Jager, shown Nov. 17.

Private-sector creditors would be asked to accept losses only if the country in trouble was unanimously voted as insolvent, he said. Mr. Trichet added that he considers Greece and Ireland to be solvent.

Underscoring investors' unease, the yield premium demanded by investors to hold Spanish 10-year bonds over the less risky German bund, considered the euro-zone benchmark, rose more than 0.3 percentage point to top three percentage points Tuesday, before easing slightly to 2.90 percentage points, according to Tradeweb.

The gap for Italy's 10-year bonds rose more than 0.2 percentage point to 2.15 percentage points, before moderating to 2.04 percentage points, while the premium for Belgian debt climbed more than 0.20 percentage point to 1.40 percentage points. The yield gap for all three nations hit euro-era records, and yield premiums for Italian and Portuguese debt also rose.

The euro lurched to reach a two-month low of $1.2969, as investors showed little confidence that the region's financial problems will quickly be solved, even after the latest bailout package for Ireland.

EU to apply more rigor in new round of stress tests

Continued from first page

the next batch of tests, said Arnoud Vossen, secretary general of the banking agency's predecessor organization and a likely senior official at the EBA.

Until now, the assumption has been that those test results will be publicly revealed. But that is not necessarily the case.

"This is an open question. We are now looking at the pros and cons," Mr. Vossen said in a recent interview at the agency's headquarters in the 18th floor of a London skyscraper.

Mr. Vossen said the plan was for the tests to get under way next spring, after banks have finalized their year-end numbers, and to wrap up by July 2011.

But some European officials are pressing to accelerate the tests by a few months, arguing that the Irish bailout undermined whatever credibility remained of this year's exercise. These officials said the issue was raised at a meeting of EU finance ministers in Brussels on Sunday that finalized the Irish bailout plan.

Meanwhile, at a meeting of European officials last week, the European Commission, the EU's executive arm, lobbied for the tests to be tougher and to look at a broader range of financial-health metrics, according to people familiar with the matter. But at least some large European countries opposed such a move. The intensifying euro-zone crisis is likely to put added pressure on the EBA.

EU lawmakers in Brussels last summer signed off on the creation of three pan-European regulatory authorities, including the EBA, to replace the existing committees of national supervisors across the continent. Those committees have been relatively weak because they lack specific powers and are often hobbled by squabbling among their members. The EBA, by contrast, will be authorized to craft binding rules that will apply across the EU. It also will have the power to mediate disputes between regulators in different countries.

Even before it gets off the ground, though, the EBA is encountering turbulence. Its launch, originally planned for Jan. 1, is being pushed back by at least a few months. It only recently posted advertisements seeking a new chairman and executive director, and hiring of other top officials is on hold until those positions are filled.

Complicating the process, the EBA is only allowed to hire employees who speak at least two European languages, one of which must be English.

Kay Swinburne, a U.K. member of the European Parliament, said she's "furious" about the bilingual requirement, which she fears will disqualify some U.K. regulatory officials.

Mr. Vossen shrugs off such concerns. "I would imagine that when you're becoming a European agency, it might be helpful to master more than one language," said the Dutch native.

—Carolyn Henson contributed to this article.

EURO-ZONE CRISIS

Irish economic ripples become waves

By Bob Davis

WASHINGTON—The Irish banking crisis and bailout are affecting borrowing costs around the world, moving exchange rates, undercutting efforts to reduce global trade imbalances and whittling the confidence essential to the global economic recovery.

Ireland's economy—about the size of the U.S. state of Connecticut's—isn't big enough to halt that recovery, but as a symbol of tensions among the countries that use the euro, it is stirring concerns beyond Europe about the health of the currency bloc's economy and the ability of European governments to pay their debts.

Indicators show the world economy improving faster than anticipated, says Bruce Kasman, J.P. Morgan's chief economist, citing improved Asian factory production and exports and a pickup in U.S. consumer spending.

But he is wary of boosting his forecast for 3.9% global growth next year—down from 4.7% in 2010—largely because of uncertainty prompted by Europe.

A key issue is whether Portugal, Spain and other European nations larger than Ireland will be forced to accept rescues and toughen their austerity programs, endangering their growth. Equally important, he says, is whether European voters rebel against further bailouts, making default more likely. "The big risk is whether governments can get the populace on board for what's going to be a very difficult ride," Mr. Kasman says.

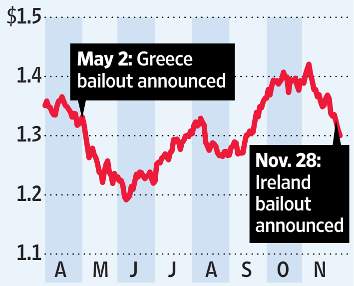
Already, market fears that Spain, Portugal, Italy and Belgium will need rescue packages to cover their debts has boosted those countries' borrowing costs.

