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Henry Paulson's insider view of McCain's meeting on crisis

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BUSINESS & FINANCE 21

THE WALL STREET JOURNAL.

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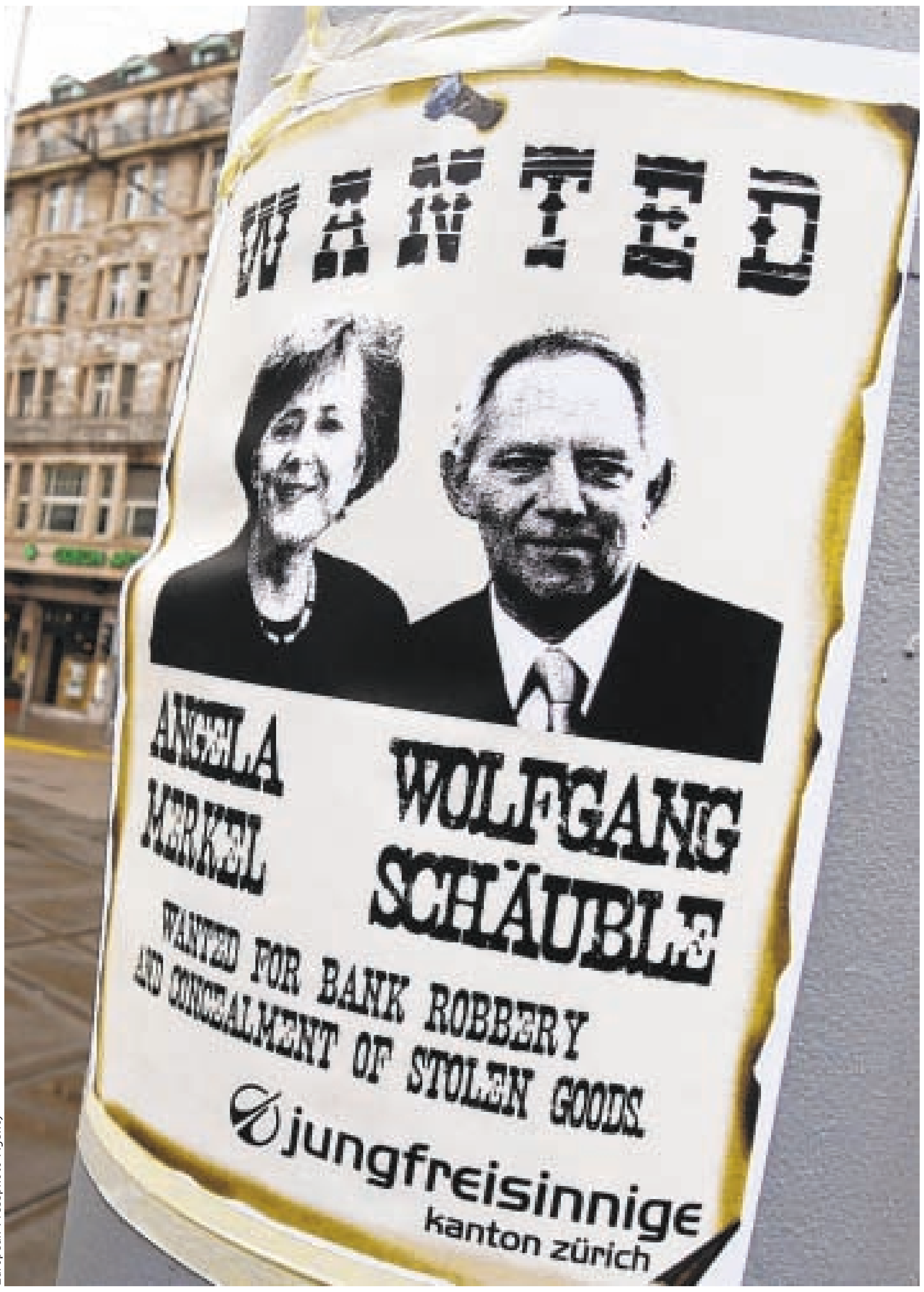

European Pressphoto Agency

Posters in Zurich protesting Germany's move to buy secret Swiss bank data from an informant.

Victory appears near in Ukraine for Yanukovych

By Richard Boudreaux
And James Marson

KIEV, Ukraine—Opposition leader Viktor Yanukovych appeared headed for victory Sunday in Ukraine's presidential election, according to exit polls, but his opponent's campaign said it would contest the results.

The dispute raises the prospect that Ukraine's presidential contest might spill into the streets and the nation's courts—as it did in 2004 when protests over alleged fraud overturned Mr. Yanukovych's tainted victory at the polls.

Ukraine's National Exit Poll 2010, conducted by a consortium of leading Ukrainian pollsters, gave Mr. Yanukovych 48.7% of Sunday's vote and Prime Minister Yulia Tymoshenko 45.5%. The poll had a margin of error of 2.5%.

GfK Group, an international market-research firm, gave Mr. Yanukovych a wider lead: 49.8% to 45.2%; that survey's margin of error is 1.6%.

Associated Press

Viktor Yanukovych

Ms. Tymoshenko's campaign manager, Oleksandr Turchynov, said her campaign would contest votes cast at more than 1,000 polling stations, about 3% of the national total, in the eastern region of Donetsk, a Yanukovych stronghold. He said Tymoshenko delegates were barred from polling places there.

Volodymyr Mayevsky, head of the Ukrainian Interior Ministry's public security department, told a news conference that officials said they had not received reports of serious violations during the vote.

A victory by Mr. Yanukovych, 59 years old, would mark an impressive comeback for the two-time former prime minister. As the Kremlin-backed candidate in 2004, he was the target of the street protests known as the Orange Revolution and lost a court-ordered revote to Viktor Yushchenko.

This time, Mr. Yanukovych focused criticism on Ms. Tymoshenko's management of the economy, which has been crippled by the global financial crisis during her stint as prime minister. Many voters overlooked her criticism of Mr. Yanukovych as a Soviet-era hack and a front-man for Ukrainian oligarchs.

His appeal was strong among people also disillusioned by legislative paralysis and broken promises of overhaul that have characterized Mr. Yushchenko's turbulent years in office.

Please turn to page 4

Germans mull bank-data buys

German officials said they were weighing fresh offers from informants after deciding last week to pay €2.5 million ($3.4 million) for the names of suspected tax evaders in what is rapidly evolving into a broad attack on Switzerland's system of banking secrecy.

By David Crawford and Vanessa Fuhrmans in Berlin and Deborah Ball in Zurich

Over the past week, German officials have launched a tactical and rhetorical assault on Swiss banking, a strategy that appears to be aimed at undermining both Switzerland's tradition of secrecy and its pre-eminence as a tax refuge. In addition to agreeing to purchase the data, a move Switzerland vociferously protested, Germany signaled it would likely share whatever information it secures with other countries.

"There's no future for bank secrecy," German Finance Minister Wolfgang Schäuble said in an interview with German newspaper Süddeutsche Zeitung on Saturday. "It's finished. Its time has run out."

Authorities from the German state of North Rhine-Westphalia, where the data had been offered, reached a deal in recent days with a confidential informant to acquire an initial trove of secret Swiss banking data, a German official familiar with the investigation said over the weekend. The records, which authorities said originated from a Swiss bank, include account details of some 1,500 Germans suspected of using the Swiss accounts to hide undeclared money.

German finance officials, who have reviewed samples of the data set, now believe the information could yield €400 million in back taxes, more than double initial estimates, according to the official. The German Tax Union, a labor union for tax collectors and finance officials, estimates that tax evasion—including hiding money abroad and other unreported income—costs the German government some €30 billion in lost revenue annually.

