



Davos Download: Conference showcased a world of troubles

THE JOURNAL REPORT R1-R7

U.S. 'kill-or-capture' raids against Taliban stepped up

THE BIG READ 16-17

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 3

EUROPE

Wednesday, February 3, 2010

DOW JONES
A NEWS CORPORATION COMPANY

europe.WSJ.com

Senate open to Volcker plan

By COREY BOLES

WASHINGTON—Large commercial banks should be restricted from engaging in proprietary trading or private-investment activity as part of a move to overhaul regulation of the financial sector, former U.S. Federal Reserve Chairman Paul Volcker told senators Tuesday.

Mr. Volcker was testifying before the Senate Banking

Committee, which is considering a proposal backed by the former central banker that received the endorsement of President Barack Obama last month.

“What we should do is recognize that curbing the proprietary interests of commercial banks is in the interest of fair and open competition as well as protecting the provision of essential financial services,” Mr. Volcker said in

prepared opening remarks.

The so-called Volcker Rule would prohibit large commercial banks from owning private-equity arms or hedge funds and limit their ability to engage in trading on their own accounts.

The plan would need to be implemented as part of a wider effort to reregulate the industry, Mr. Volcker said, and would be best done with international cooperation.

The plan wasn't initially part of efforts by the White House and Congress to overhaul financial regulation, but it has lately gained traction.

A senior Treasury official told lawmakers Tuesday that the administration had concluded that more stringent measures were needed to rein in excesses at financial firms.

“We should impose mandatory limits on proprietary trading by banks and bank-

holding companies, and related restrictions on owning or sponsoring hedge funds or private-equity funds,” said Neal Wolin, deputy secretary at the Treasury.

Key senators on Tuesday signaled openness to the Volcker plan. “These proposals were born out of fear that a failure to act would leave us vulnerable to another crisis, and of frustration at the refusal of financial firms to rein

in their reckless behavior,” Senate Banking Committee Chairman Christopher Dodd (D., Conn.) said in support of the plan.

Sen. Richard Shelby (R., Ala.), the top Republican on the banking committee, said he was open to any proposal that would strengthen the regulatory framework.

■ Obama seeks to boost loans to small business Page 7

British workers don't want any monkey business from new owner



The acquisition of Cadbury PLC by Kraft Foods Inc. was sealed Tuesday. Cadbury workers in London urged the government to ensure Kraft's pledges on U.K. jobs.

BP slides on refining results

By JAMES HERRON

BP PLC shares sank 3.8% in London, as the oil giant's quarterly results disappointed investors amid weakness in its refining business, even as overall revenue surged.

While crude prices have rebounded from last year's slump, end user demand for transport fuels remain weak amid sluggish economic growth. At the same time, the amount of money a refiner can earn from processing a barrel of crude fell to just \$1.49 in the fourth quarter, down more than 70%, BP said.

Net profit for the three months ended Dec. 31 was \$4.30 billion, compared with a loss of \$3.34 billion a year ago. Total revenue for the quarter was up 21% to \$73.64 billion from \$61.09 billion.

■ The bleak state of refining weighs on oil earnings, 19

Lancet retracts study that tied vaccine to autism

By SHIRLEY S. WANG

A British medical journal on Tuesday formally retracted the study that first raised concerns about the link between autism-like symptoms and the mumps, measles and rubella vaccine. The withdrawal supports the scientific evidence that vaccinations don't cause autism, but isn't likely to persuade advocacy groups that believe in a link.

The 1998 study of 12 children triggered worry among British parents that the measles vaccine caused autism, and many decided not to im-

munize their children against measles, according to Richard Horton, editor in chief of the Lancet, which issued the retraction Tuesday. He called the study the “starting pistol” in the controversy.

In 2004, 10 of the 13 authors listed on the original paper, all 13 of whom were researchers at the Royal Free Hospital and School of Medicine in London, retracted the paper. The first author on the paper, Andrew Wakefield, didn't. Dr. Wakefield, who is now in Austin, Texas, at the Thoughtful House Center for Children, didn't return calls

seeking comment.

“Many consumer groups have spent 10 years waging a campaign against vaccines even in the face of scientific evidence,” said Dr. Horton. “We didn't have the evidence back in 2004 to fully retract the paper but we did have enough concern to persuade the authors to partly retract the paper.”

Similar concerns about the safety of vaccines, particularly those with the mercury-based preservative thimerosal, spread to the U.S. Some consumer groups continue to advocate against vaccinations

for children, despite the lack of scientific evidence for a link with autism over the years. A widely cited 2004 statistical review of a number of studies by the Institute of Medicine, which traced the vaccine theory back to the 1998 Lancet study, concluded there was no causal link between the MMR vaccine and autism.

The Lancet made the decision to issue a complete retraction after an independent regulator for doctors in the U.K. concluded last week that the study was flawed. Dr. Horton, the Lancet's editor in

chief, said the journal was particularly concerned about the ethical treatment of the children in the study, and that the children had been “cherry-picked” by the study's authors rather than just showing up in the hospital as described in the paper.

“I hope this bring closure to this controversy,” said Fred Volkmar, an autism researcher and professor of psychiatry at the Yale Child Study Center who wasn't involved in the Lancet study. “My fear unfortunately is that this won't totally allay the fear of all parents.”

The Quirk



Israel's secret mission to kidnap 'Holy Scripture' deer from Iran. Page 29

Editorial & Opinion

In praise of Britain's muddled, messy political order. Page 13

Bahrain BD 150 - Egypt \$175 (CIV)
Jordan JD 2 - Kuwait KD 1 - Oman OR 2
Qatar QR14 - Saudi Arabia SR 14

THE WALL STREET JOURNAL.
0.5
9 779219 198693

PAGE TWO

Britain heads for a hung Parliament

[Agenda]

By IAIN MARTIN



If British voters could arrange for their members of Parliament to be hung (drawn and quartered) there would be plenty of volunteers prepared to man the gallows, such is the public mood in relation to the political class. As it is, the country looks to be headed only for a hung Parliament, meaning that neither of the main parties is likely to win an overall majority.

Why is this? Why, after 13 years of one party being in power at Westminster and a record-breaking recession, has a hung Parliament once again become the most likely outcome?

With an election expected on May 6, recent opinion polls suggest a narrowing of the gap between the Conservatives and Labour. The latest survey, by Com Res, puts the Tories on 38%, just seven points ahead of Labour's 31%. This is important because the electoral system favors the governing party at the moment, with strange boundary divisions meaning it tends to take far more voters to elect a Tory MP than a Labour MP. Consequently, the Conservatives need to be a long way ahead—say 10 points or more—to be confident of winning a Commons majority. They are also starting from a historically low base, and need to win more than 100 parliamentary seats to get a majority of just one.

But tightening polls are merely leading indicators. They don't, on their own, explain the reasons for the change in atmosphere. The sense is that the political weather is changing and while Labour has not—yet—recorded any significant increase in its support, confidence in the Conservatives is slipping. I have long maintained that the most likely result was a narrow Tory victory and small majority of around 20, but that's slipping away from them as events point



Former U.K. Prime Ministers Edward Heath (left) and Harold Wilson

back toward hung Parliament territory.

The economy is emerging from recession, and thanks to low interest rates and a flood of printed money, if Britons are working then many are feeling as well off as they have for a while. But the Conservatives

Tory MPs are puzzled as to why their leadership is frozen with fear by the idea of negative campaigning

campaign also appears to be faltering quite badly. It is difficult to discern what their strategy is and what it is they are trying to say to the country they hope to govern in only 93 days' time.

The Tories launch of their campaign in January was poorly received. A very defensive billboard poster of David Cameron and its accompanying slogan are still being ridiculed several weeks later.

Their economic policy seems to be evolving daily and in ways ever more confusing to the voters. The Tories have softened their rhetoric on deficit reduction, emphasizing in recent days that the pain need not be extensive. On

Tuesday, they announced eight economic benchmarks by which they hope to be measured if they win. Why eight? Why not five, or one?

Tory MPs are nervous and puzzled as to why their leadership is also frozen with fear by the idea of negative campaigning against Labour. Mr. Cameron's marketing guru, Steve Hilton, wants his campaign to be nice and positive, but this means Labour can rain fire on the Tories with impunity. There looks to be lack of fire in the Tory belly.