Widening uncertainty, said Howard Archer, chief European economist for IHS Global Insight, is one reason euro-zone unemployment remains high, 10.1% in October, according to data released Tuesday. "Companies are increasingly cautious about employing anyone," he said.

Edwin Truman, a former Obama Treasury and Federal Reserve official now at the Peterson Institute for International Economics, said German Chancellor Angela Merkel's insistence on a change in policy that raises the possibility that government bondholders, after 2013, may not get paid in full is having ramifications today. "People say 'If they change the rules of the game today, I'd better protect myself today' "—which means insisting on higher interest rates for lending to governments, he said. "It's threatening; no one knows what the rules are."

Sovereign scare

As sovereign debt woes deepen in Europe, the euro has declined in value compared to the dollar in recent weeks.



Source: Thomson Reuters

So far, turmoil in Europe hasn't had much visible effect on the U.S economy. The main impact, economists say, is a roughly 7% climb in the value of the dollar against the euro since Nov. 1. The euro Tuesday at one point slid below $1.30 for the first time since mid-September. A higher dollar makes U.S. exports more expensive abroad, diminishing demand for U.S. goods and services and diluting the impact of the U.S. Federal Reserve's recent moves to give the economy a boost.

Offsetting the higher dollar, at least in part, is the stimulative effect of lower bond yields produced as global investors move money in to U.S. Treasurys.

The U.S. has a big stake in European growth. About 19% of U.S. exports so far this year have gone to the 27 countries in the European Union.

The first act of the European sovereign-debt crisis, starring Greece, was widely blamed for the global economy's hesitation in the spring, partly because it revived memories of the turmoil surrounding the collapse of Lehman Brothers in the fall of 2008.

The rising dollar is likely to put a crimp in the Group of 20's plans to "rebalance" world growth so it is less dependent on U.S. consumer spending. Trade surplus countries—especially China and Germany—have pledged to reduce their reliance on exports and boost domestic consumption; trade-deficit countries—particularly the U.S.—have pledged to do the opposite.

A cheaper dollar is crucial to convincing all three countries to change their policies. But Ireland's problems have had the opposite effect, boosting the dollar's value because the U.S. is seen as the safest place to park money.

A cheaper euro gives German exporters an edge and reduces the chance that China will let the yuan appreciate further. Because the yuan is tied to the dollar, the dollar's climb against the euro means the yuan rises too and hurts China's export competitiveness against European products.

EUROPE NEWS

Reuters (Italy); Associated Press (U.K.)

University students, holding placards, marched in Rome Tuesday to protest budget cuts, while others gathered in London's Trafalgar Square to protest higher fees. **More photos at europe.WSJ.com.**

Students protest in Italy and U.K.

Associated Press

ROME—Students protesting state university budget cuts clashed Tuesday with riot police who used tear gas and police vans to seal off much of Rome's historic center to stop the demonstrators from reaching Parliament.

There were no reports of serious injuries or damage. Lawmakers on Tuesday were voting on a contested reform bill many students and professors say will give the private sector too much involvement in the state university system.

Protesters claim the funding cuts mean faculty positions will go unfilled.

The protests turned briefly violent as students—about 3,000 in all with a core group of about 200—poured onto the main thoroughfare of the historic center, throwing eggs, tomatoes and smoke bombs at police.

At one point, protesters tried to overturn a police van. Riot police charged after them, using tear gas.

The heavy police presence, intended to prevent the protesters from reaching the square outside the Chamber of Deputies, blocked bus and tram routes for hours and jammed traffic on the main roads leading into the center.

Romans and tourists alike were further inconvenienced when the students then marched on Rome's main train station and occupied several tracks, the ANSA news agency reported.

After the clashes, while the protesters retreated, the eggshells, squashed tomatoes and other garbage remained on the streets.

"They want to keep us out of sight because they know they're wrong," said protester Giacomo Luni, a student at Rome's La Sapienza university.

Prime Minister Silvio Berlusconi brushed off the protests, saying "serious" students were home studying. He defended the changes as necessary to modernize education in Italy, and predicted the bill would pass later Tuesday, the ANSA news agency reported.

Similar protests snarled other cities, including Milan, Turin, Naples, Venice, Palermo and Bari. In Genoa, students protested under the slogan "they block our future, we block the cities."

Meanwhile, British students held a third day of protests Tuesday over plans to triple university tuition fees, with police urging them to avoid the violence that marked earlier demonstrations.

School and university students braved snow in London for a rally in Trafalgar Square against the decision to increase university fees to £9,000 (about $14,000) a year as part of government deficit-cutting measures.

Rows of police officers lined up near the Houses of Parliament, blocking a group of several hundred demonstrators who tried to approach.

