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An improbable senator is flying high



Republican Scott Brown's upset victory for the Massachusetts Senate seat prompted a scramble to assess the impact on U.S. health-care reform and who should take the blame or credit. Pages 6-7

Financing fears hit Greek bonds

BY ALKMAN GRANITSAS

ATHENS—The Greek government said it is considering all options to cover its financing needs, as renewed worries about Greece's ability to borrow hammered the country's debt market Wednesday.

In late-afternoon trade in Europe, yields on Greece's benchmark 10-year bond—which move inversely to prices—briefly touched a record, while the cost of insuring that debt also reached a record. The credit concerns surrounding Greece once again weighed on the euro, which fell below \$1.42 for the first time since August.

Greece's finance minister said the government was considering a so-called popular bond aimed at Greek retail investors, and announced that he will lead a delegation to the U.S. and Asia next month to meet institutional investors.

"We are looking at everything," said Finance Minister George Papaconstantinou. "However, there has been no decision made" on such a bond. Most government bonds are marketed to big institutional investors such as banks.

Euro's odyssey

How many U.S. dollars one euro buys



Source: Thomson Reuters via WSJ Market Data Group

The nervousness comes amid growing doubts over Greece's ability to keep financing its borrowing. Some analysts thought Mr. Papaconstantinou's comments betrayed uncertainty by the Greek government to fix its problems, but others took them as a sign of determination.

Greece revealed late last year that its budget deficit would hit 12.7% of gross domestic product, well above the 3% limit set by the European Union.

Greek public debt is projected to surpass 120% of GDP this year. And according to the 2010 budget, the government expects to pay €12.95 billion (\$18.58 billion) this year—up from €12.34 billion last year—to cover the interest payments alone on the country's debt, which was €280 billion at the end of 2009.

The debt burden has put Greece under fierce scrutiny from financial markets and credit-rating agencies, meaning it will pay a steep premium for its bonds this year, as it did in 2009.

The interest-rate spread between 10-year Greek government bonds and their counterpart German bunds has widened by a full percentage point in the past six months.

Late Wednesday, the spread between Greek and German 10-year bonds hit a historical high of 3.08 percentage points, before falling back to 2.93 percentage points.

With these higher interest rates, Greece is trying hard to find new investors. Greek banks—traditionally among the largest buyers of Greek debt—are expected to pare

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Sarkozy tells Nissan-Renault CEO Carlos Ghosn who's the real boss. Page 11

Bank bonuses take more blows

BY SARA SCHAEFER MUÑOZ

LONDON—Two more banks, **Bank of America Corp.** and **Morgan Stanley**, said they plan to reduce compensation awards across their global work forces as a result of a new U.K. tax on bonuses, although the pain may not be felt until next year.

The U.S. banks, which reported fourth-quarter results Wednesday, were the latest to detail how they were handling the one-time bonus tax, which created a furor when it was announced by Prime Minister Gordon Brown's Labour party last month.

Banks, not employees, are responsible for paying the tax, which is 50% of the portion of any bonus above £25,000 (\$41,000) and is due Aug. 31. Employees can be hurt, however, if their bosses choose to reduce overall bonus pay-

ments to mute the effect of the tax.

A person close to Bank of America said the bulk of the cost will likely be deducted from the bonus pool for 2010 performance, instead of the awards being paid out now for 2009. The bank itself might also shoulder some of the burden.

Colm Kelleher, Morgan Stanley's co-president institutional-securities business, said on a conference call that the bank "considered the impact of the U.K. bonus tax on 2009 compensation levels, and since the legislation has not been finalized, we see this largely as a 2010 event."

He said that "the tax will be shared significantly by employees globally."

Bank of America's and Morgan Stanley's plans for spreading the pain are a departure from plans announced

Tuesday by Swiss Bank **Credit Suisse AG**. The Zurich-based bank said it cut its global bonus pool by 5%, and the awards for managing directors in the London office by an additional 30%.

Other major banks operating in London had considered simply absorbing the cost of the tax and paying out bonuses as usual, in order to remain competitive. Some said they would rather spread the pain among all employees than force London bankers to bear the brunt.