Now, as often happens when campaigns hit turbulence, the problems start coming ever more thick and fast.

On Tuesday, the Conservatives announced that Sir Nicholas Stern, author of the government's climate-change policy, would be advising them on various environmental matters. He later issued a statement saying that he doesn't advise political parties.

Labour, and particularly Peter Mandelson, is loving this. The party has little money, but it does have much experience of grown-up campaigning and understands perfectly how to blend the negative with the positive. On Tuesday, an amused Lord Mandelson even accused Shadow Chancellor George Osborne of plagiarizing a speech on the

economy from him.

Combined, it is all creating the conditions for that hung Parliament. Britons tell pollsters that they don't like Labour, but where the Tories had planned to create some enthusiasm for an alternative there is instead just a giant question mark.

A big and rarely mentioned problem for the Conservatives in this regard is the hangover from the expenses scandal of last year. Ordinarily, in the wake of a major corruption or sleaze, there would be a desire to kick out those in power who might be deemed responsible. Tony Blair benefited from just such a mood against the Tories in the years before his victory in 1997. But in the expenses scandal that rocked Parliament to its ancient foundations last year all the parties were implicated equally.

This has hobbled Mr. Cameron, denying him either the mantle of insurgent against a corrupt establishment or cleanup candidate riding to power on a wave of popular feeling on Election Day.

The British tend not to like hung Parliaments much. There has only been one election in the U.K. since 1945 that has produced such a result and it resulted in an unedifying struggle for power involving Edward Heath and Harold Wilson. Mr. Heath initially declined to vacate Number 10 and tried to form a government even though he had fewer seats than Labour. In the second election of that year Mr. Wilson won a majority of only three seats.

Hung Parliaments produce horse-trading with third parties and backroom fixes. They tend to create instability and lead to the postponement of difficult decisions. At the moment the markets show little immediate sign of being spooked by the likelihood of instability at Westminster. But will that remain the case?

A hung Parliament isn't a recipe for strong government, but it is where Britain is headed right now.

What's News

■ **Munich Re**, one of the world's biggest reinsurers, said fourth-quarter earnings surged because of lower claims for natural disasters, and it plans to raise its dividend for 2009. The result came in well above analysts' forecasts. **23, 32**

■ **French prosecutors** pursuing manslaughter charges in the crash of an Air France Concorde jet almost 10 years ago began trying their case against Continental Airlines and five individuals. **5**

■ **The U.S. and Russia** reached an "agreement in principle" on the first nuclear-arms-reduction treaty in nearly two decades. **5**

■ **Toyota reported a 16% fall** in January U.S. sales, stung by its biggest-ever recall, but Ford and GM sales rose. **21**

■ **Morgan Stanley's CEO** said the firm's compensation ratios were unusually high in 2009 and he expects them to fall this year. **19**

Inside



The new face of sleep. Dealing with apnea and loud snoring. **27**



Gentlemen, behave. What has happened to manners in sports? **28**

ONLINE TODAY

Most read in Europe



1. Wealthy Face Tax Increase
2. Opinion: Fouad Ajami: The Obama Spell Is Broken
3. Swiss Tax Play Lures Business
4. Two Days That Shook Wall St.
5. Obama to Skip Annual EU Summit

Most emailed in Europe

1. Swiss Tax Play Lures Business
2. Opinion: Fouad Ajami: The Obama Spell Is Broken
3. Amazon Pressured on E-Book Pricing
4. Remembrance of Past Candy
5. Two Days That Shook Wall St.

Iain Martin on Politics

blogs.wsj.com/iainmartin

"MPs and ministers will always, I mean always, find ways round restrictions imposed on lunch"

Iain Martin on U.K. Conservatives trying to restrict their MPs' lunching.



Continuing coverage



Read the latest about the Oscars including, gossip and nominations, at blogs.wsj.com/speakeasy

Question of the day

Vote and discuss: Do you think cigarettes should be sold in plain packaging?

Vote online and discuss with other readers at wsj.com/dailyquestion

Previous results

Q: Do you think German authorities should pay for stolen Swiss bank details?

Yes

42%

No

58%

THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Stapleton House, 29 - 33 Scrutton Street,
London, EC2A 4HU

SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799. Calling time from
8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com.
Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones
International. Frankfurt: 49 69 9714280; London: 44 207
842 9600; Paris: 331 40 17 17 01.

Printed in Belgium by Concentra Media NV. Printed in
Germany by Dogan Media Group / Hürriyet A.S. Branch
Germany. Printed in Switzerland by Zehnder Print AG WIL.
Printed in the United Kingdom by Newsfax International
Ltd., London. Printed in Italy by Telesampa Centro Italia
s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland
by Midland Web Printing Ltd. Printed in Israel by The
Jerusalem Post Group. Printed in Turkey by GLOBUS
Dünya Basınevi.

Registered as a newspaper at the Post Office.
Trademarks appearing herein are used under license from
Dow Jones & Co. ©2010 Dow Jones & Company. All
rights reserved. Editeur responsable: Patience Wheatcroft
M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200
Brussels, Belgium

NEWS

‘Hurt Locker,’ ‘Avatar’ lead Oscar field

By ETHAN SMITH

By doubling the number of best-picture nominees to 10 from five, the Academy of Motion Picture Arts & Sciences could realize a goal that has been elusive in recent years: making the star-studded awards ceremony popular again.

The Academy Awards, broadcast live around the world, was once a ratings juggernaut. But in the past few years, its popularity has slipped, its audience has grown older and its relevance as a barometer of popular culture has been questioned.

Dramatically expanding the number of films in contention for the top honors, however, has allowed crowd-pleasing favorites to bask in the Oscar aura along with the art-house fare that the academy often favors.

So far, the move appears likely to have the intended effect. In addition to low-grossing critics' favorites like "The Hurt Locker," "An Education" and "A Serious Man," the 10 nominees this year include three of the eight best-grossing films of 2009: "Avatar," "Up" and "The Blind Side."

The other nominees are "Inglourious Basterds," "Up in the Air," "Precious" and "District 9," another surprise.

The 10 nominees' average domestic box-office gross was \$151 million, more than double the \$71 million average for last year's field, according to industry tracker Box Office Mojo. The field's total domestic gross of \$1.5 billion is more than four times as large as last year's total of \$353 million.

The biggest surprise was the nomination of "The Blind Side," a family-oriented football drama that stars Sandra Bullock and played far better in heartland cities like Plano, Texas, than it did in New York or Los Angeles.

The film's backers are under no illusions about their prospects. "We don't believe we have any chance of winning," said Broderick Johnson, the co-chief executive of Alcon Entertainment, which produced "The Blind Side." "So we can relax and savor the nomination."

Mr. Johnson is just as frank about the effect of his film's selection by the academy. "It brings in a broader range of pictures that are critically acclaimed and fan favorites," he said.

Hollywood executives said the academy's roughly 6,000 voting members might have favored the same hit films enjoyed by the rest of America simply because they, too, had seen them.

"Movies like ours, 'District 9' and 'Up,' probably benefited" from that dynamic, Mr. Johnson said.

