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Haitians desperate for aid

Associated Press

A young earthquake survivor holds a piece of bread in a makeshift shelter in Port-au-Prince. Some relief organizations were unable to make it to the country despite having ready supplies and volunteers.

By Chris Herring
And Nicolas Casey

Relief organizations reported difficulties getting aid into Haiti Thursday, with congestion mounting as multiple planes converged on the island nation and communications remained spotty.

Ed Martinez, the UPS Foundation's director of philanthropy and corporate relations, said the damage done to some of Haiti's major entry points — namely an air-traffic control tower and shipping docks — has slowed efforts immensely. "I'd imagine that anything that's being flown in probably has to be done during daytime hours without that tower," he said.

Mr. Martinez said UPS was relying entirely on its relief partners — Unicef and CARE — for instructions on what to send and how to deliver it because those groups already had people stationed in the disaster area.

"For something like this, where it's so difficult to get into the country, you really have to leverage the people you have on the ground and use them as your eyes and ears," he said.

He said he lacked details on exactly what was being shipped and when it would reach Port-au-Prince.

Louis Belanger, a spokesman for humanitarian aid group Oxfam International, said the relief efforts also were being hindered because there was no way for people to communicate electronically.

"There has been a lot of criticism from local authorities about the relief efforts, but in all fairness, if we could catch a break and get some communication up and running, things would go a lot faster," Mr. Belanger said, speaking by phone from the Haiti-Dominican Republic border. "It's extremely difficult without land lines, Internet connectivity or cellphones."

"And we have to communicate with the people on the scene," he said. "We're not just going to truck in things without knowing what exactly is needed. It has to be a coordinated rescue effort."

Members of the Los Angeles County Fire Department's search-and-rescue team flew to Port-au-Prince this morning with a 72-member squad, a spokesman said.

Missionary Flights International, an aviation service out of Fort Prince, Fla., continued daily flights to Port-au-Prince.

But other relief organizations said Thursday they were unable to make it to Haiti despite having ready supplies and volunteers.

"We've had a lot of roadblocks in working with the administration and getting through to the military," said Charles Idleson of National Nurses United, a union representing around 150,000 nurses. Mr. Idleson said roughly 3,500 of its members volunteered to travel to Haiti, but the union has so far been unable to get a response from the U.S. government for transportation to Port-au-Prince. Instead, a small delegation of nurses plans to fly into Santo Domingo on Friday aboard a commercial jet.

Irenea Renuncio-Mateo, Latin America political analyst for IHS Global Insight, said that coordinating the sweeping relief effort would take time.

"The response needs to be coordinated and planned," she said. "Obviously this takes time. They can't just send people. They need to know how they're going to re-establish minimal infrastructure, water, and electricity."

Devastation in Haiti

■ Survivors roam the streets looking for basics. **Page 4**

■ Quake deals a devastating setback to a tiny economy. **Page 5**

■ Obama and Pentagon name civilian, military leaders for the relief effort. **Page 5**

■ Prosperity is the best defense against natural catastrophes becoming humanitarian calamities. **Page 12**

Associated Press

PAGE TWO

Stop bashing the business schools

[Agenda]

By Nigel F. Piercy

Post-recessionary blame-storming points accusing fingers at many institutions, particularly business schools and M.B.A. graduates. The aftermath of the economic downturn has brought questions on whether what business schools teach is useful or positively harmful. Accused of inappropriate training in dangerously flawed analytical tools and producing generations of myopic graduates with no sense of moral decency or corporate responsibility, business schools apparently are supposed to keep quiet, reform their very being, and not answer back. But answering back is what we are good at.

Consider possible responses to certain of the defamatory accusations laid at our door:

Business schools teach with no sense of moral values or corporate social responsibility: This is news to faculty who teach ethics and social responsibility and have presented such courses for quite a long time. Certainly, these areas are getting more emphasis—mainly in response to the demands and interests of incoming cohorts of management students. However, universities, generally speaking, aren't in the brain-washing business. The personalities and values of our M.B.A. graduates are probably best predicted by the personality characteristics and values those individuals had when they entered the programs. We provide content, challenges, intellectual stimulation and analytical frameworks to address business situations, rarely psychoanalysis. As requirements and demands of incoming students change (and there are many signs they are changing), so will the moral stance and values base of M.B.A. graduates. However, it is unlikely that addressing these shortfalls will reduce the "divide" between theory and practice (or academics and managers). It is more likely to

Agence France-Presse

Things have changed in business schools, and they are continuing to do so

widen the divide as we fulfill our purpose in building a critical perspective on practice and values, not aping the latest consultants' clownery.

Business schools do research with no value to business: Setting aside purely commercial arrangements when a company pays for a piece of research to be undertaken, business-school academics mostly undertake research in areas where they believe new ideas and insights can be created. Sometimes they are wrong, but that's the risk. The idea that academic careers are based solely on writing arcane articles for obscure journals to be read by a few other academics is a bit cliché. If you look at academic leaders in most management fields, certainly they publish technical papers in scholarly literature, but they also put ideas into articles in the management press and in books aimed to allow management practitioners to get value from new insights. Let's be clear that the research agenda belongs to academics, not businesspeople (though they are welcome to contribute). That's one of the reasons academics exist, and it's where new ideas originate. Take "benchmarking best practice"—a frequent cause espoused by practitioners and a great excuse for doing bad research. While managers love comparing themselves to others, our role shouldn't be facilitating this conceit but establishing how invalid and unhelpful most benchmarking research is (usually because it chooses poor criteria of performance). If research addresses the big ideas of the day, as arguably it should, then it is likely results will be controversy and bruised managerial egos. Doubtless, we will be told again how irrelevant academic research is to management practice.

The fact that ground-breaking research upsets the status quo is kind of the point.

Business schools are divorced from real management practice: The notion of this divide seems to be based on two unhelpful and generally invalid stereotypes: the "down-to-earth" hard-nosed manager looking for action and results in the real world (good), compared to the fuzzy-minded academic interested only in abstraction and the world of ideas (bad). Neither view appears to reflect more than the extremes of fiction and reality television. You can't have it both ways. If what we teach were to directly reflect management practice, then we would be reinforcing the foolhardy risk-taking with other people's money that got us into this mess. Besides, it isn't the role of business faculty to ape the behavior and values of managers: Our role is to analyze, criticize and challenge management practice. That's how we add value, and new and better ideas take root in practice. At the simplest level, our role as educators isn't simply to teach tools and techniques, but to show the limitations of those methods and how they can lead to disastrous decisions, whatever consultants and managers may think. If there is a divide between business-school teaching and management practice, it is because there is supposed to be one. Thank goodness it exists. If we do our job right, what we teach should make managers uncomfortable with the way they do things.

We are doing different things with different goals: Vive la difference! In fact, the divide probably needs to be vastly wider than it is now. There should be a healthy degree of antagonism between the world of ideas and the world of action. The alternative appears to be academics mimicking the antics of managers, and managers attempting to set the academic agenda for teaching and research on whatever basis they feel best serves their short-term interests.

Certainly, there is a scramble in business schools to be seen to revise the business curriculum and the way it is presented to management students, with emphasis presently on ethics and social responsibility. But don't get carried away. Decent schools always have had a constant process of updating and realigning what they teach because high-quality management students will accept nothing less.

Change was going to happen anyway. Indeed, public and media critics of our students should stop assuming business-school courses are the same as they were 40 years ago, or that new classes of M.B.A.s have the same moral and values-based perspective as those who graduated 40 years ago (and perhaps did play key roles in creating the economic downturn).

People should wise up: Things have changed in business schools, and they are continuing to do so.

—Nigel F. Piercy is associate dean and professor of Marketing and Strategy at Warwick Business School at the University of Warwick, U.K.