The crowd appeared smaller than at two protests earlier in November, as the first snow of the year fell on London. Rallies and sit-ins were scheduled in university towns across the country.

Previous protests drew thousands, and saw groups of students storm the building housing Conservative Party headquarters and attack a police van.

Students have accused the police of a heavy-handed response to isolated violence, after officers corralled protesters for several hours in the cold last week, a controversial practice known as "kettling."

A Banco de Portugal warning

By Patricia Kowsmann And David Gauthier-Villars

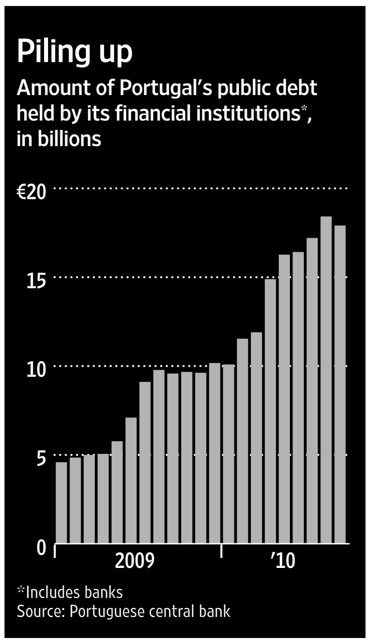
Portugal's central bank warned Tuesday that the nation's financial system was facing "serious challenges," adding to concerns that, after Greece and Ireland, Portugal won't be able to cope alone with growing investor distrust in its sovereign debt.

Struggling to raise funds at affordable cost on international money markets, Portuguese banks have relied on a cheap, alternative source of financing in recent months: the European Central Bank.

This mechanism "will be unsustainable" because the ECB is expected to close the spigot at some point, Banco de Portugal said in a report. It said Portuguese banks must refrain from using financing from the ECB, reduce lending and collect more household savings.

It warned that such tough medicines would hurt Portugal's economy. "This adjustment...will have inevitable negative effects on the Portuguese economy's growth prospects," the report said.

Unlike Ireland's economy, which was rescued by the European Union and the International Monetary Fund on Sunday, Portugal isn't sagging under a pile of real-estate debt. Unlike Greece, Portugal moved relatively quickly to shore up its public finances with a combination of spending cuts and tax increases.



Yet, Portugal is now facing similar pressure. As of this week, the government had to pay nearly 7% to borrow money—a level above which economists say debt is unsustainable in a slow-growing country such as Portugal.

Portuguese banks haven't been a major cause for concern during the global financial crisis because they have been able to diversify lending. Many Portuguese banks have also been getting more and more of their profits from operations abroad, mostly in emerging and booming markets such as Angola and Brazil.

But as prospects for Portugal's economy deteriorated, Portuguese banks were gradually squeezed out of interbank lending markets.

To fill the gap, Portuguese banks have been relying heavily on funding lines from the ECB. They have borrowed around €40 billion ($52.5 billion) in each of the past two months, compared with as little as €15 billion earlier in the year.

Banco Comercial Portugues, for instance, had €14 billion borrowed from the ECB as of September against eligible assets—mostly securitized mortgage and commercial loans—that could be used as collateral totaling €17.8 billion. Its plan is to have more then €20 billion in eligible assets at the end of the year.

Flush with ECB money, Portuguese banks have been increasingly using the funds to buy sovereign debt issued by Portugal.

The country's financial institutions, including banks, have together plowed €17.9 billion in Portugal's public debt as of September, up 87% from €9.58 billion a year earlier, according to Banco de Portugal.

In its Tuesday report, the central bank said this strategy carried risks because "the price of such assets has dropped significantly over the last few months."

Turkey's trade deficit widens, exposing risks

By Joe Parkinson

ISTANBUL—Turkey's trade deficit widened sharply in October, official data showed Tuesday, underlining the emerging economy's growth but spotlighting an imbalance that analysts say leaves it exposed to external shocks.

According to the Turkish statistics institute, or Turkstat, the October trade deficit expanded to $6.3 billion from $2.7 billion a year earlier, exceeding market expectations of a $5.8 billion deficit.

Driving that expansion was a 35.5% year-to-year rise in imports, to $17.3 billion. Export growth moderated 8.8%, to $11.0 billion, Turkstat said.

The news sent Turkish bonds and the lira lower, extending losses generated by euro-zone debt worries, although shares held firm after sharp declines a day earlier.

Economists said the widening deficit reflected Turkey's strong consumer-fueled economic growth, but cautioned that with export growth moderating and imports surging, the trade deficit and, critically, the current-account deficit, were likely to widen further.