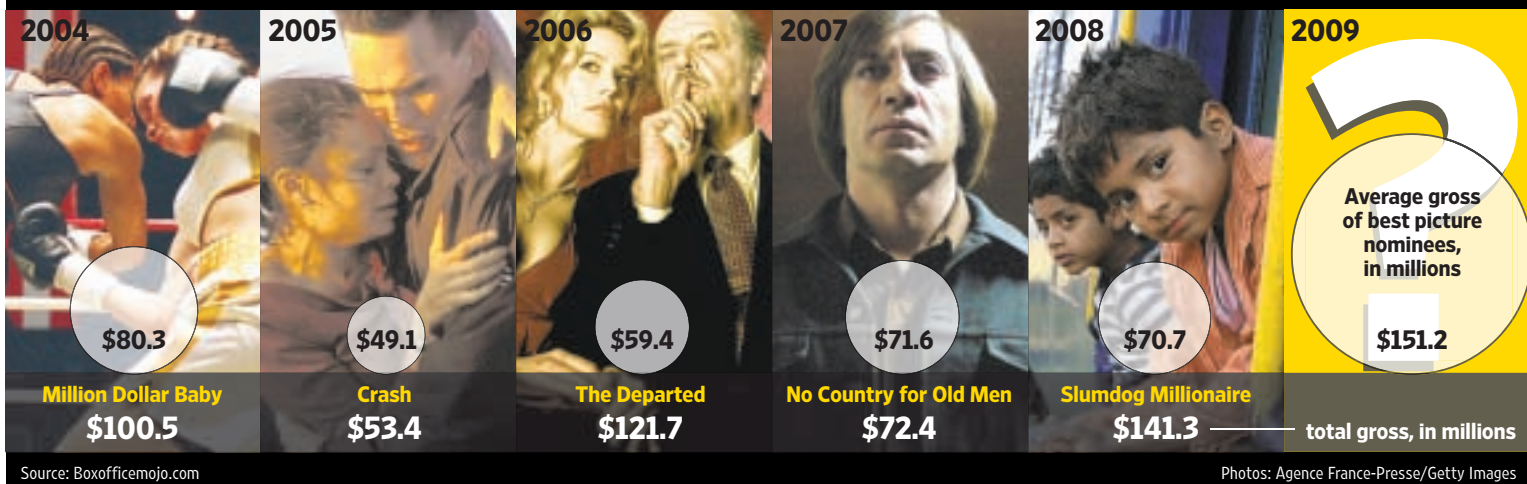
While viewership for last year's Oscars increased 13% over the previous year, to 36 million, the program's ratings have been in a steady decline for years from a high of 55 million in 1996. That was the year the best-picture Oscar went to "Titanic"—the previous feature from "Avatar" director James Cameron.

Just two of last year's nominees made more than \$100 million domestically: "Slumdog Millionaire," which won, and "The Curious Case of Benjamin Button." The rest made less than \$35 million each.

By contrast, five of this year's nominees made more than \$100 million.

—Lauren A.E. Schuker contributed to this article.

Bigger best pictures | The Best Picture Oscar this year has caught more blockbusters than in recent years.



ALBERT STORCH

“It's time for a change”

Calyon becomes...

CA CRÉDIT AGRICOLE
CORPORATE & INVESTMENT BANK

www.ca-cib.com

EUROPE NEWS



George Osborne, left, speaks at the British Museum in London on Tuesday, criticising the statements of Prime Minister Gordon Brown, right, who defended his Treasury's performance.

U.K.'s Brown defends delayed cuts

BY LAURENCE NORMAN
AND JOE PARKINSON

LONDON — British Prime Minister Gordon Brown said Tuesday that it was right for the U.K. to run a large deficit to get through the recession, but an opposition Treasury spokesman was critical, saying spending cuts should have started this year.

The U.K. Treasury expects the public sector to run a deficit of some 12.6% of gross domestic product this year, one of the highest levels of any developed economy. The government promises to halve the deficit over the next four years, starting in 2011, but the opposition Conservative Party reiterated that it would start cuts this year.

Britain will hold elections some time before June 3. Several ratings agencies have warned the U.K. could see its AAA credit rating downgraded if its deficit plans aren't tightened.

"Every country has a higher level of debt because of the recession,"

Mr. Brown said. The policy "meant that we were able to run a flexible enough policy—with a high deficit—to take us through the recession."

He said the government hopes that its plan to halve the deficit in four years is clear enough, adding that he thinks investors "will be satisfied that we are taking the actions necessary."

Mr. Brown said he doesn't think the U.K.'s growth projections are too optimistic. The Treasury forecasts the U.K. will grow 1.0%-1.5% in 2010 and 3.0%-3.5% in 2011.

But Conservative Party spokesman for the Treasury, George Osborne, said that if elected, the government should be judged on whether they can defend the country's AAA credit rating. He stressed that a downgrade from any major ratings agency would be a failure of economic policy.

In a speech in London, Mr. Osborne also confirmed that the Bank of England would remain independent under a Conservative administration and retain its current 2% in-

flation target "I know we are taking a political gamble to set this up as a measure of success... but judge us by whether we can protect the U.K. credit rating," Mr. Osborne said.

He warned that maintaining the U.K.'s top-notch credit rating wouldn't be easy, but said it would be a central "benchmark" on which his party's economic management will be judged. Still, the opposition spokesman declined to give details on the depth of the Conservatives' planned spending cuts should it win this year's election.

Mr. Osborne also laid out several other benchmarks on which a Conservative government should be judged, including a commitment to raising exports as a percentage of gross domestic product.

Mr. Osborne said that he wouldn't set a timetable for selling off the government's stakes in banks taken during the global financial crisis.

Meanwhile, the U.K. economy is on course to grow moderately this year and next and has started the year with a recovering labor market,

improved consumer confidence and muted shop price inflation, several surveys showed.

The National Institute for Economic and Social Research, or Niesr, said in its latest economic review that it expected U.K. gross domestic product to grow 1.1% this year and 2.0% next year.

Mr. Brown said he doesn't think the U.K.'s growth projections are too optimistic. He thinks investors "will be satisfied that we are taking the actions necessary."

"Despite the disappointingly slow start to the recovery in the fourth quarter of 2009, we are expecting the economy to grow rather faster in the first three months of 2010 and beyond," Niesr said. "But the expansion will be at a moderate tempo, both this year and next."

A separate survey by Markit Economics showed the U.K. labor market is on the mend, although the recovery has slowed slightly in January.

"As confidence has returned to the private sector, the starting gun for a public-sector recession has only just been fired, and its impact on the jobs market will be felt over the next 12 to 18 months," said Bernard Brown, a partner and head of business services at KPMG.

Another report by the Nationwide Building Society also showed that the improvement in the labor market has helped lift consumer confidence. Nationwide said its overall measure of consumer confidence rose to 73 in January from 70 in December.

Most economists expect the BOE's Monetary Policy Committee to leave interest rates on hold at 0.5% and call a halt to its quantitative-easing program after pumping GBP200 billion of central bank cash into the economy.

— Nicholas Winning contributed to this article

Slim rise in retail fails to boost euro zone

BY NICHOLAS WINNING
AND NINA KOEPPEN

LONDON—Anemic retail sales growth in Germany and rising unemployment in Spain suggest consumer demand isn't providing much support for the euro zone's economic recovery.

Germany's Federal Statistics Office said the volume of retail sales in the bloc's biggest economy grew 0.8% in adjusted terms in December, but revised down November's monthly drop to 1.7%. Although the figures suggest the economic crisis didn't hold back Germans' Christmas shopping, there is little sign of a sustained recovery in spending.

"The longstanding weakness in consumer spending remains a hindrance to the strength and sustainability of the recovery in Germany and the euro zone," said Ken Watret, an economist at BNP Paribas.

German retail-industry group HDE said Tuesday it expected a fall

of 0.5% in real terms this year. The official figures showed German retail sales down 1.8% in 2009 as a whole, the weakest year since the introduction of the euro.

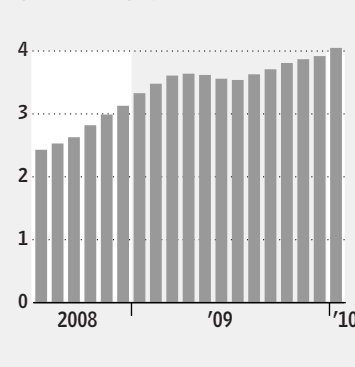
German unemployment rose less than expected because of government moves to shield the labor market from the financial crisis, but households appeared nervous about the economic outlook, and a short-term working program may have reduced consumers' disposable income from usual levels.

Unemployment figures from Spain suggest the outlook for retail sales there may be even darker. Spain's labor ministry said jobless claims rose 3.1%, to four million in January from December. Compared with January 2009, jobless claims were 22% higher.

Spain's Employment Secretary Maravillas Rojo said January traditionally is a bad month for employment, even in times of growth, but economists said there was no hiding

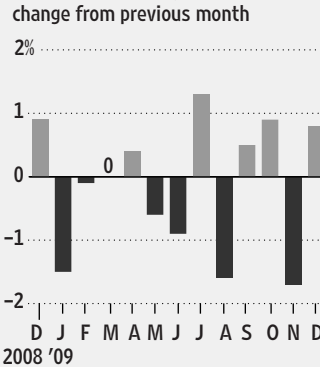
Timid recovery | Euro-zone economic indicators

Spanish unemployment, in millions



Sources: German Federal Statistics Office; Spanish Labor Ministry

German retail sales, change from previous month



the underlying weakness.