What's News

■ **Efforts to reduce** high debt levels in the U.S. and other big economies will likely force widespread belt-tightening in the world economy and bring about slow growth over several years, according to a study from the McKinsey Global Institute. 3

■ **The head of the IMF** urged global policy makers to maintain stimulus until private demand picks up and to shift some support to jobs. 3

■ **Obama proposed** taxing banks, insurance firms and broker-dealers to pay the U.S. government roughly $90 billion to recover taxpayer losses for the bailout. 9

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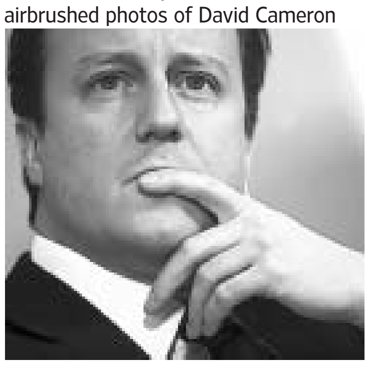
Iain Martin

blogs.wsj.com/iainmartin

'Is anyone wondering when the campaign will get under way? Because this feels like a ... phony war.'

Iain Martin on reports that Labour airbrushed photos of David Cameron



Continuing coverage

See continuing coverage of the rescue efforts following the Haiti quake at **wsj.com/world**

Question of the day

Vote and discuss: Should other multinational companies join Google's threat to exit China?

Join a discussion with readers and vote online at **wsj.com/dailyquestion**
Plus, follow the latest developments in the saga at **wsj.com/technology**

Previous results

Q: Do you think Google should withdraw from China over cyber attacks?

Answer	Result
Yes	75%
No	25%

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NEWS

Associated Press

ECB President Jean-Claude Trichet, called talk that Greece would be forced out of the euro 'an absurd hypothesis.'

Trichet gets tough on Greece

By Brian Blackstone

FRANKFURT—European Central Bank President Jean-Claude Trichet said the ECB isn't willing to grant Greece special treatment to alleviate the country's economic turmoil even as Athens's latest plan to deal with the crisis was met with skepticism by investors.

"No government or state can expect from us any special treatment," Mr. Trichet said following the European Central Bank's monthly meeting. The comments, which came as the ECB kept its key lending rate unchanged at 1%, helped push the cost of insuring Greek sovereign debt against default to a record.

Greek Prime Minister George Papandreou, meanwhile, tried again to ease concerns about the country's finances, pledging to trim Greece's budget deficit to 2.8% of gross domestic product by the end of 2012 from an estimated 12.7% of gross domestic product in 2009. Yet Greek bond prices declined, as investors remained doubtful that the government will be able to push through the deep cuts in public-sector spending that would be necessary to achieve that goal.

Mr. Papandreou said there is "no time to lose" when fixing the public finances. "It is our commitment to leave behind the giant deficits of the past," he said in a cabinet meeting. "We will do whatever we need to to achieve our targets."

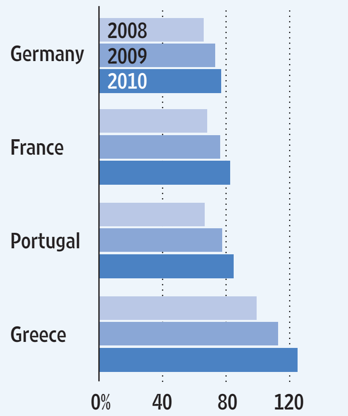
Greece has been under intense scrutiny by the European Union, the markets and credit-rating agencies since it revealed last year that its budget deficit would hit 12.7% of GDP, four times the EU's 3% limit.

Adding to the uncertainty, German Chancellor Angela Merkel delivered the starkest warning yet by a European leader about the repercussions of the crisis, predicting that Greece and other high-deficit countries have thrust the euro "in a very difficult phase for the coming years." The euro was down 0.3% against the dollar, at $1.4475.

The ECB doesn't provide direct aid to individual members of the 16-member euro zone. But it does provide Greece and other countries with indirect support through its lending facilities, which allow Greek

Rising debt burden

Government debt as a percentage of GDP



Source: Moody's Investors Service

commercial banks—heavy owners of Greek sovereign debt—to use those bonds as collateral to obtain inexpensive central-bank credit.

The ECB is due to go back to its old collateral policy at year-end. If Greek government debt gets downgraded further, it risks becoming ineligible as ECB collateral when the rules that were in place before the financial crisis are reinstated. "We will not change our collateral framework for the sake of any individual country," Mr. Trichet said.

He dismissed speculation in the financial markets that Greece's soaring budget deficit will eventually force it to exit the EU and euro system, calling it "an absurd hypothesis."

Mr. Trichet's comments came after a regular meeting of the ECB's governing council. The ECB kept its key lending rate unchanged at the record low of 1%, as expected.

The ECB president also distanced himself from a controversial paper released last month by the ECB. The document, written by the bank's legal counsel, addressed the possibility of exiting the euro. Though it concluded that the possibility is next to zero, the fact that someone at the ECB even looked into the subject created a stir.

—Andrea Thomas and Alkman Granitsas contributed to this article.

Cutting debt could blunt growth

By Stephen Fidler

Efforts to reduce very high debt levels in the U.S. and other big economies will likely force widespread belt-tightening in the world economy and bring about very slow growth over several years, according to a new study.

The study from the McKinsey Global Institute, a think tank attached to the consultancy firm, suggests that the process of winding down debt, that economists call deleveraging, will hit the U.K., U.S. and Spain the hardest among 10 big economies.

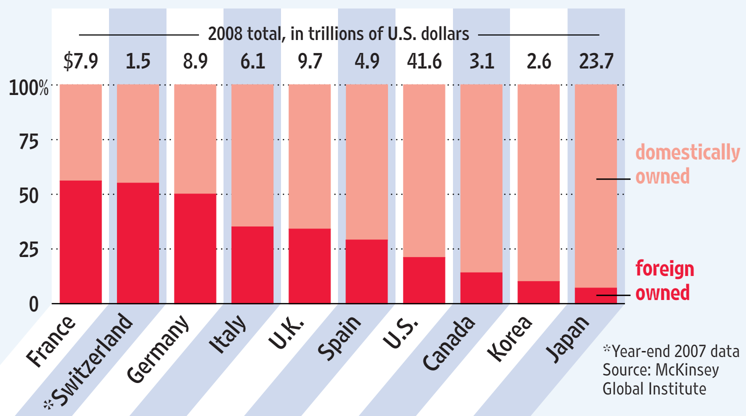
It also shows that total debt levels—including private- and public-sector debt—are lower in the U.S. than in some other big economies including France, Italy and South Korea.

"There is still a long process ahead of us as we unwind from the great credit bubble," said Charles Roxburgh, the London-based economist who led the study.

The suggestion that major economies will likely reduce debt and the expectation that this will slow economic growth over a significant period isn't new. But what this report does is to look within economies to see which sectors are carrying levels of debt that will likely have to be reduced in coming years.

Debt divide

Composition of public and private debt, by nationality of creditor



*Year-end 2007 data
Source: McKinsey Global Institute

It concludes that households in the U.S., Britain, Spain and to a lesser extent Canada and South Korea will shed debt. The commercial real-estate sectors in the U.S., U.K. and Spain will also be reducing debt levels. In Spain, parts of the financial sector and some companies, particularly in construction, will also likely be winding down debt.

Meanwhile, governments in many countries will probably have to cut debt from near-wartime levels, without the benefit of a peace dividend.

One surprise in most countries, says Mr. Roxburgh, is "how quickly the financial sector has responded and delevered." This suggests governments should be cautious about demanding banks further increase their capital cushions because it could stymie growth.

There remain some areas of higher leverage in finance, however. U.S. banks may be forced by losses on commercial real estate to deleverage further, while U.K. banks may have to reduce their liabilities in order to reduce their heavy dependence on wholesale money markets. Smaller Spanish banks will also need to cut debt.

The report says its examination of past cases shows deleveraging normally starts about two years after the onset of a financial crisis.

Head of IMF makes a push for stimulus

By Tom Barkley

WASHINGTON—The head of the International Monetary Fund urged global policy makers Thursday to maintain stimulus until private demand picks up and to shift some of the support into job creation.

In coming days, the IMF will be releasing updated economic forecasts showing the global recovery is occurring "significantly" faster than expected, said IMF Managing Director Dominique Strauss-Kahn at a news conference.

But Mr. Strauss-Kahn called the recovery "stronger but fragile," given weak private demand in many parts of the world economy. "Policy support should be maintained until there are clear signs that a sustainable recovery appears also in the private demand side," he said.

In addition, given that labor markets are expected to remain weak for months, "we cannot say the crisis is far behind us," he said.

Thus, he said, governments should start directing some of their stimulus money into job markets.