In its fourth-quarter results last week, **J.P. Morgan Chase & Co.** said it offset part of the tax from its investment-banking bonus pool, but gave no further details.

Citigroup Inc., which reported fourth-quarter results Tuesday, also didn't disclose details of how it was dealing with the bonus tax.

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PAGE TWO

Obama has to lead against terrorists

[Agenda]

BY PATRICK MERCER

"I am less interested in passing out blame than I am in learning from and correcting these mistakes...for ultimately the buck stops with me."

So said President Barack Obama 13 days after the failed attempt to destroy a U.S. airliner. Thirteen days during which he was slow to react, roundly blamed his subordinates for intelligence failures, publicly dissected these failures in the face of his enemies and passed the initiative back to al Qaeda. It seems that President Obama can't distinguish between his conduct as party politician and that which his post as commander in chief demands.

A notable instance of this was the public debate upon which President Obama insisted before the U.S. troop surge to Afghanistan. The plan was conceived in September 2009, but it took him almost three months to decide whether it was going to happen, during which time he told the Taliban how many troops were going to deploy, almost exactly where they were going to go and when he intends to withdraw them. All the Taliban now need to do is sit tight for the next 18 months and watch Obama twist in the wind of politics.

Next came his inconsistency in the face of a series of terrorist attacks that have been launched against the U.S. homeland since the autumn. First he attempted to play down the Fort Hood shooting in the U.S. as the act of a lone gunman despite all the evidence that Yemeni extremists lay just as much behind this as they did the attempted Christmas Day attack. Then, it took the president 72 hours before he broke his Christmas holiday in Hawaii to speak to a jittery nation.

This then led to a very public series of accusations by the president against his own intelligence agencies. "It now appears that weeks ago this



President Barack Obama speaking at the White House campus Wednesday,

information was passed to a component of our intelligence community but was not effectively distributed ... there were bits of information available that could and should have been pieced together I consider it totally unacceptable."

Does he believe that talking to our enemies guarantees they will stop hating us and stop killing us?

What price loyalty? A commander in chief is just that—he takes responsibility rather than abrogating it.

Then we have all the details of how President Obama intends to deal with the mistakes and the evolving threat.

Very clearly he outlined the four steps of his review including such details as the strengthening of the criteria used to add individuals to terrorist watch lists, especially the "no fly" list. If I were intending to attack the U.S. homeland I would find this sort of detail extremely useful.

One wonders who has been advising him. There is no question

that President Bill Clinton tried to take the same approach toward terrorism, hoping that the whole issue might be swept under the carpet after the dispatch of a few Cruise missiles. Similarly, President Obama's solution to jihad is based on a dialogue that embraces the Muslim world, including states such as Iran that had been outlawed by his predecessor.

Does he believe that talking to our enemies will guarantee that they understand us, will stop hating us and then will stop killing us? Sadly, this isn't working. Most notably, Iran has interpreted the president's desire to "engage" as just a sign of weakness for it has redoubled its nuclear program.

President Obama champions democracy and the rights of the individual, making the shutting of Guantanamo Bay his priority. Yet, 14 months after his election, Guantanamo continues to function while the president remains mired in legalistic argument. But our enemies are ruthless: They use suicide bombers without remorse, won't parley, and delight when a lack of incisive leadership allows them to turn the power of democracy against itself.

And, of course, the attitude is

catching. There seems little doubt that Major Nidal Hassan, who has been charged with killing 13 of his fellow soldiers at Fort Hood in November, had been radicalized by a Yemeni extremist. Despite the president's claims that he was a maverick, not an agent acting on orders. So, Defense Secretary Robert Gates's comments on Jan. 15 can only give further comfort to our foes. He said: "It is clear that as a department we have not done enough to adapt to the evolving internal security threat ... the Pentagon is burdened by 20th century processes and attitudes rooted in the Cold War."

If it is all right for the president to pull his own people to pieces, presumably the same applies to his defense secretary?

Al Qaeda has returned to the charge. After the Christmas Day attack it became clear that another very similar plot to bring down an airliner had been foiled in Mogadishu, Somalia. Then, on Dec. 30, a ruthless attack killed seven key Central Intelligence Agency members at Khost in Afghanistan. It has been suggested that this plot was mounted specifically on the orders of Osama bin Laden. Now, had all of these attacks, or even some of them, been successful, the presidency would have been under serious fire and this week's election to find a successor to the late Sen. Edward Kennedy of Massachusetts would have been a mere detail.