"The Spanish economy looks set for a long and painful retrenchment as it adjusts to the collapse in the construction sector," said Colin El-

lis, a European economist at Daiwa Capital Markets Europe.

The slow recovery in consumer demand and the large amount of spare capacity in the euro-zone

economy appear to be keeping a lid on inflationary pressures—cementing expectations that the European Central Bank is unlikely to raise interest rates for some months.

The European Union's Eurostat statistics office said industrial producer prices excluding construction rose 0.1% from November, 2.9% lower than in December 2008.

Excluding construction and energy, factory-gate prices were stable for a second consecutive month in December, while the year-to-year fell to 2.3% from 3.1% in November.

"December's producer-price figures serve as a timely reminder that pipeline-price pressures in the euro zone remain very subdued, and strengthen the case for the ECB to keep rates firmly on hold this week and in most of 2010," said Martin van Vliet, an economist at ING.

The European Central Bank is widely expected to keep its benchmark rate unchanged when it meets Thursday, at a record low of 1%.

EUROPE NEWS

French court probes Concorde crash

Prosecutors pursue manslaughter charges against Continental Airlines, five individuals in fatal 2000 disaster

BY DANIEL MICHAELS

French prosecutors pursuing manslaughter charges in the crash of an Air France Concorde jet almost 10 years ago began trying their case against **Continental Airlines Inc.** and five individuals outside Paris Tuesday.

The case alleges that the U.S. airline and the five men were responsible for the supersonic plane's fiery plunge on takeoff from Charles de Gaulle Airport on July 25, 2000, which killed all 109 people aboard and four people on the ground.

Continental and the individuals—two Continental employees and three people who were involved in French aviation—deny the charges.

"The evidence will show that neither Continental nor its employees were responsible for the accident," the airline said in a statement.

Soon after the crash, French investigators—who seek to establish the facts of aviation accidents but not apportion blame—drew up a chain of events that they say began when the Concorde ran over a piece of metal that had fallen from a Continental DC-10 that had departed shortly before the Air France plane. Investigators say the 17-inch strip made the Concorde's tire explode. A large chunk of the tire flew up and slammed into the plane, creating shock waves inside a fuel tank that caused an access panel to pop open, resulting in a massive fuel leak. Escaping fuel ignited and brought down the plane, investigators said.

Continental plans to call more than 20 eyewitnesses who it says will testify that the Concorde was already in flames before it reached the point on the runway where the wear strip lay, a spokesman said.

"Continental welcomes the opportunity to refute in court the theory that a wear strip from one of its aircraft was the cause of the Concorde accident," the carrier's statement said. Instead, the U.S. carrier says, it plans to show "that a series of issues relating to the Concorde itself and its abnormal operation that day made the tragic accident unavoidable."

Investigators found that Air France maintenance staff hadn't installed a part to the plane's wheel assembly and raised questions about the plane's overall upkeep. But the shortcomings weren't

Below the sound barrier | The gradual takeoff and permanent grounding of Concorde



Air France Concorde flight 4590 takes off with fire trailing from its engine on the left wing from Charles de Gaulle airport in Paris, July 25, 2000.

1962 Manufacturers in France and Britain agree to cooperate on a supersonic passenger plane, along with engine builders from both countries.	1969 The plane lifts off from Toulouse, France for its first test flight.	1976 The Concorde begins commercial service via Air France and British Airways although it seems unlikely to make a return on the tax money invested.	1984 Britain and France stop underwriting the Concorde's costs, and the two airlines take responsibility.	2000 An Air France Concorde crashes after takeoff from Paris, killing 113 people and forcing both airlines to ground their supersonic jets for more than a year.	2001 Overhauled Concordes return to service two months after the Sept. 11 terrorist attacks on the U.S., in the midst of one of aviation's worst slumps.	2003 Air France and British Airways both retire their Concordes.	2010 Trial opens in Pontoise, north of Paris, to determine who was responsible for the 2001 crash. The proceedings are expected to last four months.
--	---	---	---	--	--	--	--

deemed by French crash investigators to have contributed to the crash.

Most of the passengers were German tourists who had chartered the plane. The people on the ground who were killed were in a hotel that the Concorde hit soon after it was airborne.

The trial, taking place in Pontoise, north of Paris, focuses on blame, rather than financial compensation. Lawyers for families of the victims reached a settlement several years ago with insurance companies representing Air France, now a unit of **Air France-KLM SA**, as well as successors to the Concorde's French state-owned producer, **Aerospatiale**. Terms of that settlement weren't disclosed.

Prosecutors now allege that

French aviation regulators and designers of the Franco-British plane knowingly overlooked dangerous design flaws in the Concorde.

The Concorde—the sole Western commercial jet capable of flying faster than the speed of sound—was operated by Air France and British Airways PLC. During the almost 20 years that the 100-seat planes were in service, they experienced numerous serious safety incidents, but none resulted in a fatal accident until 2000. Prosecutors say those earlier incidents pointed to defects in the plane's design that should have been fixed and that ultimately contributed to the fatal crash.

After the crash, both Air France and British Airways implemented extensive modifications to the planes to improve their safety. The

changes included using new explosion-resistant tires and lining the fuel tanks with material similar to that of a bullet-proof vest.

The planes returned to service in late 2001, but were permanently retired in 2003 as the cost of fuel and maintenance made them too expensive to operate. There are currently no supersonic passenger planes.

The metal strip from the Continental plane was implicated in the crash because it was made of very hard titanium, rather than softer aluminium, which is the norm. Investigators determined that the L-shaped strip was pointing up and sliced through the Concorde tire. Because of this, prosecutors have charged Continental and the mechanic who installed the strip, John Taylor, whom prosecutors say vio-

lated guidelines in using titanium. They also charged Continental maintenance chief Stanley Ford for validating Mr. Taylor's installation.

The three other men accused of manslaughter in the case are 80-year-old Henri Perrier, a former head of the Concorde program at **Aerospatiale**; Jacques Herubel, 74, another top **Aerospatiale** engineer on Concorde; and Claude Frantzen, 72, who handled the Concorde program in various roles at the French civil aviation authority.

Manslaughter charges in France can carry penalties of up to five years in prison and a €75,000 (\$104,000) fine, but observers say suspended prison sentences are more likely in this case.

—The Associated Press contributed to this article.

U.S., Russia close in on a nuclear-reduction treaty

BY JONATHAN WEISMAN

WASHINGTON—U.S. and Russian arms-control negotiators have reached an "agreement in principle" on the first nuclear-arms reduction treaty in nearly two decades, administration and arms-control officials said Tuesday.

The deal would bring down deployed nuclear warheads and sharply limit the number of missiles and bombers that can deliver them.

Rose Gottemoeller, the Obama administration's lead negotiator, flew to Geneva Monday to help draft the final text and begin what could be an arduous process of translating the agreement into treaty language, an administration official said, add-

ing, "There may be finessing and fine-tuning, but the issues, from our perspective, are all addressed."

The deal would bring the ceiling for deployed nuclear weapons down to between 1,500 and 1,675 from the 2,200 agreed to in 1991, but nuclear-delivery systems would fall to between 700 and 800 a side.

The breakthrough in the talks came two weeks ago when National Security Adviser James Jones and Adm. Michael Mullen, chairman of the Joint Chiefs of Staff, went to Moscow to work through two issues on verification, the sharing of data on missile flight tests and inspections at missile-production facilities.

The deal was approved in principle last week during a phone conver-

sation between U.S. President Barack Obama and Russian President Dmitry Medvedev. Under the accord, the Russians will share flight-test data, something they had resisted as they develop more modern ballistic missiles. But monitoring of a key ballistic missile site in Russia, which ended in 2008, won't resume, said officials familiar with the accord.

The administration official cautioned that the final drafting could take a week to two months. When the U.S. and Russian presidents announced the arms-control talks in April 2009, they set a deadline of Dec. 5 to complete them. That deadline slipped, and White House aides are hesitant to declare victory now.

But Daryl Kimball, executive di-

rector of the Arms Control Association, said the deal will clear the way for the broader Obama nuclear agenda. When the accord is formally unveiled, both sides are expected to announce "consultations" on more ambitious arms talks that would further bring down strategic nuclear forces and limit the deployment of smaller, battlefield nuclear weapons.