He also welcomed the Chinese government's use of stimulus to promote domestic demand, in an effort to shift away from export-led growth.

When asked about the risk of the dollar losing its reserve currency status this year, Mr. Strauss-Kahn said it is unlikely given the recovery in the U.S., even if it lags behind Asia. "I don't see the role of the dollar in the global economy changing rapidly in the direction of a smaller role," he said.

That may change in coming decades, with a possible bigger role for the euro and other currencies, he added. In the future, Mr. Strauss-Kahn said he would wish that the IMF quasi-currency, the special drawing rights, could also become a reserve currency, though that would be technically difficult.

When asked about the outlook for Europe, Mr. Strauss-Kahn said the recovery has been much better than expected, but that he has concerns about the lack of flexibility in economies there limiting growth.

While Central Europe isn't likely to experience significant growth this year, he also doesn't foresee "real problems."

When asked about the continuing dispute in Iceland over repaying the U.K. and Dutch governments for more than $5 billion in losses from the failed Icesave bank, Mr. Strauss-Kahn reiterated that resolving the issue isn't a condition for the IMF loan. But he said the IMF is led by the international community.

In a direct message to Icelanders who must vote on a deal to solve the Icesave dispute, he said: "We are not tax collector for any country. But on the other hand, we need to have the support—and you Icelandic citizens—you need to have the support of the international community to be able to go forward."

He also called on global leaders to complete the effort to make the financial system stronger and smarter, citing a risk that policy makers will lose their political will. "The financial sector itself is going back to business as usual," he said.

The Group of 20 has given the IMF the task of coming up with ideas for how to recoup the costs of the crisis from the financial sector, and Mr. Strauss-Kahn said no possible solutions have been ruled out.

DEVASTATION IN HAITI

Associated Press

Displaced Haitians walk the streets amid collapsed buildings and rubble in downtown Port-Au-Prince, Haiti, on Thursday,. Food and medical supplies are scarce in the capital and assistance is still en route.

Haiti's survivors scramble for basics

Across ravaged capital, necessities and medical care are scarce; nations mobilize relief efforts to help with rescue

By Charles Forelle
And Pooja Bhatia

PORT-AU-PRINCE, Haiti—Haitians grew desperate for international aid on Thursday as survivors from the earthquake that claimed countless victims roamed the streets looking for basics such as water, pleaded for medical care, or tried to dig out loved ones from the rubble.

Tens of thousands of survivors, many carrying what few possessions they had, were huddled in the city's plazas and streets. The stink of human waste hung in the air. A grim silence was pierced by an occasional cry for help from beneath the ruins.

Overnight, hundreds of survivors who had been huddled in the city's main plaza went running for the hills when someone shouted "water," sparking fears that continuing aftershocks had started a tsunami. Police managed to convince them that no tsunami was coming.

"We never sleep," said Ulysse Savadieu, a 26 year-old business student who worked with the U.N. peacekeeping mission. The U.N. headquarters was destroyed. "Everytime there's an aftershock people start crying and praying."

Thirty-six U.N. personnel have been killed in the Haiti earthquake, nearly 200 are still missing and eight have been rescued from the rubble of collapsed buildings, U.N. officials said, according to the Associated Press.

As dawn broke on Thursday, people could be seen wandering the streets, clutching few possessions: pots, pans, suitcases, duffel bags, plastic bags.

A Chinese rescue team and two rescue teams from the U.S. arrived late on Wednesday, officials said. About 50 Chinese rescue workers in orange jumpsuits arrived with trained dogs aboard an Air China plane. United Nations Secretary General Ban Ki-moon said the U.N. would coordinate the rescue effort of teams from various nations that will be arriving in coming days.

The death of one American citizen from Tuesday's 7.0-magnitude quake was confirmed, with three others known to be missing, said State Department spokesman P.J. Crowley, the AP reported. The State Department is not releasing the identity of the dead American, pending notification of next of kin. Mr. Crowley said the U.S. embassy has made contact with nearly 1,000 American citizens in Haiti, only a small fraction of the estimated 45,000 Americans in the country.

Relief teams with the U.S. Army's 82nd Airborne division are expected to arrive later on Thursday, and the U.S. aircraft carrier Carl Vinson is steaming toward the island. U.S. Coast Guard vessels are already working to evacuate some of the injured, including U.S. citizens, officials said.

France, the Dominican Republic, Brazil and other nations were also sending help to the Haitian capital, U.N. officials said. The government of Mexico, which regularly suffers from earthquakes, said it sent a team of specialists with trained dogs to help look for survivors.

Haitians who were injured during the quake were desperate for medical attention. "I have one child with a broken arm, one child with a broken leg," said Evelyne Louis, a 30 year-old housewife. Her 25-year old sister died during the Tuesday quake. Ms. Louis put her sister's body outside the local police station, but now the body is gone, and she doesn't know where it has been taken.

Ms. Louis' ankle was severely swollen and scabbed with dried blood, gravel embedded in the skin. She said she hadn't been able to clean it because "we can't find any doctor, we can't find any supplies – and we can't even find water to drink, let alone wash."

Associated Press

A man with a coffin intended for his mother, who perished in Haiti's quake..

For many Haitians, help was already too late. Haitian officials have said the death toll could top 100,000. U.S. Secretary of State Hillary Clinton compared the tragedy to the Asian tsunami that killed more than 220,000 people five years ago.

"This will be a very high loss of life as well," said Mrs. Clinton, who said she is cutting short a trip to the Asia-Pacific to return to Washington to help oversee U.S. relief efforts. Though too early to make an estimate of the death toll, "tens of thousands, we fear, are dead," Mrs. Clinton said early Thursday.

Wanson Desous, 40, and his wife Milyene, 23, watched their six-year-old girl get crushed by a wall during the Tuesday quake. "We were inside the house, and she was outside, and she started to run inside and the wall just fell on her." He was wrapped in a dirty comforter. Milyene, with wide eyes and a bandage wrapped leg, said she thought her leg was broken.

Untold numbers of Haitians have lost their homes. At the Canape Vert plaza in the city, seemingly every person had lost their home. Ms. Savadieu said her house, in a region up the hill from Canape Vert, was demolished. She and 11 family members lived in the five room house.

In the Turgeau neighborhood, the family of Magaly Roland, a 28-year-old literacy teacher, was making plans to leave the city and set up a camp in the hills. "I don't know how long we'll stay," she said. "But we can't stay in our house; there's a wall that fell and the rest is going to fall any moment."

She readied buckets filled with food, a cooking stove, gallons of water, and pots, and blankets. Ms. Roland said the family was heading to a field in the mountains that they knew.

Concern also grew about the spread of disease and infections from the thousands of bodies littering the streets. Many streets began to smell of death.

Judith Cadet, a 34-year-old secretary, was one of a couple of women who had started sweeping the Canape Vert plaza. "I'm going to sweep the entire plaza," she said, because "We must keep it clean. Filth is a sin. And we're humans, we're not animals."

Officials at the U.N, which had thousands of peacekeepers and other relief workers stationed in Haiti at the time of the quake, reported on Thursday that up to 200 workers, including peacekeepers, remained missing in Port-au-Prince, with as many as 100 trapped in the rubble of its headquarters at the Christopher Hotel. The mission's head, Hedi Annabi, also was feared dead.

Brazil's army said at least 11 Brazilian members of the 9,000-strong U.N. peacekeeping mission in Haiti were killed.

At a briefing on Haiti before the U.N. General Assembly Wednesday afternoon, former President Bill Clinton, the U.N.'s special envoy to Haiti, said the country's top relief priorities now are water, food, shelter and first-aid supplies.

"That's what we need," he said. He urged people who would like to help to donate cash to relief organizations, and not supplies.

From hills around the city, once the proud seat of the world's first black republic, one could see a changed cityscape. The white domes of the National Palace had collapsed on the walls below, the roof and sides of the National Cathedral were gone, and, in the distance, the slum of Bel Air looked flattened.

Citigroup Inc.'s three-story office building in Port-au-Prince was destroyed, and the New York company was trying to account for all of its 40 employees.

In a country that is deeply divided between the rich and poor, people at all socioeconomic levels suffered.

DEVASTATION IN HAITI

Feeble economy is knocked flat

By Conor Dougherty
And Kathy Shwiff

The earthquake in Haiti deals a devastating setback to a tiny economy already struggling to emerge from the aftermath of several hurricanes and decades of political instability.