The prospect of similar tax bonanzas is spurring German authorities to consider additional offers from unidentified hackers or thieves. Over the weekend, officials in the southern German states Bavaria and Baden-Württemberg said they also were reviewing offers of banking information from Switzerland but didn't

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The Quirk

Whether bonds or touchdowns, they're still a gamble. Page 33

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The victory—and re-introduction—of Viktor Yanukovych. Page 15

PAGE TWO

Strains across the Atlantic coincide with strains across the euro zone

[Agenda]

By Irwin Stelzer

Oh, for the good old days when American presidents would attend European Union summits. Gone.

Barack Obama, the hero of the adoring, anti-George W. Bush street crowds in Paris, Berlin and London has decided after two such summits that he would do better to tend to his diminishing popularity at home than to attend the May EU summit in Madrid, thereby foregoing the need to figure out with which of the three EU "presidents" he should hobnob—Herman Van Rompuy, the new, full-time EU "president"; José Manuel Barroso, the president of the European Commission; or the occupant of Spain's seat as the temporary, rotating president.

EU officials haven't yet identified the official host.

This comes at a time of heightened tension in the EU, both political and economic. Political tension has been mounting for some time as French president Nicolas Sarkozy continues his attack on America's plans for structural reform of the banking system, and the use of the dollar as the world's reserve currency.

In part this is a matter of conviction, in part the revenge of a scorned lover. Mr. Sarkozy had hoped to become Mr. Obama's closest ally, but was refused a photo op with the U.S. president during D-Day ceremonies and, according to the Washington Post, was mightily offended when a letter from Mr. Obama promising close collaboration was misaddressed by the White House and sent to former President Jacques Chirac.

European Pressphoto Agency

Opposing visions: Barack Obama, Nicolas Sarkozy and Gordon Brown last year.

So much for Europe's belated discovery that Mr. Obama is not the friend in the White House for which they yearned during the reign of Bush the younger.

More important is the economic strain created by the Greek crisis, which might be the forerunner of problems in Spain and Portugal, and Goldman Sachs calls the euro zone's "biggest challenge since the establishment of the single currency."

What remains unclear is the credit situation and the condition of the euro-zone banks.

Nobel-Prize-winning economist Joseph Stiglitz is hoping Greece does not cut its deficit too quickly lest such fiscal austerity would throw Greece's economy into a deeper recession, deepening rather than lowering its deficit.

EU policy makers don't see it that way. They fear that Greece's failure to present credible plans to cut its deficit from 12.8% to 8.7% this year and to 2.8% by the end of 2012 might result in a default, and put pressure on it and similarly situated countries to abandon the euro.

So they are increasing their control of Greece's finances in the (decreasing) hope of avoiding a bailout, which would create moral hazard, inviting Spain and Portugal (deficit, 9.3% of GDP) to seek similar help.

Over four million Spanish workers are out of work, and the jobless rate, closing in on, if not already at, 20%, is the highest in the EU. Cutting the budget deficit, now 11.4% of GDP, is politically difficult, and might cause what is politely labeled by eurocrats as "social unrest"—"riots," to the rest of us. The good news for Spain, which has the advantage of a low level of debt (55.2% of GDP), is that Goldman Sachs last week called its budget-cutting plan "realistic and credible."

The difficult situation in which these periphery countries find themselves has forced the European Central Bank to hold its key interest rate target at 0.25%, despite the fact that the core euro-zone economies are showing real signs of life. Business sentiment in the core countries is up and Germany's economy minister Rainer Brüderle has raised his growth forecast for this year to 1.4% from the 1.2% figure he suggested in October.

Most private forecasters believe he is being excessively cautious, since they expect the world-wide recovery and a fallen euro to increase Germany's exports by 5.1%.

What remains unclear is the credit situation and the condition of the euro-zone banks. Although the proportion of banks tightening their lending standards is down, 42% "are still reporting some constraints on lending," according to Bank of America Merrill Lynch. Joerg Kraemer, chief economist at Commerzbank AG is a bit more gloomy. He reports, "The current stagnation of bank lending reflects at least partly the difficult situation of the banking industry." Which carries three unpleasant implications.

■ If the pace of recovery quickens, the ECB, burdened by concerns for the banks and for the peripheral countries, will find it difficult to raise interest rates in order to contain inflationary expectations, which at the moment are quite low.

■ Small and medium-size firms, which provide 70% of private-sector jobs, continue to have difficulty expanding if they need credit, which most of them do.

■ The banks remain on the life support of extraordinarily low interest rates: Several might have difficulties when that support is withdrawn.

Meanwhile, EU politicians are trying to decide how to react to a U.S. president who ignored them during the Copenhagen climate-change meetings, and is proposing financial-sector reforms that are completely unacceptable to most European countries. And who doesn't care to mingle with their very own three presidents.

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

What's News

■ **G-7 financial leaders** sought to play down at a meeting in Canada the threat that Greece's debt woes pose to the financial system amid growing concern of contagion across the euro zone. **5**

■ **The chief executive** of SAP resigned after the German software company declined to renew his contract. Two co-CEOs were named to succeed Leo Apotheker. **3**

■ **Lender CIT named** former Merrill CEO John Thain as its chairman and CEO. **21**

■ **Goldman Sachs's CEO** will get a $9 million bonus, a fraction of the $68.5 million he got in 2007. **22**

■ **President Ahmadinejad** ordered Iran's nuclear agency to begin enriching uranium for use in a medical-research reactor. **8**

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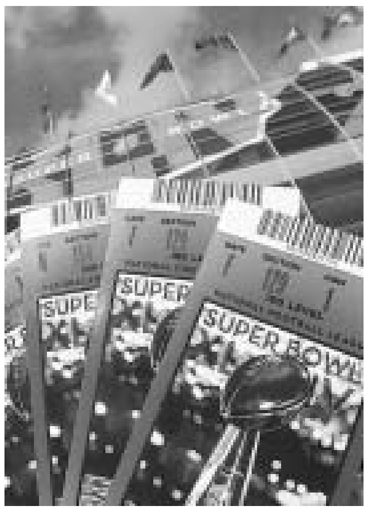
"Say, very slowly and calmly: 'The U.K. is not Greece.' See? Don't you feel better already?"

David Cottle on reasons why the U.K. isn't in the same position as Greece.

Continuing coverage



Catch up on last night's Super Bowl XLIV with our comprehensive coverage at, **wsj.com/sports**

Question of the day

Vote and discuss: Which country do you think is next in Europe's debt crisis?

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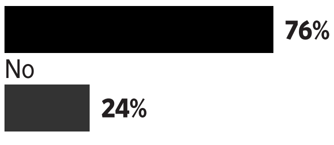

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NEWS

SAP chief quits; co-CEOs step in

Software maker reaches 'mutual agreement'

BY VANESSA FUHRMANS
AND ARCHIBALD PREUSCHAT

DUESSELDORF, Germany—German business software maker **SAP** AG late Sunday said Chief Executive Leo Apotheker resigned effective immediately. He will be succeeded by two insiders, who were named co-CEOs.

The company said it had "reached a mutual agreement" with Mr. Apotheker not to renew his contract after less than a year as SAP's solo chief executive.

The company wouldn't elaborate on the reasons behind Mr. Apotheker's departure, but SAP and its chief executive have been under increasing pressure to jump-start growth after flagging sales and profits. SAP has long been a leader in the $67 billion market for enterprise software but the global economic downturn, intense competition and the fast-evolving business software field have threatened to crimp SAP's growth.

The co-CEOs will be Bill McDermott, head of field organization, and Jim Hagemann Snabe, head of product development, both already members of the SAP executive board.

At the request of the SAP supervisory board, Hasso Plattner, co-founder of SAP and chairman of the SAP supervisory board, will continue to play a strong role in advising the new leaders on technology and product development, the Walldorf, Germany, company also said.