In April, Mr. Obama will convene an international summit in Washington on controlling nuclear proliferation.

The administration is also pushing for the ratification of an international nuclear-test-ban treaty, negotiated during the Clinton administration, ahead of a United Nations conference to review the

fraying nuclear Non-Proliferation Treaty later this year. Mr. Obama hopes the efforts made with Russia and on the test ban will strengthen his hand as he tries to further isolate the Iranian and North Korean nuclear-weapons programs.

The nuclear deal comes as U.S. officials are increasingly optimistic that Russia is also supporting a new economic-sanctions package on Iran. The Obama administration has coordinated closely with Moscow on the issue and jointly presented a nuclear fuel-swap agreement to Tehran in October in a bid to reduce tensions. Iran on Tuesday said it is ready to send its uranium abroad for further enrichment, as requested by the U.N., the Associated Press reported.

EUROPE NEWS

Greece's budget plan is drawing fire

Nobel-winning economist warns that without stimulus measures, austerity program risks stifling growth

BY SEBASTIAN MOFFETT

ATHENS—Greece's plan to slash its budget deficit amid mounting pressure from European neighbors could end up stifling the country's growth, economist Joseph Stiglitz warned.

The Greek government has outlined spending cuts and measures to boost tax revenue, in a bid to pare the budget deficit to 3% of gross domestic product by 2012 from close to 13% of GDP in 2009. Prime Minister George Papandreou on Tuesday announced a blanket freeze on civil servants' salaries, and said Greece would move to raise fuel taxes.

But without measures to stimulate the economy, such as development funds and other means to increase liquidity, the deficit reduction could slow growth, said Mr. Stiglitz, a professor at Columbia University and winner of the 2001 Nobel Prize in economics.

Slower growth could in turn lead to lower tax revenues and end up increasing the budget deficit.

"I would give a strong cautionary note against deficit fetishism," Mr. Stiglitz told a news conference in Athens. "If you have less success [stimulating the economy through other means], then I start getting worried."

The comments illustrate Greece's bind over its public finances.

The European Commission was planning on Wednesday to publish a report giving its support to Greece's austerity measures—in line with a procedure outlined in the EU's governing treaty.

When a country breaks the bloc's budget ceiling of 3% of GDP, the commission and the EU finance ministers outline a timetable to reach



George Papaconstantinou, left, the finance minister of Greece, speaks with Nobel-prize winning economist Joseph Stiglitz at a conference in Athens Tuesday.

the target.

The commission and the finance ministers late last year found Greece had failed to take "effective action" to curb its budget deficit, which is the result of declining tax revenue and a large public sector.

European Commission President José Manuel Barroso on Tuesday said the commission would endorse the country's budget plan, while noting that there were nonetheless risks to the Greek economy.

Financial markets, taking a cue

from downgrades by rating firms, have sold off Greek government debt. Greece now has to pay more than larger euro-zone economies to borrow money. The spread between the yields on 10-year Greek government bonds and equivalent German bunds reached more than four percentage points last week.

The gap fell to 3.3 percentage points early Tuesday, as fears of a default receded. But the gap widened later in the day to 3.6 percentage points, as Mr. Papandreou

played down speculation of the idea of a euro-zone bond to help weaker nations such as Greece.

Still, the Greek repair measures themselves could be damaging. Cutting the public-sector deficit in half would push Greece's jobless rate to 16%, from its current 9.3%, U.S.-based financial research company High Frequency Economics predicted.

Mr. Stiglitz said past austerity measures didn't work as anticipated, for example in East Asia a

decade ago. He said that Ireland, which cut public-sector wages to try to fix its budget deficit, was having a similar experience now.

"The kind of policy that Ireland used did not have the effects" anticipated by the people that recommended them, he said. "There are some people in the EU who believe in deficit fetishism and get a certain comfort from talking tough."

—Alkman Granitsas in Athens and Michael Wilson in London contributed to this article.

Muslim village in Bosnia is raided by police

Associated Press

GORNJA MAOCA, Bosnia-Herzegovina—A remote Bosnian village that is home to highly conservative Wahhabi Muslims was raided Tuesday by hundreds of police who said they were searching for an unspecified security threat.

The Office of the State Prosecutor said the raid in the northeastern village of Gornja Maoca was the largest police operation in Bosnia since the war between 1992 and 1995 that killed tens of thousands and left millions homeless as Muslim Bosnians, Christian Orthodox Serbs and Roman Catholic Croats

clashed.

Office spokesman Boris Grubescic said police detained seven people—six Bosnians and one foreigner whose nationality he didn't reveal. Mr. Grubescic also said officers confiscated weapons, computers and DVDs.

The isolated village is home to ethnic Bosnian families belonging to the Wahhabi sect—an austere brand of Sunni Islam adopted by the Taliban, Osama bin Laden and his al Qaeda fighters. Some of the villagers had fought in Bosnia's war.

About 600 police officers raided the village looking for people suspected of "jeopardizing Bosnia's constitutional order and spreading national, racial and religious hatred," the prosecutor's office said in a statement. Several police vehicles were seen leaving the area with some of the residents sitting in back seats, among them the leader of the community, Nusret Imamovic.

The residents were hostile toward reporters who entered the village after the police left. They asked the media to leave immediately and escorted their convoy out of the village. The residents are farmers who refuse to watch television or use telephones.

They say they do not like to mix with anyone outside of their community. Their children do not attend public schools—itsself a violation of



Police check a car entering the Bosnian village of Gornja Maoca.

the Bosnian laws.

Separately, authorities said on Monday that police had arrested a former Bosnian Army commander whose unit allegedly killed 19 civilians and three soldiers during an attack on a Bosnian Croat village during the war.

The state prosecutor's office in Sarajevo said Monday that 51-year-old Zulfikar Alispago is suspected of involvement in war crimes committed in the village of Trusina, south of Sarajevo.

Mr. Alispago was the commander of a Muslim-dominated Bosnian

Army unit that attacked Trusina in April 1993, when 19 Bosnian Croat civilians and three soldiers who had surrendered were killed.

Four civilians were injured, including two children. Police last year arrested five of soldiers who allegedly took part in the crime.

THE WALL STREET JOURNAL.
EUROPE

Executive Travel Program

Guests and clients of 320 leading hotels receive The Wall Street Journal Europe daily, courtesy of

ACCESS
MBA Tour

www.accessmba.com

U.S. NEWS

Obama targets loans to small firms

President proposes funneling \$30 billion from bailout fund to local banks to encourage lending, create jobs

BY ELIZABETH WILLIAMSON

WASHINGTON—President Barack Obama proposed a \$30 billion program to boost lending to small businesses, the latest in a series of administration efforts to jump-start hiring by these companies.

The program, which Mr. Obama detailed at an appearance in Nashua, N.H., on Tuesday, would invest \$30 billion from the government's Troubled Asset Relief Program in community banks to encourage them to lend to small businesses. If approved by Congress, the program would provide incentives to small and midsize banks to provide loans valued at several times that figure.

"Small businesses ... have created roughly 65% of all new jobs over the past decade and a half. And I think we should make it easier for them," said Mr. Obama, according to prepared remarks.

Senior administration officials who helped draw up the proposal said that under the program, the Treasury would provide capital investments in a swath of the nation's 8,000 banks with assets under \$10 billion, which do more than half of U.S. small-business lending.

Banks that increase lending to small businesses beyond 2009 levels would qualify for reduced dividends owed to the Treasury on the capital investment. White House economists hope that feature will spur interest in the program among community banks that shunned the original TARP program because of restrictions on the capital and worries that they would be tarred by their competitors as "troubled."

White House Budget Director Peter Orszag defended the plan against a Republican lawmaker's charges that TARP was being used as a "piggy bank."

In a testy exchange at a Senate Budget Committee hearing, Sen. Judd Gregg (R., N.H.) said the program would violate current law by using TARP funds for a purpose other than debt reduction.

Mr. Orszag, appearing in the first of two hearings on the White House's \$3.8 trillion fiscal 2011 budget request, said the program was necessary because a lack of credit among small businesses was one of the lingering problems facing financial markets and the U.S. economy.

"No, no, no, you can't make that



President Barack Obama greets guests at a town hall meeting to outline his small-business initiative at Nashua High School North in New Hampshire on Tuesday.

type of statement with any legitimacy," Mr. Gregg responded, his voice rising. "You don't appear to understand the law."