Haiti's $7 billion economy is a collection of subsistence farming and small-scale production of apparel primarily for export to the U.S., the nation's largest trading partner.

The nation, where 80% of the population lives under the poverty line, has yet to recover from a spate of four hurricanes in 2008. The storms wiped out roughly 15% of the country's gross domestic product, and killed 165,000 goats, 26,000 cows and 60,000 pigs, according to Ludovic Comeau, a native of Haiti and economics professor at DePaul University. Four years earlier, Hurricane Jeanne destroyed 7% of Haiti's GDP. It is too soon to gauge the extent of the economic damage from the latest disaster.

"If the hurricanes were a blow, for this I would have to invent some other word," said Mr. Comeau.

For decades, Haiti's economy has been hampered by unstable leadership, widespread deforestation and shoddy infrastructure that makes it difficult to produce and transport goods.

By 2004, the nation's gross domestic product was lower than it was in the early 1980s, adjusted for inflation, according to Mr. Comeau.

But in recent years, relative political stability and debt forgiveness through the Heavily Indebted Poor Country initiative have paved the way for some economic growth. Lower U.S. trade barriers increased investment and exports, though remittances from Haitians living abroad still account for roughly a quarter of GDP, according to the World Bank.

When the rebuilding of the country from the earthquake begins, much of the money is expected to be donated by foreign governments, businesses and individuals. Haiti has little private insurance coverage, but the Caribbean Catastrophe Risk Insurance Facility, a regional fund administered by participating governments, could pay as much as $8 million in about two weeks once the quake is categorized.

On Wednesday, companies were searching for employees and assessing damage to their Haiti operations. **Citigroup** Inc.'s office building in Port-au-Prince was destroyed, and the company was trying to account for all of its employees.

Canadian apparel maker **Gildan Activewear** Inc. said a contractor facility that it uses in Haiti suffered substantial damage. The other two Haitian contractor facilities it uses, both larger than the damaged facility, are intact, the company said. The company said it is increasing production at sewing facilities in the Dominican Republic, Honduras and Nicaragua.

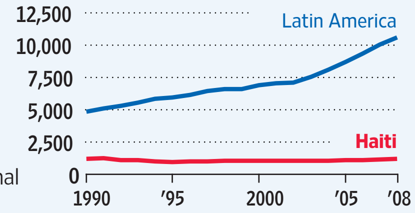
American Eagle Outfitters Inc.'s facility in Haiti is located north of Port-au-Prince, and operations there haven't been affected, a company spokeswoman said. **Gap** Inc. said it "sources a limited amount of product in Haiti and we are committed to continuing to do business in Haiti."

Most business operations in Haiti's neighbor, the Dominican Republic, were unaffected by the quake. A **Barrick Gold** Corp. spokesman said the company's 60%-owned Pueblo Viejo mining operation wasn't affected.

—Elizabeth Holmes and Tara Zachariah contributed to this article.

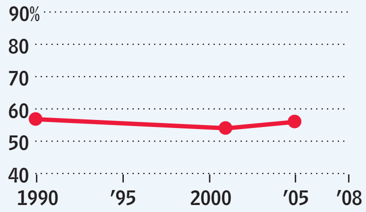
Vulnerable | An economic and demographic snapshot of Haiti

Per capita GDP
In international dollars*



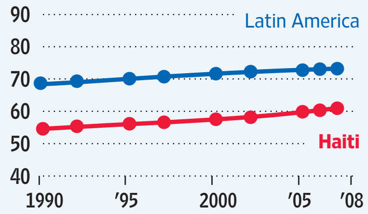
	Haiti	Latin America
GDP growth, 2008	**1.3%**	4.4%
Labor participation rate, '07†	**60.3**	66.1

Poverty
Population with less than $1 a day*



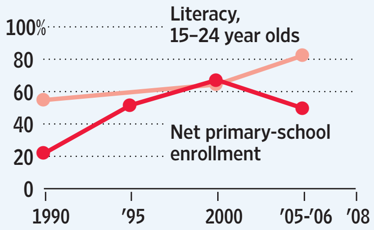
Monthly income in Haiti	2006	2008
Less than 3,000 gourdes ($75)	24	29.9
3,000 gourdes or more	38.3	39.7

Life expectancy
At birth, in years



In 2007	Haiti	Latin America
Mortality rate per 1,000, under age 5	**76%**	26.4%
Prevalence of HIV**	**2.2**	0.5

Education
Literacy and enrollment rates



	1995	2000	2005-06
Education as a share of state budget	9.36%	16.68	12.99

*At purchasing-power parity †Percentage of population ages 15 and older **Percentage of population ages 15-49 Note: Data are latest available
Sources: FAFO/World Bank and Haiti's national statistical agency via International Monetary Fund; the World Bank

General to head U.S. bid to provide relief in Haiti

By Yochi J. Dreazen

WASHINGTON—The Pentagon appointed a three-star general to head the rapidly expanding U.S. military relief effort in Haiti, which is shaping up to be one of the biggest American humanitarian missions in decades.

Lt. Gen. P. K. Keen, deputy director of the military's Southern Command, has been tapped to lead a new joint task force devoted to Haiti. Gen. Keen, who is already in Haiti, will be charged with managing the half-dozen large ships and roughly 8,000 military personnel who will soon be in or near Haiti.

President Barack Obama has put the U.S. Agency for International Development in charge of coordinating the overall relief effort, so its director, Rajiv Shah, will be the highest-ranking American official working on Haiti. Gen. Keen will take his orders from Kenneth Merten, the American ambassador to Haiti. State Department officials said the U.S. troops that are deploying to Haiti will work closely with the 9,000-member United Nations security force there but remain solely under American command.

The appointments came as the first Navy ship, the USS Higgins, arrived in Haiti Thursday, joining a small number of Coast Guard cutters that made it there Wednesday. In Haiti, elite U.S. Special Operations forces managed to reopen the country's airport to relief flights.

Military officials said the relief effort will accelerate in coming days. The USS Carl Vinson, a large aircraft carrier, is set to arrive off the coast of Haiti Friday with 14 helicopters and relief supplies. The USS Bataan, an amphibious ship carrying 2,200 Marines, will arrive next week with a pair of smaller ships. The USNS Comfort, a floating hospital, is set to reach Haiti next Friday.

In Miami, Haitian community leaders said they feared people would flee Haiti. "A large wave of people taking to the sea, I worry about it," said Jean-Robert Lafortune, chairman of the Haitian-American Grassroots Coalition. Political instability, even more than economic troubles, he said, was likely to lead to "a Haitian exodus."

—Leslie Eaton contributed to this article.

EUROPE NEWS

Ukraine challengers duel

With loss likely for incumbent, presidential hopefuls brace for runoff

By JAMES MARSON

KIEV—Ukrainians vote Sunday in the first round of a presidential election that looks likely to bring vindication, but not outright victory, for the candidate defeated and disgraced by the Orange Revolution five years ago.

Surveys indicate Viktor Yanukovych, whose fraud-tainted victory in the 2004 election was overturned by mass street protests, will finish well ahead of the field on Sunday's crowded ballot. The real showdown will come next month, when he is expected to face Prime Minister Yulia Tymoshenko in a runoff.

The campaign caps a remarkable comeback for Mr. Yanukovych, who was once perceived widely as a tool of Russian interests but has rebuilt his political career and repositioned himself as a moderate.

Mr. Yanukovych's surging popularity contrasts with the fading fortunes of the Orange Revolution's pro-Western leader, President Viktor Yushchenko, whose single-digit support makes the presidential race a contest between two candidates trying to straddle the geopolitical fence.

Mr. Yushchenko is expected to finish fourth or fifth after a term marred by legislative deadlock, lagging political and economic reforms, and a failure to tame corruption.

Final polls gave Mr. Yanukovych a lead of more than 10% over Ms. Tymoshenko, who was Mr. Yushchenko's ally during the 2004 protests and is now his bitter rival.

But her charisma is expected to help her win over swing voters and close the gap for the second round of voting Feb. 7.

European Pressphoto Agency

Ukrainains vote Sunday for president. Above, a huge Yulia Tymoshenko photo.