Our enemies may not have been as successful as they wanted, but by dithering, by open dissection of intelligence processes and their failure and by disloyalty to his subordinates, President Obama is doing al Qaeda's job for it. In these circumstances, the West requires the president to be a commander in chief first and a politician second. The buck stops with him.

—Patrick Mercer is the Member of Parliament for Newark in Nottinghamshire, U.K., a former soldier and the chairman of the Counter-Terrorism Subcommittee in the House of Commons.

What's News

■ **Morgan Stanley reported** a steep drop in trading revenue that damped fourth-quarter earnings. The result fell short of expectations, but it did mark back-to-back quarterly profits after three straight losses, as the firm dialed back on risk. 17

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Iain Martin on Politics

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Iain Martin on U.S. President Obama after Republicans' Massachusetts win



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NEWS

Anheuser riles labor

Blockades surround its Belgium breweries after disclosing 10% cuts

BY MATTHEW DALTON

LEUVEN, Belgium—Dirk Aertssens has seen many changes at Stella Artois since he started working at the brewer 20 years ago. Back then it was still an independent brewery, controlled by a few wealthy Belgian families, the 50-year-old truck driver said, and you could still drink on the job.

But a series of mergers and acquisitions have made Stella a key property of **Anheuser-Busch InBev** NV, the world's largest brewer. Now there's a zero-tolerance policy for drinking at work. Worse, Mr. Aertssens said his job is under threat: Anheuser disclosed a plan to cut 10% of its 8,000 person work force in Western Europe because the region, while still profitable, is faring poorly compared to other parts of its far-flung global beer empire.

"We don't work for Belgium anymore," said the barrel-chested Mr. Aertssens. "We work for the whole world."

Mr. Aertssens and other striking Belgian workers have been blockading the brewery here, another in Jupille and a third in Hoegaarden beginning Jan. 7, when Anheuser released its job-cut plan.

Belgian authorities failed to negotiate a compromise Tuesday, and union officials said they were preparing to ask workers in other countries to blockade their Anheuser breweries as well. Anheuser said it had temporarily laid off workers at its Belgian breweries, and said production of Stella Artois, Jupiler, Leffe and Hoegaarden beers has completely stopped. Some Belgian retailers said they were running low on Anheuser beers.

Anheuser said the layoffs will address the long-running decline of the beer market in Western Europe, while trying to profit from consumer tastes shifting to specialty beers such as Leffe and Hoegaarden.

Beer is becoming a second choice to wine and spirits, especially for younger people, analysts said.

With less beer being consumed in bars, that means fewer trucks and drivers are needed for deliveries to the thousands of pubs across the country, said spokeswoman Karen Couck. "On the one hand people are drinking less, and on the other they're drinking differently," she added.

But the cuts have infuriated workers because Anheuser is posting healthy profit: \$3.3 billion for the first nine months of 2009, and \$810 million of operating profit in its Western Europe division.

Chief Executive Carlos Brito and dozens of top executives stand to make tens of millions of dollars each on stock options that were granted after the brewer completed its \$52 billion purchase of Anheuser-Busch, the leading U.S. brewer. Those options only vest if Anheuser manages to reduce its ratio of net debt to operating profit below 2.5 (it now stands at 2.9), a process that requires major cost-cutting.

The impact of the blockade on sales will have minor implications for Anheuser because Western Eu-

rope forms a small part of the brewer's sales. But the issue highlights how Mr. Brito and his management will move swiftly to bolster margins in underperforming areas.

"They have a stringent approach to cost-cutting, more so than many of their peers," said Andrew Holland, a beverage analyst at Evolution Securities Ltd. in London. "They're profitable in Western Europe, but these are not growing markets."

Beer revenue and sales volumes have declined in recent years throughout the region. Beer is becoming a second choice to wine and spirits, particularly for younger people, analysts said. Some European governments, meanwhile, are taking

steps to try and discourage excessive drinking through higher excise taxes and public education campaigns. Smoking in bars has been banned in many European countries, helping to reduce the amount of beer that people now drink in bars.