Mr. Apotheker was with SAP more than 20 years. He took the helm of SAP in June 2009 after serving as a co-CEO with Henning Kagermann since April 2008.

During Mr. Apotheker's tenure at the helm, SAP was hit by the economic downturn resulting in a slump of demand for business software, which helps companies manage their customer relations management and payrolls, for example.

Mr. Apotheker wasn't immediately available for comment.

Last month, SAP, whose programs help companies do back-office work such as payroll, inventory management and accounting, said its fourth quarter net income fell 12% to €727 million ($993.4 million) because of difficult market conditions, but said it expected an improvement this year.

For all of 2009, SAP reported that earnings fell 4% to €1.79 billion, or €1.54 a share. SAP said earlier this year it will no longer force customers to opt for a more expensive support-fee model.

"The new setup of the SAP executive board will allow SAP to better align product innovation with customer needs. The new leadership team will continue to drive forward SAP's strategy and focus on profitable growth, and will deliver its innovations in 2010 to expand SAP's leadership of the business software market," said Mr. Plattner.

SAP also said that Vishal Sikka, chief technology officer, has been appointed to the SAP executive board.

"SAP needs a good technologist in place as they have to right-side the roadmap," said R "Ray" Wang, analyst at Altimeter Group, San Mateo, Calif., said. "McDermott is an excellent sales guy, but the issues is not sales, it's products. Snabe and Vishal will need strong product vision to right SAP and point it in a forward direction. Engineering and products need more attention."

The company said it will hold a conference call on Monday.

Bloomberg News

Leo Apotheker took the helm of SAP in June 2009 after serving as a co-CEO since April of 2008.

EUROPE NEWS

EU utilities under pressure

Complaint from Micronesia over Czech power plant highlights climate-change concerns

BY SEAN CARNEY
AND LEOS ROUSEK

PRAGUE — A move by the Pacific island nation of Micronesia to influence the technology used by Czech utility CEZ is illustrating how nations half a world away can complicate the regulatory processes faced by European utilities.

The Ministry of the Environment has delayed a decision about CEZ's plans for rebuilding Prunerov, its largest coal-fired power plant, because of requests by Micronesia and the local chapter of Greenpeace. The two have said that the steps don't go far enough to cut greenhouse-gas emissions.

Analysts say the move will set the stage for similar complaints. That is particularly the case in coal-rich countries like Poland and Germany, which have large generation capacities that are going to be renewed in coming months and years.

"As a test case, it will be important for the wider EU coal-power sector, as it could open a flood of legal challenges against new plants," said Meg Brown, an analyst at Citi Investment Research.

A letter dated Jan. 4 from Andrew Yatilman, the director of Micronesia's Office of Environment & Emergency Management to the Czech Environment Ministry, highlights the extent of Prunerov's damage to the environment. It says Prunerov produces 40 times the level of carbon dioxide as the entire Micronesian Federation, and the islands are at risk from accelerated sea-level rises caused in part by global warming. It is the most recent correspondence from Micronesia received thus far.

A quirk in the legal systems of some EU countries allows Micronesia, or any other nation that applies, to have legal standing in the CEZ case. Some EU countries allow far-away nations to take part in the environmental approval procedure, while others limit the geographical scope.

In the case of the Prunerov plant, near the Czech-German border, CEZ has argued that the technology it intends to use for its coal-fired generator is the most suitable for the site, which abuts an open-pit coal mine. The Czech utility has been trying to get regulatory clearance for the project since July 2008.

But the case heralds a shift in the tactics employed by activists seeking to stem the effects of climate change. The new strategy centers on moving the battle from political panels, such as December's United Nations Copenhagen climate conference, to challenges against individual power plants.

"It's a positive development as it shows that nations endangered by the climate change have learned how to use all available legal tools to make themselves heard," said Jan Rovensky, an energy and climate campaigner at the Czech chapter of Greenpeace.

Others aren't quite so sure.

"In my opinion, Micronesia's move will not have legal consequences, but is rather aimed at signaling the gravity of the problem of rising sea levels," said Piotr Otawski, Deputy Head of General Directorate for the Environmental Protection in Poland, an agency tasked to handle environmental-impact assessments. Poland is slated to add several thousand megawatts of coal-fired power generation capacity in coming years.

In addition to CEZ, there are a few European utilities seeking to build new or refit existing coal-fired capacity. In Germany, E.On AG wants to build two coal-fired power plants, hoping to bring one of them online as early as 2011.

But throughout Europe, the choice of fuel for next-generation power stations is tricky. In these two countries, domestically mined coal remains relatively cheap, but its cost advantage is under pressure due to Europe's emissions trading system, which forces utilities to pay for emitting greenhouse gases into the atmosphere.

If new requirements for more-expensive technology become the norm, utilities might switch to natural gas as more cost-effective fuel.

CEZ officials say challenges from nations like Micronesia may challenge other power-generating projects planned in Europe in the future.

"It is entirely possible that similar claims in compliance with existing regulation may be moved forward," said Vladimir Hlavinka, CEZ's board member responsible for electricity-generation projects.

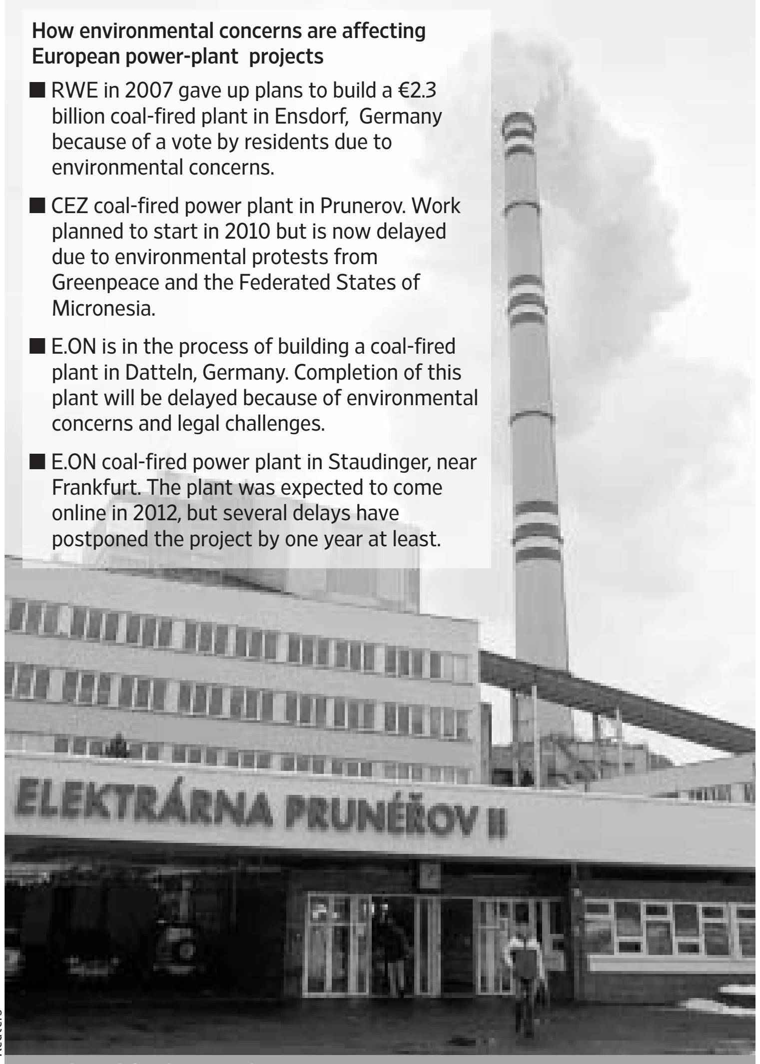
Lawyers generally agree. "Like in the Czech Republic, Micronesia could also petition power-plant projects in Germany to help ensure that certain environmental standards are considered," said Bernhard Kuhn, a Frankfurt-based partner specializing on environmental law at Lovells law firm.