> The vote will almost certainly bring down the curtain on Mr. Yushchenko's term.

Ms. Tymoshenko slammed Mr. Yanukovych in a televised press conference Thursday, calling him a "tame coward" for refusing to debate her. She accused him of being a "puppet" of powerful oligarchs, whom she promised to force to obey the law.

Mr. Yanukovych, campaigning in eastern Ukraine, called for voters to "get rid of the powers that be."

Serhiy Tihipko, a former central banker who advised both Mr. Yanukovych and Ms. Tymoshenko, is running third in polls. He says he will support neither in the second round, but would be prepared to work as prime minister under a new president.

Sunday's vote will almost certainly bring down the curtain on the term of Mr. Yushchenko, whose accession looked set to place the former Soviet republic of 46 million on a democratic path toward the West.

Those hopes were dashed amid political infighting that weakened his leadership. Membership of the European Union remains a distant prospect after reforms stalled. Relations with Russia, which has close historical and cultural ties to Ukraine, soured as Mr. Yushchenko sought North Atlantic Treaty Organization membership, perceived by Moscow as a threat.

Mr. Yanukovych, strongly backed by Russia in 2004, has toned down his pro-Russia rhetoric. While pledging to repair relations with Ukraine's powerful neighbor, Mr. Yanukovych said that he, like Ms. Tymoshenko, will push for closer ties with the EU. Russia has kept its distance in this campaign while making clear it isn't prepared to work with Mr. Yushchenko.

Formerly critical of Russia's expansionist ambitions, Ms. Tymoshenko assured voters Thursday she would seek a partnership with Moscow.

Both leading candidates have taken NATO off the agenda, citing a lack of public support.

Whoever wins, the vote is unlikely to bring stability to a country whose economy shrank by an estimated 15% last year.

The new president's first task will be to persuade the International Monetary Fund to resume its $16.4 billion lending program, suspended in the fall after Mr. Yushchenko signed wage and pension increases into law.

Political instability could complicate attempts to push through tough measures called for by the IMF to secure new funds. Ms. Tymoshenko has warned that Mr. Yanukovych's team is preparing a "monstrous falsification," raising concerns that she could challenge the result in the courts or in the streets.

Mr. Yanukovych denied the allegation and accused his opponent of making her own plans to rig the vote.

Kazakhstan calls for tolerance

By FLEMMING HANSEN

VIENNA—Kazakhstan's leader said former Soviet states are being unjustly stereotyped in the West and pledged to use the country's 2010 chairmanship of the Organization for Security and Cooperation in Europe to advance Western political tolerance toward the region.

"Stereotypes of the former Soviet republics continue to dominate the minds of some of our OSCE partners despite the fact of our almost 20 years' experience of integration into the global democratic community," Kazakh President Nursultan Nazarbayev said in a videotaped address to the OSCE's permanent council. On Jan. 1, Kazakhstan became the first ex-Soviet state to head the security and human-rights organization, a choice that has stirred criticism due to Kazakhstan's flawed human-rights record.

Mr. Nazarbayev said Kazakhstan still suffers some democratic shortcomings, saying that "we will continue to further political liberalization of our country."

Barnier's testimony was nothing to get excited over

[Brussels Beat]

By STEPHEN FIDLER

Some European parliamentarians have been complaining that many of this week's confirmation hearings of the 26 candidates for the European Commission were alarmingly short on substance.

Michel Barnier, whose nomination was at the center of a political storm between his native France and Britain was one of the few to create a ripple.

Mr. Barnier presented himself as a politician, rather than a technocrat, and a man of deep and longstanding European conviction. He promised to push further on financial reform, saying among other things he might be open to the idea of a new agency to protect consumers from questionable financial products.

He batted back the British member of the European Parliament, Godfrey Bloom, who warned him against "killing the goose that laid the golden eggs," which some might consider an odd description of the British financial industry whose banks have just required a $1.7 trillion government bailout that will depress U.K. growth for years.

"It isn't in the interests of the British financial industry to keep undergoing crises caused by a lack of control and supervision," Mr. Barnier told him.

Neither, he assured MEPs, would he be at the beck and call of President Nicolas Sarkozy, the man who declared his nomination a victory for France and a loss for Britain. "I'm not going to be taking orders from Paris or London or anywhere else," he said.

His promises to push further on financial reform, including on the regulation of hedge funds and derivatives, seemed to offer enough red meat to those Europarliamentarians who see London's financial markets as the root of all economic evil. His performance drew an unusual round of applause at the end of the hearing.

On the other front, European officials say Britain's finance industry has been fighting efforts to rein them in, using the megaphone and through more discreet lobbying. Among other things, they are pushing back on efforts to drive over-the-counter trading of derivatives to centralized clearing houses and they are campaigning against plans likely to emerge this year to increase price transparency in transactions in the bond markets.

From the City's standpoint, there are two aspects to this. One is to influence the design of individual pieces of financial regulation.

The other is to make it clear that layer upon layer of new financial regulation has the potential to put obstacles in the way of the legitimate financial sector and its core function of channeling money from savers to borrowers.

European officials say they are conscious of the potential to do damage by loading one regulation atop another. But in a new paper, Philip Whyte of the Centre for European Reform, a London-based think tank, says "little attention is being paid to the overall impact of all the proposed changes."

Whatever the impact of European-inspired regulation on the City of London, however, it's probably government measures closer to home that will have the biggest impact on the U.K. financial sector. Following the government's recent bonus tax, clamp-down on tax breaks for expatriates and increased income tax rates, the greatest threat to the City and its well-heeled denizens may well emanate, not from Brussels, but from closer to home.

Weighing Risk

Banks across Europe can expect new rules to encourage them to increase their capital buffers. One question is whether this increase should be primarily based on a leverage ratio, which calculates bank equity capital as a proportion of total assets, or whether they should use the concept favored by most European banks of basing it on assets weighted by regulators according to risk

> 'I'm not going to be taking orders from Paris or London or anywhere else.'

In a new paper for the Organization for Economic Co-operation and Development, Adrian Blundell-Wignall and others heap doubt on the risk-weighted approach that is embedded in the Basel capital-adequacy regime.

It shows that banks in countries with the highest capital as measured by the Basel standard were those banks that suffered the highest credit losses. The Swiss banks come out badly here, followed by the Germans.

Yet those which were best capitalized under the leverage ratio—the Italian banks followed by the Spanish—suffered the lowest losses.

The conclusion: The Basel capital-adequacy regime allowed banks to conceal their riskiest assets and the leverage ratio encouraged a more appropriate measure of risk.

One of the key recommendations of the paper therefore is that the leverage ratio should be the central measure of capital for banks in the future. That recommendation is likely to be mighty unpopular in France and some other places in continental Europe, where it would paint national banks in an unfavorable light and force them into raising large amounts of capital.

EUROPE NEWS

U.K. firms 'need long-term view'

Mandelson says foreign ownership isn't bad, but it must be responsible, genuinely critical

By Laurence Norman

LONDON—The U.K. government isn't seeking to discourage foreign ownership of its companies but does want to ensure that domestic firms are managed for "long-term strength," Business Secretary Peter Mandelson said Thursday.

Lord Mandelson told institutional investors that U.K. corporate governance generally works well but that there is a need for reforms that "encourage the right kind of long-termism among company directors".

Cadbury chipper

■ Sales up as firm rejects Kraft again.
Business & Finance P18

The meeting comes amid **Kraft Foods** Inc.'s £10.1 billion ($16.45 billion) hostile bid for **Cadbury** PLC, about which Lord Mandelson has raised some concerns. Neither Kraft nor any other specific company was mentioned at the meeting, a spokeswoman at Lord Mandelson's department said.

Lord Mandelson said the U.K.'s concerns are not "about foreign versus domestic ownership", according to a statement issued by his department. "A change of ownership can be a good thing. But this is one area where responsible and genuinely critical ownership is absolutely essential," Lord Mandelson said.

Companies making acquisitions must show "real corporate stewardship; being entirely open about their intentions for the business and its work force", he added. In the past few weeks, Lord Mandelson has warned Kraft against trying to make a "quick buck" on Cadbury and said that any buyout would have to respect the company's "work force and the heritage and quality".