"Disappointingly, the data show export growth slowing with imports continuing to boom," said Timothy Ash, an emerging-markets economist at RBS in London. But the figures, he added, are "consistent with a 5% current-account deficit for the full year in 2010."

Turkey's economy has recovered rapidly from the economic crisis, posting 10.3% growth in the second quarter, tying China for the fastest growth in the Group of 20.

But some policy makers and economists are starting to worry that the heavy dependence on imports and domestic demand is magnifying a potentially fatal flaw in its impressive rebound from economic crisis: a blossoming current-account deficit financed by volatile hot money, or speculative investments.

Turkey's Central Bank Governor Durmus Yilmaz recently warned that the quality of the Turkey's deficit financing was "a concern," which may require policy to place "restrictions on demand."

In September, Finance Minister Mehmet Simsek also expressed doubts about the "quality of financing" entering the country.

For some economists, the starring role that hot money plays in funding Turkey's yawning current-account deficit is a red flag that could cause problems if another bout of risk-aversion were to drive investors away from emerging markets and into havens, such as the U.S. dollar or gold.

U.S. NEWS

Russian missiles worry U.S.

By Adam Entous
And Jonathan Weisman

The U.S. believes Russia has moved short-range tactical nuclear warheads to facilities near North Atlantic Treaty Organization allies as recently as this spring, U.S. officials say, adding to questions in Congress about Russian compliance with longstanding pledges ahead of a possible vote on a new arms-control treaty.

U.S. officials say the movement of warheads to facilities bordering NATO allies appeared to run counter to pledges made by Moscow starting in 1991 to pull tactical nuclear weapons back from frontier posts and to reduce their numbers. The U.S. has long voiced concerns about Russia's lack of transparency when it comes to its arsenal of tactical nuclear weapons, believed to be many times the number possessed by the U.S.

Russia's movement of the ground-based tactical weapons appeared to coincide with the deployment of U.S. and NATO missile-defense installations in countries bordering Russia. Moscow has long considered the U.S. missile defense buildup in Europe a challenge to Russian power, underlining deep-seated mistrust between U.S. and Russian armed forces despite improved relations between political leaders.

On Tuesday, Russian President Dmitry Medvedev said NATO's failure to build a joint European missile shield with Russia may force Moscow to deploy new offensive weapons and trigger a new arms race, the Associated Press reported. Mr. Medvedev's comments reflected the deeply rooted Kremlin distrust of Western intentions.

Republican critics in the Senate say it was a mistake for President Barack Obama to agree to the new Strategic Arms Reduction Treaty with Russia, or New Start, without dealing with outstanding questions about Moscow's tactical nuclear weapons. New Start would cap the Russian and U.S. deployed strategic nuclear arsenals at 1,550 per side. It doesn't address tactical weapons, which are smaller and for use on a battlefield.

Agence France-Presse/Getty Images

Lithuania's Foreign Minister Audronius Azubalis says he raised concerns about the weapons with Washington.

Senior administration officials say New Start, like most arms treaties before it, deals only with strategic nuclear weapons, adding that only after it is ratified can Washington and Moscow begin to negotiate a legally binding, verifiable treaty to limit tactical warheads in Europe.

The positioning of Russian tactical nuclear weapons near Eastern European and the Baltic states has alarmed NATO member-states bordering Russia. They see these as potentially a bigger danger than long-range nuclear weapons. Tactical weapons are easier to conceal and may be more vulnerable to theft, say arms-control experts.

Lithuanian Foreign Minister Audronius Azubalis said he raised concerns about the weapons last month with Secretary of State Hillary Clinton and senior defense officials in Washington.

"Being a NATO member, of course, someone could say, 'Don't worry.' But when you're living in the neighborhood, you should always be more cautious," Mr. Azubalis said. He added that American officials "expressed worry but they also don't know too much" about where the weapons are and the conditions under which they are kept.

Classified U.S. intelligence about Russia's movement of tactical nuclear weapons to the facilities has been shared with congressional committees. During a September hearing on the new arms-reduction treaty, Sen. Jim Risch (R., Idaho) spoke of "troubling" intelligence about Russia without saying what it was, adding it "directly affects" the arms-control debate. Senate Foreign Relations Committee Chairman John Kerry (D., Mass.) countered that it had "no impact" directly on Start, without elaborating.

U.S. officials say Mr. Obama's revised approach to missile defense, and warming personal ties with Russian President Dmitry Medvedev, has fostered cooperation in key areas, from isolating Iran to opening new routes to transport gear to Afghanistan.

But mistrust runs deep, U.S. diplomatic cables released by the organization WikiLeaks over the weekend showed.

Two senior Obama administration officials didn't deny the tactical warhead issue has arisen in private discussions with lawmakers, but said the 1991 pledges, known as the Presidential Nuclear Initiatives, weren't legally binding on either side and were difficult to verify.