—Marek Strzelecki in Warsaw, Jan Hromadko in Frankfurt and Alessandro Torello in Brussels contributed to this article.

Regulatory climate

How environmental concerns are affecting European power-plant projects

- RWE in 2007 gave up plans to build a €2.3 billion coal-fired plant in Ensdorf, Germany because of a vote by residents due to environmental concerns.
- CEZ coal-fired power plant in Prunerov. Work planned to start in 2010 but is now delayed due to environmental protests from Greenpeace and the Federated States of Micronesia.
- E.ON is in the process of building a coal-fired plant in Datteln, Germany. Completion of this plant will be delayed because of environmental concerns and legal challenges.
- E.ON coal-fired power plant in Staudinger, near Frankfurt. The plant was expected to come online in 2012, but several delays have postponed the project by one year at least.



Reuters

Czech coal-fired power plant Prunerov II in Prunerov

Germans ponder purchasing more Swiss bank data

Continued from first page

provide any details about the sources. The Netherlands, Belgium, Austria and other European countries quickly clamored for access to any data that Germany buys.

The German government is increasingly making clear that the endgame in its negotiations with informants is to upend Switzerland's system of banking secrecy altogether. Under pressure from the U.S. and other countries, particularly in Europe, Switzerland recently agreed to water down its banking secrecy laws. But Germany in particular has frequently complained that its small Alpine neighbor has been slow in its cooperation with foreign tax authorities and continues to offer itself as an attractive haven for tax cheats.

Swiss officials, in their condemnation of Germany's moves to procure the stolen data, acknowledge that the development could more broadly destabilize the country's private banking system.

"We find the development simply difficult, worrying," Swiss President Doris Leuthard said on Swiss national television over the weekend. "If one buys, it makes it more attractive, it makes it a business and that creates more of a market." A Swiss finance ministry spokesman reiterated that if the data were stolen, they should be returned.

The German government has launched a campaign in public and in private over the past week to maximize pressure both on Switzerland and on tax-evading German citizens. A German finance official said tax accords and other treaties with other countries would likely enable Germany to share data it secures.

German authorities have remained tight-lipped on which bank or banks may be the source of the data they are reviewing, allowing no German citizen with money hidden in a Swiss bank account to feel at ease. Over the weekend, tax agencies across Germany reported that a number of tax dodgers have turned themselves in and agreed to pay back taxes to avoid prosecution.

An official familiar with the investigations said investigators in three German states are examining account records hacked or stolen from **UBS** AG, **HSBC Holdings** PLC and **Julius Baer Group**. All three banks declined to comment on what they called speculation.

Though the U.S. used information from a whistleblower to pressure Switzerland into handing over the names of some U.S. taxpayers with secret Swiss accounts last year, the confrontation with Germany represents a bigger threat to the Swiss tradition of bank secrecy. German officials say the country's taxpayers have about €175 billion in Swiss bank accounts, or more than 10% of Switzerland's estimated $1.8 trillion offshore-banking business.

Switzerland has suggested an international agreement under which banks would levy a withholding tax on foreign account-holders and send the funds back to their countries. But a number of European countries, sensing that Bern is on the defensive, are pressing for Switzerland to agree to a full exchange of information on foreign account-holders.

The Swiss have resisted, although the Swiss finance minister suggested over the weekend that the country could be more open to the idea in order to give Swiss banks greater access to other European markets.

Yanukovych appears near a win in Ukraine

Continued from first page

Mr. "Yanukovych's team is an old-style party team," Vitaly Kuzmenko, a 39-year-old criminal lawyer, said after voting in Kiev. "But it doesn't matter what their past is. I believe they have the experience to bring order to this country. ...What we need is stability."

Voters said the economy was uppermost in their minds. Ukraine's currency crashed in 2008, gross domestic product shrank 15% last year, and a $16.4 billion bailout by the International Monetary fund was put on hold after the government failed to adopt a budget for 2010.

Ms. Tymoshenko, 49, portrayed herself during the campaign as a pro-Western reformer, a skilled crisis manager and the only guarantor of closer relations between this former Soviet republic and the European Union.

She forced Mr. Yanukovych, the front-runner, into Sunday's runoff election by polling strongly in the first round of voting Jan. 17, despite her frequent feuding with the president in two stints as his prime minister. Mr. Yanukovych got 35% of the first round vote, compared with her 25%.

"Yulia has worked hard during the crisis, and I'm sure when the crisis is over things will get better," said Olga Yanchuk, a 35-year-old teacher in Kiev, after casting her ballot Sunday for the prime minister.

But others who voted for her said they did so reluctantly, only because they disliked Mr. Yanukovych. And many who supported the Orange Revolution said they didn't vote, a choice that undermined Ms. Tymoshenko's effort to close the gap.

Smiling and looking relaxed, Mr. Yanukovych said the election would mark the "first step in overcoming the crisis."

"The people of Ukraine deserve a better life," he said after voting in Kiev.

Earlier in the day at the same polling station, four members of the feminist group Femen stripped to the waist and shouted, "Enough of raping the country!" in protest against what they called the corruption of politics by all parties.

President Yushchenko, who polled a meager 5.5% in the first-round voting, urged his supporters to vote against both runoff candidates, a legal option. "I think that the people of Ukraine will be ashamed of the choice they have to make," he said after voting.

Tensions ran high ahead of the vote, with both candidates accusing each other of planning large-scale ballot fraud and vowing to send their supporters into the streets to sway the outcome of any legal disputes over the count.

Scores of blue tents surrounded by Yanukovych supporters appeared around key government buildings in Kiev, a sign of preparations for post-election protests.

Mr. Yanukovych's party said that Ms. Tymoshenko's supporters delivered ballots to polling stations that had incorrect numerical codes, giving officials an excuse to declare them invalid.

Any prolonged dispute over the vote could undermine Ukraine's young democracy, which has managed two relatively smooth parliamentary elections since the upheaval of 2004. It could also prolong the country's economic paralysis.

The next president faces the task of securing renewed IMF funding, Ukraine's only source of external financing. A fractious parliament could make it harder to pass the required budget, and the IMF is likely to object if it includes wage and pension increases passed into law last year at Mr. Yanukovych's behest.

Mr. Yanukovych has said that as president he would seek to oust Ms. Tymoshenko as prime minister by engineering defections from her coalition and forming his own majority in parliament. Failing that, he said he would move to call for election of a new parliament a year ahead of schedule.

EUROPE NEWS

G-7 frets over debt woes

Leaders try to downplay threat as worries of euro contagion grow

By Gregory Zuckerman, Stephen Fidler And Tom Lauricella

Group of Seven financial leaders sought to downplay the threat Greece's debt woes pose to the financial system amid growing concern of contagion across the 16-member euro zone.

U.S. Treasury Secretary Timothy Geithner, attending a G-7 meeting of financial leaders in a remote Canadian town, said European officials had made it clear to the G-7 that they would manage the Greece situation with great care. Other officials said Greece's relatively small size meant that it didn't pose a serious risk to the global financial system.

Such comments may have little effect in calming markets that have already moved beyond Greece to focus on other euro-zone countries.

"No one is really concerned about Greece—but people are concerned about the potential contagion," says Axel Merk, president and chief investment officer of Merk Mutual Funds.

The G-7, which represents the major European and North American economies and Japan, said the global economy has improved but the financial recovery remains tentative. Officials said they would continue to provide support to their economies until the financial recovery has taken firm hold.

The comments came after fears that some European countries could default on their debt sparked a market sell-off last week. European credit and equity markets were particularly hard hit as the cost of insuring against a default of the most vulnerable countries' bonds rose to new highs. Those fears also weighed on the euro, which fell to an eight-month low as some investors jettisoned their European holdings.