"The law is very clear: The monies recouped from the TARP shall be paid into the general fund of the Treasury for the reduction of the public debt. It's not for a piggy bank," Mr. Gregg said.

Mr. Orszag said new legislation would be required to create the new small-business plan. He said the cost of the plan would depend on the subsidy rate of new activity and wouldn't amount to a net cost, in terms of the deficit, of \$30 billion.

Sen. Bernie Sanders (I., Vt.) jumped to Mr. Orszag's defense, interrupting Mr. Gregg to say, "That is how laws are made. Congress passes them. He's indicating he's going to go to Congress to amend the law,"

Ms. Sanders said.

The program is part of a package of incentives Mr. Obama has spoken about since his campaign, and discussed during his State of the Union address last week. Last week, he announced a \$33 billion program to provide up to \$500,000 in tax credits for businesses that add jobs or increase wages beyond the rate of inflation this year.

In the 2011 budget blueprint released Monday, the administration also proposes to eliminate all capital-gains taxes on small-business investment and to raise the limit on Small Business Administration loans from \$2 million to \$5 million.

At Tuesday's hearing, Budget Committee Chairman Kent Conrad (D., N.D.) praised the administration's budget for not pulling back on stimulative spending in the near

term, but he said he was "very concerned" about the nation's long-term fiscal path, which features \$8.5 trillion of deficits over the next decade.

"It has to be addressed, and I don't think the president's 10-year outlook is the path we can take as a nation," Mr. Conrad said.

Mr. Gregg was more harsh, accusing the administration of "malfeasance" for crafting a budget that "ends in insolvency for this nation."

Mr. Orszag sketched the administration's plans to tackle the deficit through a fiscal commission, health-care overhaul and other steps.

"We agree the fiscal course that we are on out in 2020, 2030 and 2040 is unsustainable, and it needs to be addressed," Mr. Orszag said.

Messrs. Gregg and Conrad are advocates of a bipartisan fiscal com-

mission, which the Senate rejected last week. Mr. Obama will create the panel through an executive order, but the presidentially appointed group isn't likely to have the teeth of a statutory commission. And it's unclear whether Republicans will take part in the panel.

Mr. Gregg suggested Congress vote again on a commission, saying both parties should be able to cobble together enough votes for passage. But Mr. Conrad was skeptical toward that idea. After the hearing, the Democrat told reporters he sees no indication that lawmakers opposed to the panel would change their mind.

"I'm happy to take another run at it, but we're running out of time," Mr. Conrad said.

—Henry J. Pulizzi
contributed to this article.

Fall in homeownership shows sector's woes

BY SARA MURRAY
AND JEFF BATER

The percentage of Americans who owned their homes fell at the end of 2009 to the lowest point in nearly a decade, a reflection of continuing troubles in the housing market even as the sector showed signs of stabilizing.

In one upbeat sign, an index of pending sales of previously owned homes increased 1.0% to 96.6 in December, the National Association of Realtors said Tuesday, suggesting the housing market was steadying after sharp swings caused by the uncertain fate of a government tax credit.

Yet homeownership is sliding.

Some 67.3% of Americans owned their homes in the fourth quarter of last year, based on seasonally adjusted data, the Commerce Department said Tuesday. That was the lowest percentage since the second quarter of 2000, when the same share of Americans owned homes.

"The homeownership data I think really just underscores how this country as a whole became obsessed with getting people into homes," said Mike Larson, a real-estate and interest-rate analyst at Weiss Research Inc., an investment-research firm. "You can do all kinds of things to get people into a house, which we did; the real problem is making it so they can stay there."

The homeownership rate reached

a high of 69% in 2004 as low interest rates and easy credit prompted large numbers of families to stop renting and purchase homes. But the rate began to fall two years later as some homeowners struggled to make their mortgage payments and eventually lost their homes to foreclosure. Between 2007 to 2009, nearly four million homes were lost to foreclosure.

Still, some economists had expected the homeownership rate to stabilize or even rise slightly in the fourth quarter, because of the Obama administration's tax credit for first-time home buyers. The tax credit fueled a home-sales jump in September, October and November. But economists now believe that the

number of foreclosures during the quarter overwhelmed rising home sales. "Had it not been for the tax credit, the homeownership rate would have fallen even further," said Thomas Lawler, an independent housing economist.

The decline in homeownership reached all regions of the U.S. but was most pronounced in the South, where the level fell to 69.1% from 69.8% a year ago.

Meanwhile, the pending home sales index in December was 10.9% higher than its level of 87.1 in December 2008. Pending sales of existing homes include single-family homes and condominiums. A home sale is pending when the contract has been signed but the transaction

hasn't closed. Pending sales typically close within one or two months of signing.

The tax credit helped sales last year, as did low prices and mortgage rates. The tax credit was due to run out Nov. 30 but was extended and expanded, through April 2010. But the market is still facing the problems of high unemployment and the difficulty many borrowers are having obtaining loans.

While a Federal Reserve survey of senior loan officers Monday showed that banks had largely stopped tightening loan standards, residential mortgages were an exception. Some 17% of banks said they were making mortgage-approval standards tougher.

U.S. NEWS

Two trends in California's economy

Fortunes divide by region, as beginnings of a recovery are seen on coast while inland areas remain stuck in a rut

By CARI TUNA

California's economy is showing signs of stabilizing, but progress is uneven as coastal regions begin to rally and inland areas continue to sink.

Unemployment rates are dipping and home prices are rebounding in the San Francisco Bay area, which is driven by its technology industry and exports, and in coastal Southern California, where entertainment and other industries are starting to benefit from the economic thaw. But in the state's Central Valley and Inland Empire regions, where the downturn struck earlier and harder, unemployment rates are still rising and the battered construction industry keeps shedding workers.

The continuing decline inland could drag down the state's overall recovery and lead to greater inequality between residents.

"California has become increasingly divided between coastal and inland areas," said Hans Johnson, associate director at the Public Policy Institute of California, a San Francisco think tank.

While California's economy has long had different pockets of economic activity, the continuing decline inland could drag down the state's overall recovery and lead to greater inequality between residents. That has national repercussions, since the state's \$1.8 trillion economy is often viewed as an economic bellwether.

Overall, California's economy re-

mains weak, and the stabilization on the coast is just beginning. The state's seasonally adjusted unemployment rate was 12.4% in December, down from an October peak of 12.5% but still higher than the national unemployment rate of 10%, according to the California Employment Development Department.

The different economic trajectories of the state's coastal and inland areas are evident in the experiences of **Marvell Technology Group Ltd.** and **Pelco Inc.** Marvell, a Silicon Valley microchip maker, currently lists on its Web site about 120 job openings at its operational headquarters in Santa Clara, though some of those spots may be filled internally, said Marvell corporate-marketing executive Tom Hayes.

The job openings follow a sales drop in early 2009, when Marvell cut around 130 jobs in Santa Clara. Since then, revenue has picked up due to rising exports to countries such as China, among other factors, Mr. Hayes said. Marvell has about 5,000 employees world-wide.

By contrast, **Schneider Electric SA's Pelco unit** laid off 100 of its roughly 2,200 employees last month amid weak demand. The maker of video and security equipment, located well inland in the Fresno County city of Clovis, said it didn't expect sales to quickly recover. "It was just absolutely necessary to realign the size of our company to match the current economy," spokeswoman Kathleen Rhodes said.

The inland-coastal split is likely to have significant demographic and social consequences. Mr. Johnson said that during the housing boom, many coastal residents moved inland to buy homes, despite longer journeys to jobs in the Bay area or greater Los Angeles. In recent years, that migration trend reversed, he



Construction in California has taken a dive, but crews work on at a new water show at Disneyland Resort's Paradise Bay.

said, as foreclosures mounted inland and housing prices fell on the coast.

Now, housing prices in coastal areas again are rising, a sign that their economies are reviving. The median home price in the nine-county Bay area increased 15.2% in December from a year earlier to \$380,000, according to data provider MDA DataQuick. In coastal Southern California, the median home price increased 7.5% to \$360,000.

By contrast, the median home

price in the eight-county Central Valley fell 11.3% to \$142,000 over the same period, according to DataQuick. In the Inland Empire counties of San Bernardino and Riverside, the median home price in December was \$180,000, down 10% from a year earlier.