—Stephen Fidler contributed to this article.

Pentagon: Little harm from lifting ban on gays

By Julian E. Barnes

WASHINGTON—Lifting the ban on gays serving openly in the military could cause some isolated, short-term disruption to the force, a Pentagon study concluded, but it predicted that over time the military would adjust to the policy change.

The report found that 70% of service members reported a positive or mixed reaction should the law be repealed, or forecast no effect from such a change.

Still, the report found more discomfort in combat units. About 48% of Army soldiers in combat arms units, and 58% of Marines in combat units, said there would be a negative effect on unit cohesion.

Fears that including homosexuals in infantry units would hurt cohesion are what turned military leaders and members of Congress against President Bill Clinton's 1993 effort to allow gays to serve in the military. Instead of lifting the ban, Congress passed the current law, dubbed "Don't Ask, Don't Tell," which prohibited gays from serving openly.

'Longer term…we are convinced that the U.S. military can adjust and accommodate this change.'

Openly gay service members can be discharged under the policy, and gay recruits barred from serving.

President Barack Obama has said that if someone was willing to serve, he or she shouldn't be barred because of sexual orientation. But he has said he cannot change the policy unilaterally, because it was put into law by Congress.

Defense Secretary Robert Gates called on the Senate to pass a repeal of the ban this year, saying that he feared if Congress didn't act, the courts would order a hasty change. A federal judge has ruled the policy is unconstitutional, although that ruling has been put on hold.

"The findings suggest that for large segments of the military the repeal of Don't Ask Don't Tell, though potentially disruptive in the short term, would not be the wrenching, traumatic change that many have feared and predicted," Mr. Gates said

"Longer term…we are convinced that the U.S. military can adjust and accommodate this change, just as it has others in its history," the report said.

The report recommended against creating separate barracks or bathroom facilities for gay soldiers. Although a large number of service members expressed reservations about sharing bathrooms with gays and lesbians, the report's authors said such a practice would evoke the "separate but equal" policies that once kept blacks in a second-class status.

And building separate bathrooms, in U.S. bases or in war zones, would be a "logistical nightmare," it said.

Slump in housing prices deepens

By Conor Dougherty
And Matt Jarzemsky

The U.S. housing market is showing signs of falling deeper into a slump that could weigh on the nation's economic recovery.

Home prices nationwide were down 1.5% in the third quarter compared with a year ago, according to the S&P/Case-Shiller home-price index released Tuesday. The drop reflects the sharp fall in home sales after government home-buying tax credits expired earlier this year. Prices fell even more, by 2%, in the third quarter compared with the second quarter.

Case-Shiller's composite index for 20 major U.S. cities fell 0.7% in September, compared with August, not adjusted for seasonal variations. The biggest decline was in Cleveland, where prices fell 3% in September, compared with August. Minneapolis, Portland, Ore., and Phoenix were also big losers, with monthly price declines between 2.1% and 1.5%.

The best showing was in Washington, D.C., where prices increased 0.3% in September from August.

Tough sell

The S&P Case-Shiller housing index shows the mixed state of U.S. housing, by metro area in September 2010

Metro area	Relative value*	Change from August	Change from a year ago
Chicago	124.76	-1.5%	-5.6%
Las Vegas	101.18	0.1%	-3.5%
Los Angeles	175.36	-0.1%	4.4%
Miami	145.64	-1.2%	-2.7%
New York	174.59	-0.3%	-0.1%
Washington, D.C.	188.79	0.3%	4.5%

*The S&P/Case-Shiller indices have a base value of 100 in January 2000. So a current index value of 150 translates to a 50% appreciation rate since January 2000 for a typical home in that market.

Source: Standard & Poor's and FiservData

Despite an improving job market and growth in consumer spending, home prices and sales have stayed consistently depressed through the economy's year-old recovery. The expiration of federal tax credits for home buyers, problems in foreclosure processing and an unemployment rate still at 9.6% have kept buyers at bay and prompted sellers to cut prices.

Those drawbacks, combined with a large stock of unsold homes and distressed sales that hold down prices, have left new-home sales and construction near historic lows.

"The housing market is stuck at the bottom, and we've been stuck there for months," said Patrick Newport, an economist at IHS Global Insight.

A separate report Tuesday showed that consumers are feeling a bit better about the economy in spite of the woeful housing market. The Conference Board, a private research group, said its index of consumer confidence increased to 54.1 in November from 49.9 in October. While confidence remains low by historical standards, the November reading was the highest since June.

Consumers were more optimistic about business conditions in the near future. Those anticipating improving conditions in the next six months rose to 16.7% from 15.8%, while those expecting worsening conditions declined to 12.1% from 14.4%.