What most worries European policy makers is that the market concerns could spread from the nations running high deficits—Portugal, Greece, Ireland and Spain—to euro-zone members with more stable finances such as Belgium and Austria, which saw their bonds come under pressure last week.

"The dislocations in Greece have reduced market liquidity," says Mohamed El-Erian, chief executive officer at giant bond manager Pacific Investment Management Co. in Newport Beach, Calif. "As a result, neighboring economies become partial hedges for exposures that cannot be hedged directly and fully."

Countries such as Belgium, Austria and France ought to be able to weather a bond crisis well because despite high levels of government debt, they don't rely on foreigners to fund their deficits, notes Sebastien Galy, currency strategist at BNP Paribas in New York. Belgium, for example, is a net exporter of savings to other countries.

As euro-zone members, however, they could still be on the hook for a major bailout. "You can get contagion because of the rescue," Mr. Galy says. "If you get a rescue the bad assets will end up on the balance sheet of the good assets."

The transmission of speculative pressures from one country, bank or currency to another, known as "financial contagion," has fueled many of the worst financial crises the world has seen in recent decades.

Often, pressure is transferred from a set of financial assets to another as investors react to losses by liquidating other assets in their portfolios. Asset liquidation was a big reason for the contagion that followed the financial crisis in Russia in 1998, for example.

Contagion also occurs when a crisis prompts investors to exit investments that seem similar to those losing value. Losses in the price of debt in one country, for example, can spark investors and speculators to examine other countries with similar weaknesses. In the Asian crisis of 1997, triggered by a devaluation in Thailand, a series of countries with big current-account deficits suffered attacks on their currencies.

This seems to be what is now happening in Europe, where the euro-zone countries under pressure have similar problems, says Ricardo Hausmann, a professor at Harvard University's Kennedy School and a former Venezuelan planning minister.

Reuters

French Finance Minister Christine Lagarde with Canada's Jim Flaherty Saturday.

States try to tax more services

New levies considered as revenue runs short

Crawford Hot Air Balloons Inc.

Hot-air balloons outside Kentucky's state capitol. The state is weighing a tax on high-end services, such as balloon rides.

By Conor Dougherty

Will plumbers, lawyers and hot-air balloon operators be forced to pitch in to solve state and local government revenue shortfalls?

Sales taxes in the U.S. today mainly, though not exclusively, hit sales of tangible goods like cars and couches. Faced with the worst budget crisis in a generation, many states are looking to expand sales taxes to services, such as lawn care or accountants' advice. The goal, legislators say, is to broaden the tax base to cover a broader swath of the economy as traditional sources decline.

THE OUTLOOK

Although in early stages, service taxes are being considered by legislators around the U.S. In Kentucky, representatives have introduced a measure to extend sales taxes to some high-end services like limousines and balloon rides. In North Carolina, the legislature last year considered, but didn't pass, a proposal to tax services such as car repairs and lawn care.

In Maine, the legislature last year passed a law that would lower income taxes for most residents but extend sales taxes to services such as car repairs and dry cleaning. It faces a voter referendum in June.

Many states already tax some services, such as hotel rooms and restaurant tabs. And the service sector is indirectly taxed through the wages of employees providing those services. But as of 2007, the latest data available, only seven states taxed the consumption of professional services such as doctors and lawyers said the Federation of Tax Administrators, a trade group of state tax agencies.

Hawaii and New Mexico tax the broadest array of services, more than 150, including movie tickets, according to the trade group.

The tax system ought to reflect the nature of our current economy," said Gerald Parsky, an investment manager who last year chaired a commission on California's tax system. The panel suggested the state lower personal income taxes, eliminate the state's corporate income and sales taxes, and replace the revenue with a "business net receipts tax" that would tax a greater share of businesses. "The sales tax in California doesn't reach the service economy and yet the state is providing benefits to those people," said Mr. Parsky, a Republican. The idea went nowhere.

Kyla Christoffersen, a policy advocate for the California Chamber of Commerce, said her organization opposed the idea for a number of reasons including potential harm to smaller businesses like dry cleaners. "These small businesses are trying to sell their services and they are going to essentially have to tell their consumers now the prices have increased," she said.

The consumption of services, at about $6.1 trillion a year, accounts for about two-thirds of total consumer spending, yet services aren't widely taxed by state and local governments. This is rooted partly in history: Sales taxes in the U.S. began to spread around 75 years ago when the service sector was a smaller share of the economy, and legislators have generally found it easier to raise existing sales tax rates than to extend the tax to new areas.

As the service sector's share of the economy has grown, so has its influence. "Whenever you [propose a service tax] everybody who is in that profession shows up in the lobby and protests it," said William F. Fox, a University of Tennessee economist. "That proves extremely difficult to overcome."

Stuart Crawford, owner of a hot-air balloon ride company in La Grange, Ky., is trying to rally charter-plane companies and helicopter operations to oppose the state's move to extend the sales tax to high-end services including golf-course fees, landscaping—and chartered aircraft rides. Jim Wayne, the Kentucky Democrat sponsoring the proposal, said it would update the tax code to reflect the modern economy and smooth tax revenue. "We know that the economy has shifted away from the purchase of goods to services," he said.

Some tax experts long have argued the most effective way to broaden the sales-tax base was to expand it into the service sector. Purveyors of goods can easily move across state lines or online, though services can't easily do so. "You can't get your plumbing fixed over the Internet," said Michael Mazerov, formerly research director of the Multistate Tax Commission, an organization of state taxing authorities, and now at the Center on Budget and Policy Priorities, a liberal advocacy group in Washington.

State and local governments are funded almost entirely by taxes on sales, property, personal income and corporate profits, which together account for 81% of state and local tax revenue. High unemployment and thriftier consumer behavior have eaten into income and sales taxes. And in many places falling real-estate prices have reduced property taxes, the biggest source of local funding and normally a stable revenue stream.

The strategy of raising sales-tax rates, adopted by several states lately, appears to be running out of steam. The average state sales-tax rate rose 52% between 1970 and 2007, yet the total tax revenue as a share of consumption has rose just 13%, according to the Center on Budget.

Fed to Outline Plan for Future Tightening

By Jon Hilsenrath

WASHINGTON—Federal Reserve Chairman Ben Bernanke is preparing, beginning this week, to lay out a blueprint for a credit tightening to be followed once the Fed decides the economy has recovered sufficiently.

The Fed is still at least several months away from raising interest rates or beginning to drain the flood of money it poured into the financial system in 2008 and 2009. But looking ahead to when the economy grows strong enough that they must begin tightening credit, Fed officials have been discussing for months which financial levers to pull, when to start and how best to communicate their intent.

The centerpiece of the strategy, described by Fed officials in interviews and recent speeches, will be a new tool Congress gave the central bank in October 2008, the interest rate the Fed pays banks on money they leave on reserve at the central bank. Known as "interest on excess reserves," this rate is now 0.25%.

When the Fed is ready to tap the brakes, it plans to raise this rate, enticing banks to keep tied up money they otherwise might lend to customers or other banks. It expects this maneuver to pull up other short-term rates throughout the economy, including the federal-funds rate at which banks lend to each other overnight—long the central bank's main tool for steering the economy.

"If the [Fed] were to raise the interest rate paid on excess reserves, this would raise the price of credit," New York Fed President William Dudley said in a December speech. "That, in turn, would limit the demand for credit."

In his first congressional appearance since his confirmation for a second term, Mr. Bernanke testifies Wednesday before the House Financial Services Committee. He will return later in the month to give his semiannual outlook for the economy and monetary policy. He is likely to use the appearances to explain how the Fed expects to undo some of the extraordinary steps it has taken.