Among those at the meeting was Keith Skeoch, chief executive of **Standard Life Investments** and a major Cadbury investor. Lindsay Tomlinson, chairman of the **National Association of Pension Funds**, and officials from the **Financial Reporting Council** were also there with a number of company chairmen. The issues discussed included how corporate governance in the U.K. should work at a time of international shareholdings and the major role of hedge funds.

There was also discussion of a forthcoming Financial Reporting Council review of a stewardship code and the importance of shareholders taking an active interest in the firm directly or though fund managers.

The business secretary told investors he remained concerned that diversification of the investor base and the use of professional fund managers could sometimes "create a chain where actual share owners have no long term sense of the interests of the companies in which they have invested." Lord Mandelson will continue to work with investors and companies on these issues, the Business Department said.


Agence France-Presse/Getty Images

Peter Mandelson, the U.K. business secretary, addressed institutional investors in London on Thursday.

Home prices could lift Labour

By Ilona Billington

LONDON—When the U.K.'s governing Labour Party holds an election sometime this spring, the surprising resilience of house prices will be one factor in the party's favor. But will it get the benefit of its success?

Housing prices haven't fallen as sharply as many economists forecast when the financial crisis began. Indeed, house prices were up 1.1% in 2009, according to data from lender Halifax, after falling 15% during 2008.

In the U.S., data from the Federal Finance Agency show house prices fell 3.8% in the third quarter of 2009 from a year earlier while Spain's National Statistics Institute reported a 7% fall over that same period.

"The better-than-expected state of the housing market may not be an election clincher for Labour, but certainly provides some good feeling among the voters, particularly middle-class homeowners," said Miles Shipside, commercial director of online real-estate agency Rightmove.

The British economy has performed dismally over the past six quarters, logging its longest recession since records began in 1955.

Unemployment has risen, although not by as much as many economists had feared. And with public-sector debt having risen to levels that threaten to deprive the U.K. of its triple-A credit rating, voters can expect several years of higher taxes and reduced spending.

But in a country where 82% of households own their home, the resilience of U.K. house prices is positive news. Over the course of three successive Labour governments, house prices have risen 148%, according to Halifax.

Help or hindrance

U.K. Halifax house prices, percentage change from previous year

Sources: Lender Halifax, U.K. Parliament

Besides a continued low level of salable housing stock, the recovery has been supported by record low interest rates of 0.5%, while the government encouraged lenders to help homeowners struggling to pay their monthly mortgages and to repossess properties only as a final resort.

So far, this attitude and support has helped keep repossessions lower than in the previous economic recessions.

But the history of recent elections suggests the government may not win too many votes for stabilizing house prices.

"Looking back at past elections, the Conservative Party actually won and stayed in power through a recession and while house prices were falling," said Martin Ellis, Halifax housing economist. "There isn't a straightforward way to predict how voters are influenced by the housing market during elections."

In 1992, the then-ruling Conservative Party won the election and remained in power for a fourth term, even though house prices had declined throughout the year. Y

Yet in 1997, when Labour won, house prices were rising at a healthy clip of around 7% on year, Halifax data show.

Still, further spending cuts and tax increases will likely be needed to prevent the government's debt from spiraling out of control.

So even though house prices have held up surprisingly well, voters are unlikely to feel a warm glow when they think about their financial prospects for the next several years.

And recent surveys indicate that consumers are feeling less upbeat. The Nationwide Building Society's overall measure of consumer confidence fell sharply in December, to 69 from 74 in November.

That was the largest drop in a single month since November 2008, when consumers responded to the intensification of the financial crisis following the collapse of Lehman Brothers.

"The housing market is unlikely to have a big impact on the election this time around," said Richard Donnell, head of research at property database firm Hometrack. "I think households realize we are facing challenges ahead and are probably more concerned over which party can reduce the public deficit more quickly."

The governing Labour Party must hold the election by June 3.

U.S. NEWS

Muted growth is forecast

Economists think 2009 ended strong, but joblessness tempers outlook for current year

By Phil Izzo

The U.S. economy likely ended 2009 with a bang, according to economists in the latest Wall Street Journal forecasting survey, but their outlook for this year remains muted with the unemployment rate projected above 9% throughout 2010.

"Normally the bigger the recession, the bigger the recovery," said Paul Ashworth of Capital Economics. "But recoveries after financial crises tend to be lackluster, as people remain cautious and credit remains hard to get ahold of."

On average, the 56 surveyed economists, not all of whom answered every question, expected the government would report later this month that gross domestic product grew 4.3% in the fourth quarter at a seasonally adjusted annual rate, up from the 2.2% recorded in the third quarter of 2009.

GDP expansion was expected to slow to around 3% throughout this year. They put just a 16% chance that the economy would enter another recession in 2010. A lot of the fourth-quarter gain was seen coming from companies rebuilding inventories or trimming them at a slower rate, which could contribute up to three percentage points to growth.

As 2010 wears on, it remains unclear whether there is enough demand in the economy to create significant growth, especially as the impact of fiscal stimulus wanes and the Federal Reserve begins to curtail its emergency programs in the second half of the year.

"The consumer, I think, is still going to be cautious after taking a massive hit to net worth, even with the rebound in the stock market," said Michael Carey of Calyon Corporate and Investment Bank.

"The negative wealth effect will play out over a year or more. Meanwhile, with unemployment so elevated, people are saving more for precautionary reason. And even if you want to spend, your access to credit is curtailed."

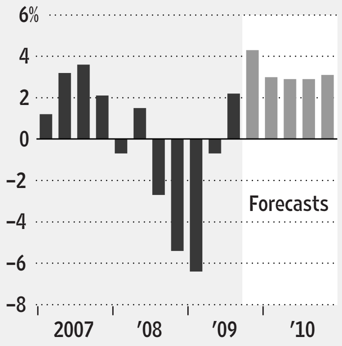
The good news was that even with slower growth, the economy should start adding jobs this year. On average, the economists forecast that about 1.4 million jobs would be created over the next 12 months.

Still, that is just a fraction of the estimated eight million positions cut during the recession, meaning that the unemployment rate will decline slowly.

One of the key issues holding down job growth is a growing disparity between small and large businesses. This week, the National Federation of Independent Business released a report showing another decline in small-business optimism. That stands in contrast to the Business Roundtable's survey of chief executives of larger companies released last month that showed a strong increase in sentiment.

Slow going

U.S. inflation-adjusted GDP, change from previous quarter



Note: At a seasonally-adjusted annual rate
Source: U.S. Commerce Department; WSJ Survey

Big banks and large corporations that have access to capital markets have been the biggest beneficiaries of the Fed's emergency programs and low rates.

Small businesses, which employ nearly half of the U.S. work force, have had a harder time accessing credit. Tighter standards on home-equity loans and credit cards have hindered tiny operations. Other small businesses rely on regional banks, which have the most exposure to troubled commercial real-estate loans.

The Fed's latest survey of economic conditions nationwide, the so-called beige book, highlighted the continued weakness in the sector.

Despite expected slow growth, most economists (42 of 54 who answered the question) said there was enough government stimulus in the pipeline.

"Give it time and you're likely to see stronger growth," said James O'Sullivan of MF Global, who noted that financial markets have largely normalized and the thaw for banks should continue with a lag. "There's a tendency for the consensus [forecast for GDP growth] to be around 3%," but during an expansion, a forecast above the consensus is a better bet. "Strength leads to strength and feeds on itself."

U.S. shoppers show restraint, hitting sales

By Luca Di Leo and Jeff Bater

WASHINGTON—U.S. retail sales unexpectedly fell in December from the previous month, signaling restraint by consumers during the holidays as the economy wrestles with high unemployment.

Meanwhile, the number of U.S. workers filing new claims for jobless benefits defied expectations to show an increase last week, although a drop in the four-week moving average showed claims are still trending downward.

Retail sales declined a monthly 0.3% in December, the Commerce Department said Thursday. Economists surveyed by Dow Jones Newswires had forecast a 0.5% increase.

November sales, however, were adjusted upward, to a 1.8% monthly increase from a previously reported 1.3% gain. Consistent with the strong November sales rise, a separate report showed business inventories rose by more than forecast that month, indicating that stocks added to the economy's expansion in the last quarter of 2009.

Economists warn that a fading government stimulus and high unemployment should restrain consumers in 2010.

WORLD NEWS

AP

President Barack Obama announces a new fee on large financial firms to recover $90 billion over the next 10 years.