Negotiators to tackle tax-cut logjam

By Jared A. Favole
And Corey Boles

WASHINGTON—President Barack Obama on Tuesday said he had assigned Treasury Secretary Timothy Geithner and White House budget director Jacob Lew to work with congressional leaders from both parties to break a logjam on tax cuts that expire at the end of the year.

The assignments came as Mr. Obama emerged from a highly anticipated meeting with congressional leaders without any breakthrough announcements. The president said, however, that he was confident Republicans and Democrats would find common ground in the coming weeks.

The White House had promoted the meeting, which lasted more than an hour, as a way for Democrats and Republicans to rekindle their frayed relationship. Both parties are trying to resolve a dispute over extending the tax cuts enacted under former President George W. Bush.

Mr. Obama said there was wide agreement that the tax issue needed to be resolved before the end of the year. He said he still believed it would be "unfair and unwise" to extend tax cuts for the wealthy. Republicans want to extend the tax cuts to people of at all income levels.

The president characterized the meeting as "extremely civil" and a start to what he hoped was a new spirit of cooperation in Washington. He didn't say whether another meeting had been set.

Associated Press

Sen. Mitch McConnell (R., Ky.), Rep. John Boehner (R., Ohio) and Rep. Eric Cantor (R., Va.) speak after Tuesday's meeting.

"The American people did not vote for gridlock," Mr. Obama said after the meeting, which included Senate Majority Leader Harry Reid (D., Nev.) and the next House speaker, Rep. John Boehner (R., Ohio), among others.

Republican leaders said they had agreed with the president to establish a negotiating group to try to end the disagreement over the tax question. Mr. Boehner said that House Republicans would send Rep. Dave Camp (R., Mich.), the likely chairman of the Ways and Means Committee next year, to represent them in the negotiations. Senate Republicans didn't announce a representative.

If the issue isn't resolved before the end of the year, Mr. Obama will be negotiating with more powerful Republican Party. Republicans are due to take control of the House in January. Democrats will retain control of the Senate, but with a smaller majority.

Mr. Obama, and most Democrats, had insisted in the lead-up to congressional elections in November that the tax cuts be extended for the middle class, not the wealthy. After Democrats suffered big election losses, the White House signaled a willingness to compromise, though it has been unclear what shape that would take.

Congressional Republican leaders have held their ground, saying they won't accept an increase in taxes for the wealthy.

Mr. Boehner and Senate Minority Leader Mitch McConnell of Kentucky wrote an op-ed in the Washington Post on Tuesday in which they pledged to "permanently extend the current tax rates, so small-business owners won't get hit with a massive tax hike at the end of December."

They warned Mr. Obama and congressional Democrats to prioritize. "It's time to choose struggling middle-class families and small businesses over the demands of the liberal base. It's time to get serious," they wrote.

The meeting was originally set for earlier but was delayed because of scheduling conflicts. The White House played down the chances of any major announcements in the lead-up to the meeting, saying it hoped it was the first of many.

In addition to tax cuts, Mr. Obama said the two sides discussed an arms-reduction treaty called Start and extending unemployment benefits to the long-term jobless.

Asked about the likelihood that the Start treaty would be ratified by the Senate before the end of the year, Mr. McConnell said the Senate needed first to resolve the tax dispute and pass legislation funding the federal government for the next 10 months.

After that, he said, Mr. Reid could seek to bring up the treaty if there was time.

Food-safety bill is cleared by Senate

By Bill Tomson

WASHINGTON—The U.S. Senate on Tuesday approved a long-delayed bill to give the Food and Drug Administration a broad array of new food-safety authority.

The bill, approved by a 73-25 vote, is expected to be passed by the House by the end of the year. The measure has wide support from farm, consumer, retailer and manufacturing groups that believe it will prevent massive food recalls and food-borne-illness outbreaks.

"We've been shocked over the past few years by a series of large outbreaks of food-borne illness caused by common food products such as spinach, green onions, peppers, peanut butter, cookie dough and eggs," said Chris Waldrop, director of the Consumer Federation of America's Food Policy Institute. "The new law requires a fundamental shift in the [FDA's] food-safety program, emphasizing prevention instead of waiting until people become sick or die."

The bill would give the FDA the power to mandate food recalls, keep better track of fruit and vegetable shipments so that contaminated commodities can be found more quickly and set new standards for food manufacturers.

The measure doesn't address meat safety, which is the responsibility of the U.S. Department of Agriculture.

The House first approved the food-safety bill in July 2009. Because the Senate made changes before its vote on Tuesday, the House must pass it again.

Traditionally, the House and Senate convene a conference committee to iron out differences after both bodies pass a bill, but lawmakers such as Sen. Mike Enzi (R., Wyo.) said there was no time for that because the lame-duck Congress finishes by the end of the year.