The nature of its exit from today's unusually low interest rates will affect everything from mortgage rates and what companies pay on short-term borrowings to the rates savers earn. The timing and sequence of the steps are the subject of intense speculation in financial markets.

The Fed already has ended several emergency lending programs, but the big step of broadly tightening credit looms. For now, the central bank has little interest in discouraging bank lending or consumer borrowing. Eventually, it will, to forestall inflation.

In the past, it simply raised its target for the federal-funds rate on banks' overnight borrowing. That rippled through to other rates. The Fed steers the fed-funds rate, which has been near zero since late 2008, by buying and selling securities to influence the supply of money in this market.

Because it has put so much money into the banking system, the Fed expects to find it harder than in the past to raise and control the fed-funds rate. Hence the search for alternatives.

Officials are reluctant to take steps that might push mortgage rates higher and damage the housing market.

"Raising the rate of interest paid on reserve balances will give us substantial leverage over the federal-funds rate and other short-term market interest rates, because banks generally will not supply funds to the market at an interest rate significantly lower than they can earn risk-free by holding balances at the Federal Reserve," Mr. Bernanke told Congress several months ago.

Plans for the Fed's portfolio of mortgage-backed securities are another part of the debate over the exit strategy from super-easy monetary policy. The Fed is on course to buy up to $1.25 trillion of the securities, in an effort to hold down mortgage rates and buoy housing.

Over time, officials want to reduce these holdings and return to holding U.S. Treasury securities as the Fed's primary asset. But they are reluctant to take steps that might push mortgage rates higher and damage the still-fragile housing market. They haven't ruled out selling mortgage securities, but such a move, if it occurs, is unlikely in the early stages of tightening.

Another element of the emerging exit strategy centers on how the Fed describes its plans. After pushing rates very low in the past decade, the Fed publicly vowed to raise them slowly—at "a measured pace"—from 2004 to 2006. It kept its word, raising rates in 17 consecutive quarter-point increments.

Some economists say locking into slow, predictable increases helped fuel the borrowing boom that led to the financial crisis. "The predictability of the rate hikes was a problem for some of us" at the Fed at the time, says Marvin Goodfriend, former research director at the Federal Reserve Bank of Richmond and now at Carnegie Mellon's Tepper School of Management. He says it suggested more certainty about the outlook for the economy and rates than existed among some officials at the time. The wisdom of conveying that steady-as-she-goes approach then is still much debated among academics and other Fed watchers.

Such predictability is unlikely to be repeated this time. Fed officials are so uncertain about the outlook for the economy and markets that they are determined to avoid committing to an approach they might later find inappropriate. They want to keep open the options of raising rates quickly, keeping them low for a long period or moving them up and then pausing.

Officials are warning investors and banks to prepare for surprises. In January, Fed Vice Chairman Donald Kohn said: "Interest rates are difficult to forecast in the most settled or normal times, and their path is especially uncertain in the current circumstances."

The Fed is contemplating other innovative steps to manage some of the money it has pumped in, steps that officials say could come either slightly before or alongside a boost in the rate on reserves.

One option is to encourage banks to tie up money at the Fed for a set period—preventing them from lending it—in what are called "term deposits." Another is to lock up funds, and thus constrain the supply of credit in short-term lending markets, by borrowing against the Fed's large portfolio of securities holdings, in trades known as "reverse repos." When the Fed borrows from the markets, it effectively takes money out of circulation and replaces it with securities from its holdings.

U.S. NEWS

Tea Party plots strategy, with eye on election wins

Palin bolsters ties to movement, ponders running for president

Associated Press

Sarah Palin at the National Tea Party Convention in Nashville, Tenn., Saturday.

By Susan Davis

NASHVILLE, Tenn.—Tea Party activists gathered in Tennessee this weekend grappled with a central question looming over the burgeoning political movement: Where does it go from here?

Organizers here seek to shift the focus from staging political rallies to winning elections. "The Tea Party movement is growing up," said Judson Phillips, a Nashville-based criminal-defense lawyer who organized the National Tea Party Convention. "If 2010 is another year of rallies, we've lost."

Building a coherent movement won't be easy. The Tea Party activism that sprang up last year remains a loosely organized concept, held together by the broad beliefs that politicians in both parties are out of touch, that fiscal responsibility has run amok and that the public view of America has dimmed.

But the movement—guided by thousands of independent and conservative activists who organize mainly through online social-networking sites—is prone to infighting over its leadership and ties to the Republican Party. There are also tensions between those who think the Tea Partiers should remain a grassroots organization, and those willing to partner with more established groups who can offer guidance on how to organize and run campaigns.

"The current form of this movement is fresh and young and fragile," said 2008 Republican vice-presidential nominee Sarah Palin in a keynote address at the convention Saturday. "

Palin may not be an official leader of the movement, but her appearance Saturday—televised live and attended by 1,100 activists—underscored her ability to capture the spirit of the conservative grassroots.

The former Alaska governor has embraced the Tea Party in public remarks, and she is stepping up her participation in the movement, with Saturday's speech and appearances at Tea Party rallies in Nevada and Massachusetts in the next two months. She said she intended to endorse, and campaign and raise money for, conservative candidates in 2010.

She urged activists to resist efforts to spark a third-party movement and instead, to work to change the current political system. "The Republican Party would be really smart to try and absorb as much of the Tea Party movement as possible," she said.

Some supporters at the convention agreed. "I suspect the Tea Party strategy is to commandeer the Republican machine," said Roger Webb, a 65-year-old freelance photojournalist.

As for her own political ambitions, Ms. Palin hasn't ruled out a 2012 presidential bid. "I think that it would be absurd not to consider it," she told Fox News on Sunday. Since resigning from the governor's office last summer, she has written a best-selling memoir and signed a deal with Fox News to be a political commentator. Fox News is owned by News Corp., which also owns The Wall Street Journal.

Both Ms. Palin and Mr. Phillips have acknowledged payment for her appearance at the convention, but they have declined to disclose the sum. Ms. Palin defended herself against critics by stating she wouldn't personally profit from the speech, but would direct the funds to her political action committee, SarahPAC, which donates to Republican candidates.

The Tea Party movement boasts of at least one primary victory so far. Illinois venture capitalist Joe Walsh won a six-way contest on Feb. 2 to be the Republican Party's nominee against well-funded incumbent Democratic Rep. Melissa Bean in a Chicago area district. "I ran as a Tea Party candidate in the primary, and I'm going to run as a Tea Party candidate in the general," said Mr. Walsh, who spoke in Nashville. He said he is the candidate for voters who are "pissed off, scared, and angry" at Washington.

The movement's electoral mettle will face further tests as Republican primary elections take place across the nation ahead of the November general election.

WORLD NEWS

European Pressphoto Agency

Iran's President Mahmoud Ahmadinejad visits a laser-technology exhibition Sunday in Tehran, where he called on the nation's atomic agency to begin enriching uranium to 20% purity.

Iranian president orders enrichment

Ahmadinejad contradicts earlier statements that regime would consider sending uranium out of the country

Iranian President Mahmoud Ahmadinejad ordered his country's nuclear agency to begin enriching uranium for use in a medical-research reactor, ratcheting up Tehran's defiance over Western demands that it curb its nuclear ambitions.

*By **Chip Cummins** in Dubai and **Peter Spiegel** in Rome*

The statement was carried Sunday on state TV as the country celebrates the 31st anniversary of the Iranian revolution. It came amid a flurry of announcements in which Mr. Ahmadinejad has attempted to project an image of strength, even as the regime faces the threat of domestic unrest later this week.

It also seemed to contradict Mr. Ahmadinejad's statements last week that Iran was willing to embrace a deal brokered last year by the International Atomic Energy Agency for Iran to ship the bulk of its lower-enriched uranium overseas to be further enriched to the 20% purity level needed for its medical reactor.