Wall Street braces for fee

Obama, unveiling crisis tax, declares ‘we want our money back’

By Henry J. Pulizzi

WASHINGTON—President Barack Obama, declaring “we want our money back and we’re going to get it,” said Thursday banks have a responsibility to make taxpayers whole for the financial-sector bailout and should pay a proposed tax by rolling back big bonuses.

“Instead of sending a phalanx of lobbyists to fight this proposal or employing an army of lawyers and accountants to help evade the fee, I suggest you might want to consider simply meeting your responsibilities,” Mr. Obama said in remarks at the White House.

The president, who said his resolve in recouping taxpayer funds has been stiffened by reports of “obscene bonuses,” formally unveiled his plan for a new tax on large financial firms. The tax, which the White House calls a “Financial Crisis Responsibility Fee,” is expected to raise $117 billion over about 12 years, and $90 billion over the next 10 years. Around 60% of the revenue will come from the 10 largest financial firms.

Mr. Obama said the aim of the proposal isn’t to punish Wall Street, but rather to prevent the type of risk-taking and abuse that triggered the financial crisis. He warned that the financial sector, returning to profitability after the crisis, can’t return to business as usual.

“When we see reports of firms once again engaging in risky bets to reap quick rewards, when we see a return to compensation practices that seem not to reflect what the country’s been through, all that looks like business as usual to me,” Mr. Obama said. “The financial industry has even launched a massive lobbying campaign, locking arms with the opposition party to stand in the way of reforms to prevent another crisis. That, too, unfortunately is business as usual.”

The White House plan, which excludes small banks and auto makers that accepted funds from the government’s Troubled Asset Relief Program, reflects lingering public anger toward Wall Street and mounting unease over the billions in bonuses that financial firms are expected to dole out this year.

The banking industry strongly opposes the White House fee, calling it a political exercise that will stifle the economic recovery, force it to pay for the auto sector’s bailout and ultimately be borne by consumers.

Mr. Obama acknowledged that the majority of rescue funds provided to banks already has been recovered, but said “that’s not good enough.”

The White House, which needs congressional backing to enact the fee, says its plan is reasonable because many firms contributed to the financial crisis and all benefited from the intervention.

If approved, the fee would go into effect June 30 and last at least 10 years. It would amount to 0.15% of total assets minus high-quality capital, such as common stock, and disclosed and retained earnings. Federal Deposit Insurance Corp.-covered deposits and insurance-policy reserves would be untaxed because such assets are already subject to federal fees, according to the White House. The tax would hit around 50 banks, insurance companies and large broker-dealers. Of those, about 35 would be U.S. companies and 10 to 15 would be U.S. subsidiaries of foreign financial firms.

New responsibilities

How the fee would be assessed:

The fee would be 0.15% of what the White House calls covered assets, a rough measure of the firm’s leverage, and provides this example:

$1 trillion in Assets
minus $100 billion in Tier 1 capital
minus $500 billion in deposits
equals: $400 billion in covered liabilities

times 0.15%

equals: $600 million in total fee paid

U.S. tax to hit Europe banks

By Sara Schaefer Muñoz And Margot Patrick

LONDON—U.K. and European banks with significant U.S. operations will likely be included in a proposed U.S. tax that aims to recover taxpayer losses from the government’s bailout of the U.S. financial system, analysts and people close to the banks said.

Barclays PLC, **HSBC Holdings** PLC and **Royal Bank of Scotland Group** PLC, all with large U.S. operations, are likely to be caught by the tax proposal, as well as Germany’s **Deutsche Bank** and **Commerzbank** AG and Switzerland’s **Credit Suisse Group** AG and **UBS** AG.

In the proposal, unveiled Thursday, U.S. officials said 10 to 15 U.S. subsidiaries of foreign banks would have to pay the proposed 0.15% tax on liabilities, though the criteria for which institutions it would be levied on were initially unclear. The plan requires congressional approval.

France’s **BNP Paribas** SA and Spain’s **Banco Santander** SA and **Banco Bilbao Vizcaya Argenteria** SA also were seen as likely to be subject to the levy, termed a “financial crisis responsibility fee,” to be assessed over a 10-year period.

The move comes as banks in the U.K. are smarting from a recently announced one-time bonus tax, which will tax at 50% the portion of any bonus above £25,000 ($40,720). Spokesmen for U.K. and European banks said the banks were reviewing the details of the proposal and declined to comment further.

People close to the banks blasted the tax as inequitable, since other parties that benefited from U.S. bailout money, such as hedge funds, car companies and smaller banks, are exempt.

—Natasha Brereton contributed to this article.

Republicans step up swagger, but retaking House is unlikely

[Capital Journal]

By Gerald F. Seib

When the history of the 2010 election season is written, this will go down as the week when Republican leaders were willing to say it, right out loud and repeatedly: Yes, we can take back control of the House of Representatives this year.

“We believe we can win back the majority,” Rep. Eric Cantor, the second-ranking Republican in the House, said over dinner Tuesday night.

“If the GOP continues to capitalize on the Democrats’ failures of the past year, the Republican Party will take control of the House in the next Congress,” declared Rep. Pete Sessions, head of the GOP’s House campaign committee, in an email to supporters the same day.”

And Rep. Kevin McCarthy, a founder of a program to help GOP candidates seeking to turn Democratic districts, said simply: “I think this is a wave election”—one that will wash out Democrats.

Some of this chest-thumping can be written off as political bluster, of course, the sort of things party leaders say to convince potential donors that writing a check is a good investment, and to persuade wavering candidate recruits to take a chance by jumping into a tough race.

Yet bold projections also can be a two-edged sword, to be unsheathed only with care. If saying a change in control is growing more likely helps to mobilize Republican donors, it also can shake Democrats out of any complacency and help them mobilize their own foot soldiers.

Moreover, no less a figure than the Republican Party national chairman, Michael Steele, was saying as recently as the turn of the year that he didn’t think a takeover was in the cards.

So something has changed to give House Republicans a bit more swagger. The questions: What is it, and how real is it?

It’s first worth noting that GOP optimism about taking control applies to the House, not to the Senate. There, the climb to power is far steeper for Republicans; they would have to take over 10 of 19 Democratic-held Senate seats that are up this year while defending all of their own.

So Republican takeover fever is in the House. The first reason it’s breaking out is that the new year opens amid a political climate that’s bad for Democrats. That doesn’t necessarily make it good for Republicans, of course, but President Barack Obama’s approval ratings continue to erode, the Democrats’ signature health bill is getting less rather than more popular, and the U.S. unemployment rate is stuck at the politically perilous 10% mark.

Still, climate isn’t enough. What Republicans have always known they needed for a takeover this year was for veteran Democrats—the kinds who can hold onto tough districts during a political storm—to walk away from their seats, widening the Republican target field. And that, above all, is what has changed. In recent weeks, four House Democrats in tough districts have announced their retirements, and a fifth switched parties to become a Republican.

To see why this matters, look at the math.

To win control of the House, Republicans need to take 40 seats now held by Democrats. At the moment, 245 of the 256 Democrats serving in the House are running for re-election. Even in a good political environment, it’s hard to defeat more than 10% to 15% of a party’s incumbents in any given election; the powers of incumbency and inertia are simply too strong to expect more.

So Republicans think they can get 25 to 35 seats that way. The balance would have to come from seats being vacated by Democrats. Eleven Democrats now are stepping aside, many from swing districts; Republicans are confident they can win a majority of those newly opened seats. It’s those that give them a path to the magic 40 mark.

But that path would be a lot clearer if a few more Democrats announced retirements in coming weeks. Republicans are doing what they can to make that happen, principally by helping candidates challenging marginal Democratic veterans to raise enough money to convince the incumbent it’s a good time to get out rather than face a tough race.

The GOP poster boy for this phenomenon is farmer Stephen Fincher, from the exquisitely named Frog Jump, Tenn., who has raised $600,000. That helped convince Democratic Rep. Jim Tanner this was the year to move on.

Yet the deeper reality is that Republicans would have to overcome some significant hurdles to reach a majority. Fund-raising remains a problem for them; the Democrats’ House campaign committee has about $10 million more available cash than its Republican counterpart. And while some Democrats are retiring, even more Republicans—14 now—have said they’re stepping aside. The latest, Arizona Rep. John Shadegg, announced his retirement Thursday. The GOP would have to successfully defend nearly all those seats to retake the House.