Sen. Tom Harkin (D., Iowa), the chairman of the Health, Education, Labor and Pensions Committee, said he hoped the House would simply approve the legislation exactly as the Senate passed it.

There are about 76 million cases of food-borne illnesses every year in the U.S. that result in 325,000 hospitalizations and 5,000 deaths, according to the Centers for Disease Control and Prevention.

The CDC estimated that 1,470 people became ill after eating salmonella-tainted eggs this summer.

The illnesses prompted a recall of more than half a billion eggs that were sent to 22 states and produced at two facilities in Iowa.

Small farms and food companies were longtime opponents of the bill, claiming the extra Food and Drug Administration regulations would be too burdensome, until a controversial provision was added to the measure.

The provision excludes small farms and food processors with annual sales of less than $500,000 from the new regulations if they sell their products directly to consumers or restaurants no more than 275 miles away from the production site.

THE WIKILEAKS FALLOUT

Iran shown meddling in Iraq

By Sam Dagher

BAGHDAD—Leaked U.S. diplomatic cables provide new details on the U.S. assessment of how Iran's Revolutionary Guards Corps has promoted Tehran's influence in Iraq since the 2003 U.S.-led invasion.

The demise of archenemy Saddam Hussein, with whom Tehran fought an eight-year war in the 1980s, presented the Iranians with an unprecedented opportunity, and they appear to have exploited it from Day One.

The leadership of the Qods Force—the Guards' paramilitary and espionage arm—"took advantage of the vacuum" in aftermath of the fall of Mr. Hussein's regime to begin sending operatives into Iraq when "little attention was focused on Iran," according to an April 2009 dispatch from the U.S. Embassy in Baghdad. The cable was part of a trove of classified U.S. diplomatic communications made public this week by WikiLeaks.

Reuters

A U.S. cable calls Iran's former ambassador to Iraq, Hassan Kazemi-Qomi, shown in 2009, 'an associate' of the Qods Force.

Early priorities for the Iranian operatives included assassinating former Iraqi fighter pilots who flew sorties against Iran during the Iran-Iraq war, according to a December 2009 dispatch from Baghdad. As of the end of last year 180 pilots had been killed, according to the report.

But Iran's broader goals have been the establishment of "an economically dependent and politically subservient Iraq" and the undermining of rivals, in part through paramilitary means, the cables suggest.

Iran's current ambassador to Iraq Hasan Danaie-Far denied in a recent interview that Iran was meddling in Iraq's affairs or supporting militias.

Since 2003, Qods Force commander Brig. Gen. Qasim Soleimani has been "the point man directing the formulation and implementation" of the Iranian government's Iraq policy "with authority second only" to the country's Supreme Leader Ayatollah Ali Khamenei, according to another dispatch from Baghdad dated November 2009.

Through his officers and "Iraqi proxies," Gen. Soleimani "employs the full range of diplomatic, security, intelligence, and economic tools to influence allies and detractors in order to shape a more pro-Iran regime in Baghdad and the provinces," according to the same dispatch.

Some Qods Force operatives have entered Iraq under the guise of charities or the Iranian Red Crescent—the Islamic version of the Red Cross—according to an October 2008 dispatch from America's Iran Regional Presence Office based in the Gulf Arab emirate of Dubai.

The cable says the organization contracted companies affiliated with the Revolutionary Guards to build clinics in Baghdad and the predominantly Shiite cities of Basra, Hilla, Karbala and Najaf to the south. The clinics were used "for treatment but also as warehouses for military equipment or military bases if needed."

Other Iranian operatives came in as diplomats, including some allegedly as senior as Tehran's former ambassador to Iraq Hassan Kazemi-Qomi, who is described as "an associate" of the Qods Force in the November 2009 dispatch.

His successor, Mr. Danaie-Far, is a former naval commander in the Revolutionary Guards.

In addition to training, funding and arming Shiite militias in Iraq involved in attacking U.S. interests, Gen. Soleimani has overseen economic development assistance to Iraq and the promotion of bilateral trade. He also oversaw the furthering of Iranian "soft power" through activities such as the renovation of Iraq's revered Shiite shrines by Revolutionary Guards-owned companies, according to several dispatches.

The Iranian commander also "enjoys longstanding close ties" with several top Iraqi officials such as President Jalal Talabani and Prime Minister Nouri al-Maliki, according to a dispatch from Baghdad.

The November 2009 cable says Iran hands out cash payments to "Iraqi surrogates," which include some of the political parties currently in power.

In one cable, U.S. diplomats in Baghdad say sensitivity by Iraqi leaders toward being seen as "Iranian lackeys" will ultimately constrain Iran's influence in Iraq.

Even though both countries are majority Shiite Muslim, they embrace opposing clerical traditions. Iraq's revered Shiite cleric Grand Ayatollah Ali al-Sistani is Iranian-born but rejects Iran's clerical rule.