Speaking at a laser-technology exhibition on Sunday in Tehran, Mr. Ahmadinejad called on Ali Akbar Salehi, head of Iran's atomic agency, who was sitting in the audience, to begin enriching uranium to 20% purity. Mr. Ahmadinejad said Iran "was still open to negotiations on the issue" with the international community, according to state media.

U.S. Defense Secretary Robert Gates said Sunday he believed there was still time for sanctions to work to halt Iran's nuclear program despite the Iranian president's decision.

"If the international community will stand together and bring pressure to bear on the Iranian government, I believe there is still time for sanctions and pressure to work," Mr. Gates said in Rome following meetings with his Italian counterpart. "But we must all work together."

Despite that apparent shift by the Iranian government, Mr. Gates has said he didn't believe the two sides were near a deal, a stance he reiterated on Sunday.

"The international community has offered the Iranian government multiple opportunities to provide reassurance on its intentions," Mr. Gates said. "The results have been very disappointing."

U.S. efforts to rally members of the United Nations Security Council to support new sanctions have run into obstacles in Beijing, where the Chinese government has shown resistance to the plan. Although he didn't single China out by name, Mr. Gates's call for international unity in the face of Mr. Ahmadinejad's decision appeared aimed at Beijing.

"Rather than single any country out, I would simply say I think all of us can do more," he said.

Iran has been convulsed by a series of large-scale, often violent demonstrations following contested June 12 elections. Opposition leaders have called on demonstrators to pour into the streets of Tehran and other cities on Feb. 11, the culmination of celebrations marking the anniversary of the founding of the Islamic Republic. Iranian leaders have heightened threats of a harsh crackdown on protests, including hanging two political prisoners last month and threatening to execute demonstrators who have been detained in earlier antigovernment protests.

Zuma apologizes for fathering 'love child'

By Peter Wonacott

JOHANNESBURG—South African President Jacob Zuma, reacting to a firestorm of criticism, has apologized for fathering a child with a woman who wasn't one of his wives.

In a statement Saturday, the 67-year-old president said the birth has put pressure on his family and his political organization, the African National Congress. He also acknowledged the anger of South Africans over the matter, saying, "I deeply regret the pain that I have caused."

Mr. Zuma officially has three wives and 19 children. He is an avowed polygamist in a country where the practice is accepted. But many of those who voted for him, and who have defended his right to hew to the Zulu tradition of multiple wives, seem less accepting about the most recent affair.

Mr. Zuma's camp also appeared caught off-guard by the uproar.

After a South African newspaper reported the love child last week, a public furor followed. President Zuma admitted paternity on Wednesday, but then he blamed the media for invading his family's privacy. On Thursday, the president's office announced he would be taking an unscheduled two-day vacation. The break did little to quiet the controversy, as commentators debated the extent of political damage Mr. Zuma had done to himself.

Reuters

South African President Jacob Zuma at the World Economic Forum last month.

The mother of the new baby is Sonono Khoza, the daughter of Irving Khoza. Mr. Khoza was part of the team that helped win South Africa's right to host the 2010 World Cup in South Africa. President Zuma said he was making payment to the Khoza family.

President Zuma has bounced back from personal troubles before. A self-styled populist, Mr. Zuma dislodged the erudite but distant Thabo Mbeki from president of the African National Congress in 2007—a year after a judge cleared Mr. Zuma of rape charges.

"Zuma's popularity is that he's not a saint but he's a weak man who can't control his appetite like the rest of us," said journalist Mark Gevisser. "He does something bad, apologizes, and everyone forgives him," he added.

Mr. Zuma was elected president last year by cobbling together leftist parties, business interests and his party's young firebrand leaders.

WORLD NEWS

Bloomberg/Getty Images

A row of 2010 Toyota Prius hybrid cars sit in a sales lot.

Toyota response has deep roots

The troubles have significance for Japan

BY JEFF KINGSTON

In Japan there is a proverb, "If it stinks, put a lid on it." Alas, this seems to have been Toyota's approach to its burgeoning safety crisis, initially denying, minimizing and mitigating the problems involving brakes that don't brake and accelerators that have a mind of their own. President Akio Toyoda, grandson of the founder, was MIA for two weeks and the company has appeared less than forthcoming about critical safety issues, risking the trust of its customers world-wide.

This has been a public-relations nightmare for Toyota, as its brand name has been synonymous with quality and reliability. Crisis management does not get any more woeful than this and the cost of this bungling so far—the initial $2 billion recall and the loss of 17% of share value since Jan. 21, when the gas-pedal recall was announced—is only a down payment on the final tally. The recall will surely expand, including cars produced in Japan. Lawsuits are being filed and an expensive settlement looms. And then there are the idle factories and empty showrooms to account for.

It is not surprising that Toyota's response has been dilatory and inept, because crisis management in Japan is grossly undeveloped. Over the past two decades, I cannot think of one instance where a Japanese company has done a good job managing a crisis. The pattern is all too familiar, typically involving slow initial response, minimizing the problem, foot dragging on the product recall, poor communication with the public about the problem and too little compassion and concern for consumers adversely affected by the product. Whether it's exploding televisions, fire-prone appliances, tainted milk or false labeling, in case after case companies have shortchanged their customers by shirking responsibility until the accumulated evidence forces belated disclosure and recognition of culpability. The costs of such negligence are low in Japan where compensation for product liability claims is mostly derisory or non-existent.

One glowing exception to this parsimonious record is the saga involving pharmaceutical companies that kept selling tainted blood products to hemophiliacs that left many of them infected with HIV in the 1980s. The government was aware of the issue and failed to stop this avoidable public health crisis. After years of denial, the current finance minister, Naoto Kan, who was health minister in 1994, revealed documents showing that the government allowed the companies to continue selling the bad blood so that they would not lose market share to foreign companies selling safe blood products. In doing so he paved the way for a relatively generous settlement and an abject apology by drug company executives, collectively on hands and knees touching their noses to the floor in demonstrating their contrition to victims.