Local jobless rates, which aren't seasonally adjusted, show a similar pattern. Unemployment rates fell in December from November in eight of the Bay area's nine counties and three of coastal Southern California's four counties, according to the state Employment Development Department. But in the Central Valley, where unemployment already is higher, jobless rates rose in six of eight counties and held steady in the other two.

In a rare glimmer of positive news, San Bernardino and Riverside saw their unemployment rates fall in December, though joblessness there remained high.

Stephen Levy, director of the Center for Continuing Study of the California Economy, a Palo Alto think tank, said coastal Northern and Southern California are benefit-

ing from a nascent revival in venture-capital investment and exports. In the fourth quarter, venture capitalists invested \$2.8 billion in California, according to research firm VentureSource. The Bay area received 76% of that investment and coastal Southern California took in 19%. Just 5% went to other parts of the state.

The convergence of economic fortunes of coastal Northern and Southern California marks a departure from the past two recessions. In the early 1990s, Southern California hemorrhaged jobs in aerospace and defense following the Cold War's end, and it trailed the Bay area's red-hot economy for the rest of the decade. Southern California weathered the dot-com bust in the early 2000s better than the tech-dependent Bay area.

But recent years saw the rise of a new center of economic activity in inland California, driven primarily by construction. That growth engine is now gone, Mr. Levy said. Inland regions "aren't going to be able to pull themselves by their own bootstraps," he said.

THE WALL STREET JOURNAL.

EUROPE

THE/FUTURE LEADERSHIP/INSTITUTE

Powered by EXECUTIVE LEARNING PARTNERSHIP

Bringing Universities and Businesses Together

The Journal Europe Future Leadership Institute supports

52nd summit of AIESEC International

"Global Leaders Summit 2010"

17 - 26 February, 2010
Yasmine Hammamet, Tunisia

www.gls-2010.org

Networking with The Wall Street Journal Europe?

Win 1 out of 10 seats at our WSJE "Networking Table" at

The Oxford-Cambridge Boat Race

3 April, 2010
London Rowing Club

To win a seat email us your full contact details with "Rowing" in the subject field. Reply by noon CET, February 15, '10 to the address below. Winners will be informed by email.

Contact: gert.vanmol@dowjones.com

The Journal Europe Future Leadership Institute supports

"Beyond the Sound Bite"

In Search of Models to Rejuvenate The Media Industry

5 and 6 February, 2010

Cambridge Judge Business School

<http://cjbs.site-ym.com/events>

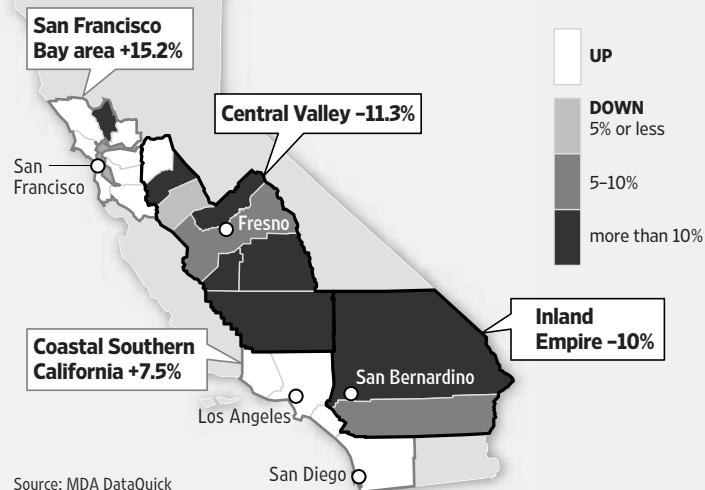
The Wall Street Journal Europe is read every day by 40,500 students at 180 top business schools and university campuses across Europe, a program supported by



Executive Learning Partnership - ELP: Strategy & Learning Architects: www.elpnetwork.com E/P

Geographic split

Median sales price in December for single-family homes and condos, change from a year earlier



WORLD NEWS

Beijing's inequality seen leveling off

OECD report says more welfare spending in rural areas and migration to cities kept income gap from widening

By Andrew Batson

BEIJING—The increase in inequality in China has leveled off in recent years and could be less severe than previously thought, the Organization for Economic Cooperation and Development says, suggesting that Beijing is starting to make progress in tackling one of its biggest social problems.

The OECD, in its economic survey of China published Tuesday, said more welfare spending in rural areas and increased migration to cities helped to arrest a widening of the income gap. The Paris-based organization urged China to lower what is still a fairly high level of inequality by further boosting social programs and eliminating discrimination against rural residents.

The report is the OECD's second major study of China, which isn't a member of the organization. China's economy is on pace to surpass Japan this year as the world's second-biggest after the U.S. The OECD urged China to take a range of measures to liberalize its economy, such as freeing up interest rates to encourage banks to lend more to small companies, and privatizing state-owned enterprises. It also said that allowing the currency to appreciate would help the government manage the economy better.

China's breakneck economic growth of the past three decades has pulled hundreds of millions of people out of poverty. But the incomes of people at the top have risen much faster than the rest, creating new divisions in a once-egalitarian society. Tensions between property developers and dispossessed farmers, and between factory bosses and their rural work force, are often a flashpoint for social conflict. That has pushed China's government to narrow the gap, and officials have repeatedly said they will do more to boost incomes of the worst-off.



Two young Chinese walk past a handicapped beggar prone on a street in Beijing. The OECD says in its economic survey that more welfare spending in rural areas and increased migration to cities has helped arrest a widening income gap, as China makes progress in tackling one of its biggest social problems

"We've already seen, in the last five years, a stabilizing of the disparities," said Richard Herd, a senior economist at the OECD. Much of that is due to an enormous movement of rural people off farms and into urban jobs, a change which allows them to raise their incomes significantly. "You've had a major adjustment in the labor market

since the mid-1990s," he said. China's income inequality as measured by the Gini index—a scale on which zero is perfect equality and 100 is perfect inequality—was at 49.6 in 2005, already greater than the U.S., according to the Chinese Academy of Social Sciences. But the OECD, using what it says are better estimates of price changes and the

ranks of undocumented rural migrants in cities, puts the Gini index for 2005 at 41, and says the measure of inequality edged down to 40.8 by 2007. Chinese officials often focus on the gap between the country and cities. Last year, per-capita annual income in urban areas was about \$2,500, more than three times the

\$750 in rural areas—a ratio that has risen over the past decade. But that comparison doesn't take into account the growing number of rural migrant workers in urban areas, or the fact that most prices are cheaper in rural areas. After adjusting for those factors, the OECD says, average urban incomes are closer to two times rural ones, not three.

Australian rate shows China's influence

By Alex Frangos

An unexpected pause in Australian interest-rate increases shows China's growing influence on the monetary policy of its trading partners.

The Reserve Bank of Australia was expected to raise its benchmark rate a quarter-percentage point Tuesday, after raising rates three times since October. Instead, it surprised the market by holding steady, noting among other factors China's efforts "to reduce the degree of stimulus to their economy."

Australia's economy is heavily oriented toward exporting commodities such as coal and iron ore to supply China's stimulus-driven infrastructure and home-building industries. Last month, China moved to reduce commercial-bank lending and increase rates on some central-bank bonds.

Because a reduction of credit in China will ripple through to demand for Australia's raw materials, China essentially did Australia's tightening for it.

"China is very important this time around, much more than in the

past," said Bill Belchere, chief economist for Mirae Asset Securities in Hong Kong.

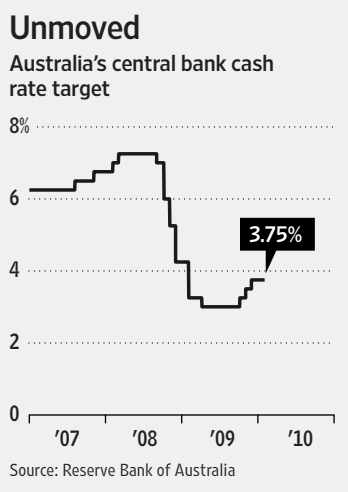
As China's demand for regional goods and materials expands in coming years, so will its influence over its neighbors' economic policy. "You can see the transition starting to happen," he said.