One dispatch that followed a visit by U.S. diplomats to Mr. Sistani's base in Najaf last year said the reclusive cleric personally prohibited the enrollment of Iranian students at seminaries in the city in order to prevent infiltration by the Revolutionary Guards.

—Ali A. Nabhan contributed to this article.

U.S. rethinks access to its data

By Keith Johnson

WASHINGTON—U.S. officials condemned the release of a quarter-million diplomatic messages by the website WikiLeaks and pledged to review how U.S. government agencies protect sensitive information.

White House spokesman Robert Gibbs said the people who released the cables were "criminals, first and foremost," and Attorney General Eric Holder said the U.S. was looking to prosecute those deemed responsible.

Secretary of State Hillary Clinton called the leak an "attack on the international community." She said "there is nothing laudable about endangering innocent people, and there is nothing brave about sabotaging the peaceful relations between nations on which our common security depends," adding that the U.S. regretted the disclosure of sensitive diplomatic messages.

WikiLeaks had published some of the cables on its website Monday and said more would be posted there in coming days. The cache was also released to some news organizations, which published some of the cables Sunday. A spokesman said U.S. statements about individuals being put in danger by the leaks weren't credible.

Getty Images

Hillary Clinton with Turkish Foreign Minister Ahmet Davutoglu on Monday.

In an interview with Forbes Magazine, WikiLeaks founder Julian Assange said WikiLeaks plans to release thousands of documents related to a "big" U.S. bank early next year. He said he also has documents on other areas including technology, energy and corporate espionage.

Mrs. Clinton said she had ordered specific actions to ensure that the breach that led to the release of the cables wasn't repeated. The State Department response could include limiting access to sensitive diplomatic messages. In recent years, reports from embassies and consulates have reached a far wider audience thanks to use of a military network, SIPR-net.

Restricting access inside the government to sensitive information could help prevent future breaches, but it would also hamstring efforts to share more crucial information among agencies. The Sept. 11, 2001, terrorist attacks were facilitated in part by government agencies' inability to share critical information.

Another possibility for securing diplomatic communications that worries some former diplomats: Classifying more dispatches as top secret. That would route them through different networks with smaller audiences. None of the quarter-million cables WikiLeaks released were classified "top secret"; only 15,000 were classified "secret."

That would reverse a trend of seeking to classify only those data that really needed it. "Overclassification would be a total abuse of the system," said David Shinn, a 37-year State Department veteran and former ambassador.

—Evan Perez, Jay Solomon and Julian E. Barnes contributed to this article.

New attack stops users accessing WikiLeaks

Associated Press

The WikiLeaks website said it came under a forceful Internet-based attack on Tuesday, making it inaccessible for hours to users in the U.S. and Europe.

The site appears to have recovered from the attack with the help of **Amazon.com** Inc.'s U.S.-based server-for-rent service. Later in the day, Web traffic to the site was handled by Amazon Web Services.

The site, which distributed a trove of U.S. diplomatic documents on Sunday, said in a Twitter message on Tuesday that it was under a "distributed denial of service attack," a method commonly used by hackers to slow down or bring down sites.

WikiLeaks didn't identify the attackers.

The site, which is devoted to releasing anonymously submitted documents, also came under attack Sunday, but Tuesday's attack appeared to be more powerful.

Calls to Seattle-based Amazon.com weren't returned. Bahnhof, a Swedish Internet company that has been involved in hosting WikiLeaks, had no immediate comment on Tuesday.

The site, which is devoted to releasing anonymously submitted documents, also came under attack Sunday, but Tuesday's attack appeared more powerful.

In a typical denial-of-service attack, remote computers commandeered by rogue programs bombard a website with so many data packets that it becomes overwhelmed and unavailable to visitors. Pinpointing the culprits is difficult.

WikiLeaks said the malicious traffic was coming in at 10 gigabits per second on Tuesday, which would make it a relatively large effort.

According to a study by Internet security company Arbor Networks, the average denial of service attack over the past year was 349 megabits per second, about 1/28th the stream that Wikileaks reported.

Sunday's attack didn't stop the publication of stories based on messages leaked from the U.S. State Department in several major newspapers. WikiLeaks had given the media outlets prior access to the diplomatic cables to publish in conjunction with their Sunday release on its site.

The cables, many of them classified, offer candid, sometimes unflattering assessments of foreign leaders, ranging from U.S. allies such as Germany and Italy to other nations like Libya and Iran.

On Tuesday, potential U.S. Republican presidential candidate Rick Santorum said the founder of WikiLeaks, Julian Assange, should be prosecuted as a terrorist for posting classified national-security documents. "What he's doing is terrorism, in my opinion," Mr. Santorum said.