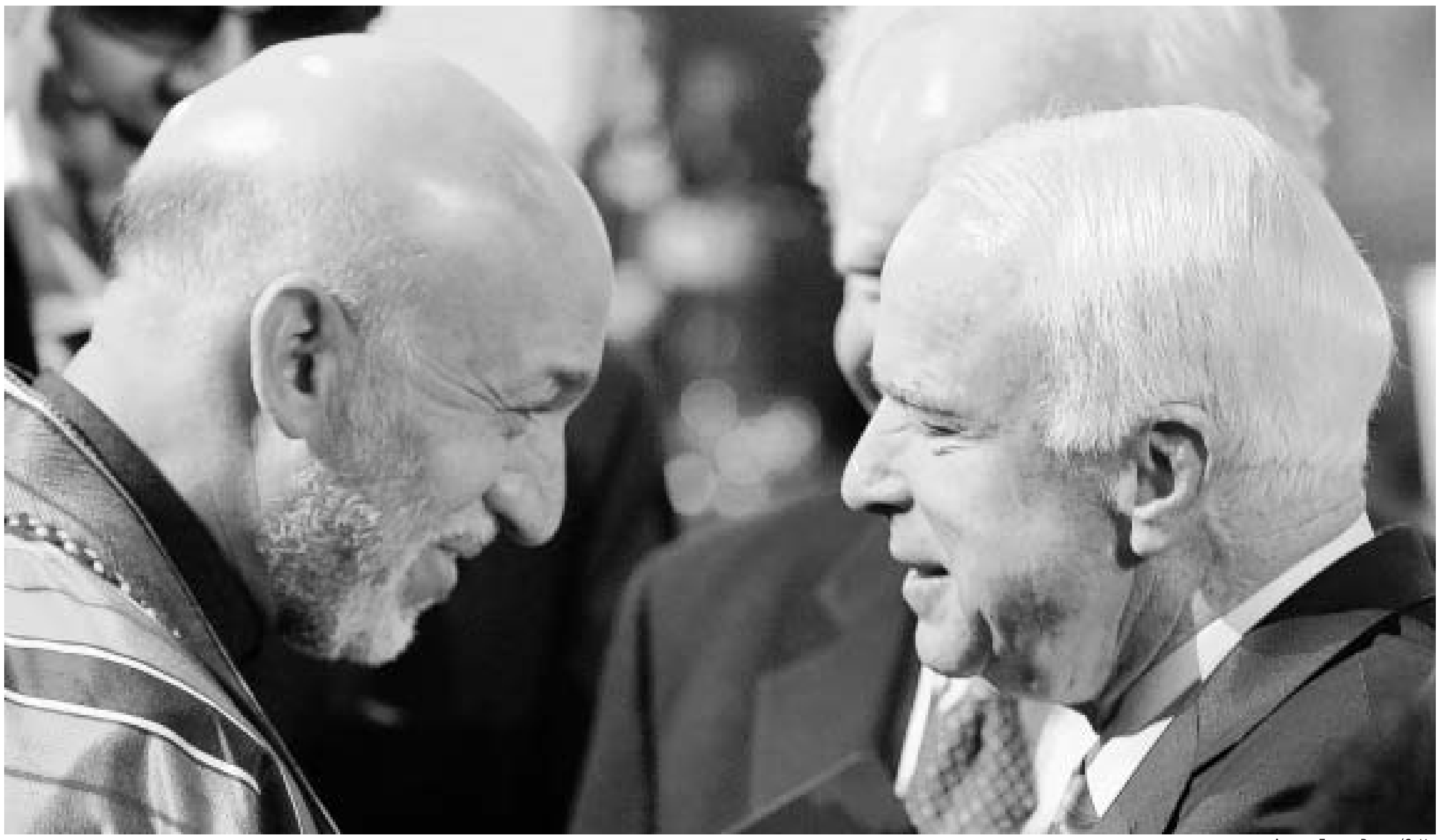
Usually, however, producer interests trump consumer safety.

Japanese firms often seek to cover up or fudge the facts and the people communicating with the media and public often do not have the information they need to do their job. The absence of a structure to quickly get accurate information to top management hampers an accurate and adequate response. That leaves management unprepared to deal with media questioning and conveys an image of stonewalling and indifference.

There is a cultural element to this penchant for mismanaging crisis. The shame and embarrassment of owning up to product defects in a nation obsessed with craftsmanship and quality raises the bar on disclosure and assuming responsibility. And a high-status company like Toyota has much to lose since its corporate face is at stake. The shame of producing defective cars is supposed to be other firms' problems, not Toyota's, and the ongoing PR disaster reveals just how unprepared the company is for crisis management and how embarrassed it is. In addition, employees' identities are closely tied to their company's image, and loyalty to the firm overrides concerns about consumers.

There is also a culture of deference inside corporations that makes it hard for those lower in the hierarchy to question their superiors or inform them about problems. The focus on consensus and group is an asset in building teamwork, but also can make it hard to challenge what has been decided or designed. Such cultural inclinations are not unknown elsewhere around the world, but they are exceptionally powerful within Japanese corporate culture.

Jeff Kingston is director of Asian Studies at Temple University Japan. His book "Contemporary Japan: History, Politics and Social Change" is due out in September.



Agence France-Presse/Getty

President Karzai, with U.S. Sen. John McCain in Munich on Sunday, said foreign troops would still be needed to help battle militants in Afghanistan.

Karzai calls for Afghan draft

Proposal comes amid unhappiness in the West with the quality and size of Kabul's forces

By Alan Cullison
And Matthew Rosenberg

KABUL—President Hamid Karzai is proposing a draft to beef up the ranks of Afghanistan's army and police so his country can assume control of the fight against the Taliban within five years.

The plan comes amid Western dissatisfaction with both the quality and size of Afghanistan's forces, and many U.S. and European officials think it could take as a long as decade before they are ready to stand on their own.

In Munich, where defense officials from all over the world were meeting on Sunday, President Karzai brought up the idea of a draft so that within five years Afghan forces would be sufficient to guarantee that the country's security is "no longer a burden on the shoulders of the international community."

Still, he said foreign troops would be needed to help battle hard-core Islamist militants because the "war on terrorism ... is an issue separate from this security arrangement in Afghanistan."

Mr. Karzai said his government aims to have 300,000 soldiers and police by 2012, a goal roughly in line with Western targets. He also said that it's possible that the volunteer system may not attract enough people.

Conscription also could help integrate Afghanistan's disparate ethnic groups, he said.

It wasn't the first time a draft has been suggested in Afghanistan; lawmakers have in the past raised the prospect.

But those earlier calls received only a lukewarm reception from Mr. Karzai's government.

OECD sees continuing world growth

By Paul Hannon

LONDON—There are increasingly strong signals the world economy is in recovery, with leading developed economies clearly set to expand, the Organization for Economic Co-operation and Development said Friday.

The Paris-based think-tank's composite leading indicator of economic activity in its 30 members rose to 103.1 in December from 102.2 in November. Furthermore, the leading indicators for each of the Group of Seven largest developed economies, as well as China and Russia, moved above their long-term averages—signaling that those economies will continue to expand.

Most major economies emerged from recession in the second and third quarters of 2009

Most major economies emerged from recession in the second and third quarters of 2009, and the OECD's leading indicators suggest that the upturn will continue.

The continued increase in the leading indicators will reassure policy makers, since the data have a track record of presaging pickups and slowdowns in economic activity going back to the 1980s. There is as yet no hint that leading economies could slip back into recession.

The OECD's leading indicators are designed to provide early signals of turning points between economic expansion and slowdown, and are based on a variety of data series that have a history of indicating swings in economic activity. Some 224 series are used in total, or between five and 10 for each country.

U.S. probe finds faults in fall of Afghan outpost

By Yaroslav Trofimov

KABUL—A U.S. military investigation into how the Taliban overran a remote U.S. Army combat outpost last fall, killing eight soldiers and injuring 22, has concluded that "inadequate measures taken by the chain of command" facilitated the attack.

Following the report's conclusion, a summary of which was released Friday, the commander of U.S. forces in Afghanistan, Gen. Stanley McChrystal, has taken "appropriate action" against the officers involved, the U.S. military said. It didn't release the officers' names.

The three-pronged Taliban attack on Combat Outpost Keating, in the Kamdesh district of Afghanistan's Nuristan province, on Oct. 3 has been trumpeted by the insurgents as a major achievement. Though the attack was repelled after several hours of combat, the U.S. military evacuated and destroyed the outpost, which housed some 60 U.S. troops, three days later. Coalition troops are no longer present in that area, and most of Nuristan has fallen under insurgent control.

At dawn of Oct. 3, a force of some 300 fighters, supported by indirect fire from surrounding mountains, managed to overrun Keating's perimeter, torching its generators, disabling its tactical operations center, and suppressing the American troops' ability to fire mortars in self-defense, the investigation report said.

The insurgents also took over the nearby Afghan police station, while Afghan army soldiers guarding the eastern side of the outpost failed to hold their positions. The American unit deployed at the Keating outpost was the Bravo Troop of the 3rd Squadron of the 61st Cavalry Regiment.

With the help of air support, soldiers regained control of the outpost in the afternoon and recovered the bodies of their comrades. While the U.S. military criticized the decisions up the chain of command, it praised the members of the Bravo Troop for distinguishing themselves "with conspicuous gallantry, courage and bravery."

The U.S. investigation added that the Taliban suffered a "severe tactical defeat" that day and that 150 insurgents were killed.

Dozens of other vulnerable outposts, manned just by a few dozen soldiers, remain in Afghanistan.