Moreover, even as Democrats’ problems have mounted, polling shows the GOP brand remains troubled, and in recent months the party has shown it is vulnerable to some nasty infighting between pragmatists and ideological conservatives. Ryan Rudominer, press secretary for the Democrats’ House campaign committee, said the GOP is “in the midst of civil war resulting in more than 50 real Republican primaries” where the party’s contenders are battling each other.

Bottom line: A Republican takeover certainly has become possible, but can’t really be called likely—at least not yet.

WORLD NEWS

Bloomberg News

Japanese Finance Minister Naoto Kan speaks to reporters about foreign-exchange rates in an interview in Tokyo on Thursday.

Japan's Kan muted on yen

Finance minister tones down talk on weak currency, speaking in favor of market rates

By Takeshi Takeuchi

TOKYO—Japanese Finance Minister Naoto Kan on Thursday further toned down his rhetoric favoring a weak yen, saying that markets should generally set foreign-exchange rates unless their moves are particularly sharp.

"My view on foreign exchange is that markets in principle should decide foreign-exchange rates," Mr. Kan told a group of reporters. "Unless currency moves are extremely volatile, it's good to follow this principle."

Mr. Kan's comments come in stark contrast to his remarks on currency policy last week, when he was named to succeed Hirohisa Fujii, who resigned from his post for health reasons.

At his first news conference as finance minister last week, Mr. Kan said that he wanted the yen to become "a bit weaker" and that many Japanese companies hope that the yen will weaken to around 95 yen to the dollar.

A strong yen hurts Japan's key exporters because it makes their products more expensive abroad and reduces the value of profit from other countries.

While the finance minister softened his tone in a second news conference on Friday by saying currency rates should in general be set by market forces, Mr. Kan still maintained that "as minister directly in charge of such matters, I must give sufficient consideration to expectations and hopes held by the [Japanese] business sector" on the yen's exchange rate.

His remarks briefly sent the yen to a four month low of 93.78 yen against the dollar.

The absence of remarks advocating a weak yen Thursday isn't likely a strong indicator of his inclination. Direct references to currency levels have in principle been a taboo among international currency policy makers.

Turning to the upcoming meeting in early February of finance ministers and central-bank governors of the Group of Seven countries, Mr. Kan said that a major topic would be how to solidify the global economic recovery.

"Some areas, especially Asia, have shown solid economic recovery from the so-called Lehman shock [in 2008].

But other countries still have their own problems, and I'd like to explore ways to help the global recovery" through exchanges with G-7 counterparts, he said.

Mr. Kan also said the issue of China's foreign-exchange rate could become a topic at the Group of Seven meeting, but he didn't elaborate further.

As for the domestic economy, the finance minister welcomed the Bank of Japan's recent stance on deflation, which threatens the country's return to economic growth.

Last month, Japan's central bank said it won't tolerate falling consumer prices, escalating its rhetoric. The move followed public pressure by some government officials for the central bank to take steps to fight deflation.

"Not only did the BOJ ease monetary policy in early December last year, it also clarified its resolve to fight deflation" by making clear acceptable price ranges, Mr. Kan said. "The cooperation between the government and the BOJ is now going very well."

Japan machinery orders decline

By Takashi Mochizuki

TOKYO—Japan's core machinery orders, an important indicator of trends in corporate capital spending, fell to their lowest level on record in November, underscoring the continued sluggishness of the country's domestic demand.

However, although the core orders figure is the lowest since the government began compiling such data in April 1987, the overall trend remains firm as manufacturers are likely to be supported by overseas demand ahead, a cabinet official said.

Core orders dropped 11.3% from October to 625.3 billion yen ($6.84 billion), the cabinet office said. That was in stark contrast to the 1.2% mean increase forecast in a survey by Dow Jones Newswires and the Nikkei, and followed a 4.5% month-to-month decrease in October. Core orders exclude volatile orders from electric power companies and those for ships.

Behind the sharp drop were big declines in orders from both manufacturers, who placed 18.2% fewer orders, and from nonmanufacturers, whose total decreased 10.6%. The Cabinet Office said demand from the telecommunications and financial industries was especially weak.

Machinery-orders figures tend to be volatile, so a sharp downward swing in monthly data doesn't automatically mean a further weakening in capital investment is coming. Still, analysts say that overall, companies don't appear to have much desire to boost capital spending now due to the weak economy, and the orders data reflect that.

A recovery in orders is "unlikely to come until we get a more sustainable recovery in business investment, which probably won't come until the second half of this year," given persistent deflation and corporate cost-cutting, said Toshihiro Nagahama, senior economist at Daiichi Life Research Institute.

He said the yen's sharp rise in November weighed on orders from manufacturers as well. The dollar dropped to a 14-year low of 84.82 yen on Nov. 27. It was trading at around 91.45 yen late Thursday in Tokyo.

The Cabinet Office downgraded its assessment of machinery orders to say "weak movements are seen in some areas," compared with the earlier "movements toward bottoming out are seen." It was the first downgrade since November 2008.

Meanwhile, in another sign of deflation hitting the domestic economy, Bank of Japan data Thursday showed the nation's corporate goods price index fell 3.9% year-to-year in December for the 12th straight month of decline. That followed a revised 5% year-to-year drop in November.

The data also showed Japan's CGPI—which tracks prices of domestically produced and used goods traded among companies—plunged 5.3% in the year 2009, the fastest pace ever for a yearly figure.

The decline was mostly due to weak domestic demand as consumers rein in spending amid deflation. That is a concern for the economy given recently rising oil prices, because companies won't be able to pass higher costs on to consumers, which will result in further drops in company profits and then, consequently, in consumers' wages.

—Andrew Monahan contributed to this article.

Probe targets oil executives at Algeria firm

By Benoit Faucon And Spencer Swartz

LONDON—Algeria, a top oil exporter and one of Europe's biggest natural-gas suppliers, has launched a corruption probe into senior executives at the state energy company, according to Algerian oil officials, widening the problems facing the North African nation's energy sector.

State-owned **Sonatrach**'s Chief Executive Mohamed Meziane is the main target of the investigation and has been removed from his position, the Algerian oil officials said.

Abdelhafid Feghouli, a refining and marketing vice president, has taken over as interim head, they said. It isn't clear whether Mr. Meziane's removal as CEO is permanent.

Messrs. Feghouli and Meziane didn't respond to requests for comment. Officials in Algeria's justice ministry and at Sonatrach also declined to comment.

Oil officials added that several other executives are also under investigation.

The government hasn't released details of the nature of the investigation or disclosed whether it has filed any related charges. The probe, which analysts don't expect to interrupt Algeria's near-term energy exports, comes at a time when Algeria is already facing problems laying the groundwork for expanding oil and gas-production capacity.

The government's imposition of tough contract terms with foreign companies in recent years has pinched investor appetite, raising questions among some analysts about whether Algeria will meet natural-gas export targets.

One western oil executive active in Algeria said the removal of Mr. Meziane—one of the main interlocutors for foreign investors—was a "big blow."

"This will seriously destabilize Sonatrach and make it much harder to push decisions through," the oil executive said.

"It certainly increases the political risk of working in Algeria," the executive said.

Algeria's El Watan newspaper reported Mr. Meziane and his two adult children, as well as other senior executives at Sonatrach, were being investigated over alleged impropriety in the awarding of contracts to Sonatrach suppliers.

Algeria passed a law in 2006 giving Sonatrach a minimum 51% share in all oil and natural-gas exploration contracts signed with foreign companies, but that measure and other tough contract terms have stunted investor appetite. In late 2009, the country's oil ministry awarded just three out of 10 oil and natural-gas exploration permits on offer in a state licensing round.

That doesn't bode well for Algeria's ambitions to bring more gas to Europe, analysts say. The country, Europe's third-biggest gas supplier after Russia and Norway, sends most of its gas to Italy, Spain and France, via pipeline or tanker.

Sonatrach has also experienced delays of several months in completing a new gas pipeline to Spain.

Some foreign companies that work in the country say bureaucratic delays in the Algerian oil ministry are one of their main sources of frustration there.

—Guy Chazan contributed to this article.