Other central banks in the region are keeping close watch on China, though few economies are as purely driven by Chinese commodity demand as Australia's. Most of the region's exporters still rely heavily on consumer demand from the U.S., Europe and Japan.

Indonesian central-bank officials meet Thursday and are expected to leave rates steady. Indonesia sends much of its raw material exports to China, so a slowdown in China could damp the need to raise rates there.

South Korea's rate-setting committee meets Feb. 11. Its faster-than-expected recovery has been attributed partly to increased demands from China for Korean construction equipment.

China's influence over its neighbors' economic policies in the region is also tied to its currency,



which is fixed to the U.S. dollar. Central bankers in economies that compete directly with China, such as Thailand, Taiwan and Malaysia, could be reluctant to raise rates enough to fight inflation for fear of hurting exporters.

Higher interest rates attract inflows of foreign capital and drive currencies higher, which make exports more expensive on the world

market. Asia's central bankers "know the time to tighten is already upon them," said Matt Hildebrandt, economist for J.P. Morgan in Singapore.

The Philippines and India have both recently moved to tighten monetary conditions. Malaysia's central bankers noted a return of inflation to that economy, a signal that it will eventually start to tighten.

Mr. Hildebrandt said, however, that "China's gradualist approach to tightening monetary policy and its reluctance to allow currency appreciation against the dollar adds another layer of complexity for central banks in the region thinking about raising policy rates."

To be sure, Australia's move Tuesday wasn't just about China. The Reserve Bank's policy statement noted that market interest rates charged by Australian commercial banks had risen faster than the central bank's target and that it was prudent to wait and see how the economy performed over the coming weeks. The Reserve Bank meets again in March.

Australia's decision to slow down

the rate increases won't mean a wholesale re-evaluation of the expected policy tightening in other economies exposed to China such as Korea, Taiwan or Indonesia. But it does mean the lead horse in the monetary-tightening race is pulling back, giving cover to central bankers to delay or scale back planned rate increases.

Australia has been at the vanguard of interest-rate tightening. Its economy never officially slipped into recession, having contracted only in the fourth quarter of 2008. The Reserve Bank on Tuesday surprised economists' expectations and kept its target steady at 3.75%.

The latest sign of China's appetite for Australia's raw materials were expected to be on display on Wednesday when Australia publishes its trade figures for December.

In the five months through November, merchandise exports to China were up 10.5% from a year earlier. Australia is one of the few developed nations that runs a trade surplus with China.

—James Glynn
—contributed to this article.

WORLD NEWS



Fung shui master Tony Chan Chun-chuen (center) accompanied by his lawyer Jonathan Midgley (right) leave a building in Hong Kong.

Claim to Wang estate is rejected

Hong Kong judge's ruling denies feng shui master's attempt to gain control of one of Asia's great fortunes

By JONATHAN CHENG

A Hong Kong judge ruled against the feng shui master of heiress Nina Wang in his efforts to win control of her multibillion-dollar estate, a turning point in the battle over one of Asia's great fortunes.

Tony Chan claimed to be Ms. Wang's longtime lover and beneficiary, after her death in 2007. In his ruling Tuesday, Hong Kong Judge Johnson Lam deemed the 2006 will that Mr. Chan produced a "forgery."

Ms. Wang won control of her husband Teddy Wang's multibillion-dollar Chinachem property empire in 2005 after his kidnapping and disappearance in 1990 and a court battle with Mr. Wang's father that involved three competing wills.

Tuesday's decision, which Mr. Chan's lawyer said he planned to ap-

peal, grants Ms. Wang's estate to the Chinachem Charitable Foundation Ltd., which was named by Ms. Wang in a 2002 will as the sole beneficiary of her fortune.

The foundation, she said in her will, was to create a type of Nobel Prize for China—a prize that she envisioned as being administered by the United Nations secretary-general, the Chinese premier, and the chief executive of Hong Kong. "The 2002 will was the product of Nina's charitable aspiration, an aspiration consistently held by her both before and after her probate dispute," Judge Lam wrote in his verdict.

A lawyer for the foundation, Keith Ho, said he was "very happy

with the ruling.

Ms. Wang's brother, Kung Yansum, said at a news conference that the verdict was a victory, "not only for our family, but for society at large, which my sister's foundation was to benefit."

Mr. Kung described Mr. Chan's attempts to contest Ms. Wang's will as wasteful. "If it weren't for him, the foundation's work could have begun smoothly three years ago," he said.

Jonathan Midgley, a lawyer for Mr. Chan, said "Mr. Chan is extremely disappointed in this judgment today, but he appreciates

how difficult this sort of trial is to judge." He added that Mr. Chan's "position is today the same as it's always been, namely that the will in

question was given to him by Nina and, accordingly, it is inconceivable that that will is a forgery."

During the four-month trial, Mr. Chan said his relationship with Ms. Wang began in 1992 when she hired him to do feng shui work.

Ms. Wang's two sisters and brother testified that Ms. Wang had remained in love with her kidnapped husband, convinced that he was still alive and sending her messages from an undisclosed location.

Judge Lam said in his ruling that the evidence showed Ms. Wang wanted the secret of her relationship with Mr. Chan "to be buried together with her after her death."

"The court does not believe that their relationship was such that Nina was prepared to give him her entire estate irrespective of her other commitments and responsibil-

ities," he wrote.

Judge Lam said there was evidence that Mr. Chan had been preparing for a legal battle "for quite some time before her demise."

In 2007, at the time of her death from cancer at the age of 69, Ms. Wang's wealth had been estimated to be \$4.2 billion by Forbes magazine.

Ms. Wang, who took the reins of Chinachem with the title of "chairlady" after her husband's disappearance, fostered a reputation for frugality. She boasted in interviews that she spent less than \$400 a month on herself.

Ms. Wang also was widely known for her eccentric style of dress. She appeared publicly in bright miniskirts and bouncing pigtails that earned her the Cantonese nickname Siu Tim Tim, or Little Sweetie.



Nina Wang

U.S. lobbies Japan to sign custody treaty

By YUKA HAYASHI

TOKYO—The U.S. is renewing a push to get Tokyo to give rights to American parents whose children are taken to Japan by their ex-spouses.

Japan is the only one among the Group of Seven rich nations that hasn't signed a 1980 agreement meant to help sort out disputes and protect children in broken international marriages. Japanese officials have said for months they would sign the treaty, but they have yet to indicate when they would do so.

Not signing the treaty makes it difficult for foreign parents to gain custody of—or even visit—children

taken to Japan by their Japanese ex-spouses. Currently, there are more than 70 cases involving more than 100 children whose American parents are denied or given little access to their children.

"This issue left unresolved has the potential to raise very real concern, something all of us seek to avoid," assistant secretary of state Kurt Campbell said at a news conference in Japan called to cast a spotlight on the issue—and on American frustration over what U.S. officials see as Japanese foot-dragging on the matter.

"It's been striking to me how rapidly this issue has gained support in Congress," Mr. Campbell

added, after meeting some of the affected U.S. parents in Washington and Tokyo.

The renewed effort on behalf of the "abductees," as these children are often called in these cases, comes at a time when tensions between the two countries already are on the rise over American bases on the southern Japanese island of Okinawa. The two nations remain far apart over the issue of construction of a new U.S. Marine facility, putting on hold a broader plan to reorganize U.S. troops stationed in Japan and creating a headache for the new center-left government of Prime Minister Yukio Hatoyama.

The rise in the number of so-

called abduction cases also reflects in some ways closer ties between the two nations. As more Japanese and Americans visit and live in each other's country, the number of marriages between the citizens has increased, rising to 1,660 in 2008 from 1,320 two decades earlier.

Some in Japan have balked at signing the treaty because Japanese divorce courts typically assign custody to one parent, in most cases to the mother.

U.S. officials, along with those from several other nations, such as the U.K. and Australia, have long complained about the treaty issue, but the discussion gained momentum in October when an American

businessman was taken into custody in Japan after attempting to "kidnap" his children who had been taken from the U.S. to his former wife's hometown.

Japanese officials, including Foreign Minister Katsuya Okada, have since said they would again consider signing the international agreement, formally called the Hague Convention on the Civil Aspects of International Child Abduction. But they haven't set a time frame.

"We intend to cooperate fully with the U.S. to solve this problem, while also considering various legal and social aspects within Japan," Takeshi Akamatsu, a foreign ministry spokesman, said.