The layoffs are likely to impact a number of divisions, including maintenance and trucking. The company's in-house drivers expect the company to outsource jobs to firms that employ pairs of drivers from the Czech Republic and other lower-cost Eastern European countries.

"They want to go back 200 years ago to, when they need somebody they [hire] somebody," Mr. Aertssens said. "And when they don't, they get rid of them."



Striking workers set wooden pallets ablaze Tuesday outside a Jupille brewery.

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EUROPE NEWS



People line up at a jobs center in Gateshead, England, on Wednesday.

U.K. jobless claims slide

BY JOE PARKINSON
AND NATASHA BRERETON

LONDON—The number of people claiming jobless benefits in the U.K. fell at its fastest pace in 2½ years last month, giving further evidence that the British labor market is stabilizing and boosting the election prospects of Prime Minister Gordon Brown.

The widely watched claimant-count measure of unemployment fell 15,200 in December, keeping the jobless rate at 5% but marking the sharpest monthly drop since April 2007, the Office for National Statistics said.

The broader official measure of unemployment for the three months to the end of November also fell for the first time since May 2008, sliding 7,000 from the previous period,

although the 7.8% jobless rate remained unchanged. The monthly claimant count is more up to date but the broader measure is internationally comparable and lags longer.

A number of polls have shown Labour closing the gap on the opposition Conservatives in recent weeks and Wednesday's numbers could shore up the government's argument that its debt-fueled measures to contain the economic downturn are making an impact.

The prime minister seized on the figures as evidence that the government's efforts to combat the recession were bearing fruit.

"Unemployment is lower today as a result of the actions we've taken," Mr. Brown said in a weekly question-and-answer session in Parliament.

The opposition said the data

showed that the number of Britons economically inactive but not claiming benefits had hit a record.

"We still have a long way to go to undo the damage done by Labour's recession," said Teresa May, Conservative spokeswoman for work and pensions.

Economists said the jobs numbers were consistent with an economic recovery in the fourth quarter of 2009, and supported the view that Bank of England policy makers won't loosen monetary policy further at their February meeting.

"We hope that unemployment will keep improving this year," said David Page, an economist at Investec.

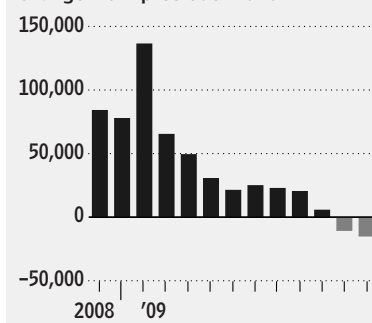
Minutes of the January Monetary Policy Committee meeting, also released Wednesday, showed that members voted unanimously to keep policy unchanged, noting that inflation was likely to fall below target once temporary price effects had subsided.

But the MPC also highlighted the need for "significant fiscal consolidation" in the U.K., and said monetary policy will have to respond once those plans become clearer.

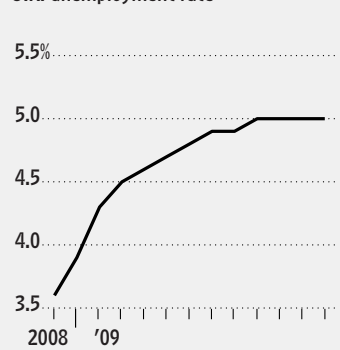
That warning followed comments Tuesday from BOE Governor Mervyn King that the government must move quickly to address the nation's structural fiscal deficit and that a failure to do so could have negative implications for the economy's long-term prospects. Both the governing Labour Party and the opposition Conservatives have said they will squeeze spending in coming years.

Jobless drop

U.K. claimant count, change from previous month



U.K. unemployment rate



Source: Office for National Statistics

ECB's Stark sees a slow half

BY TERENCE ROTH

LONDON—With warnings of another slowdown in the euro-zone economy and powerful headwinds in the U.K., policy makers this week appeared to be preparing consumers and investors for disappointment.

Jürgen Stark, a member of the European Central Bank's policy council, said the recovery in the 16-country euro zone could lose traction in the first part of this year.

"It is likely that the first half of 2010 will go more slowly than in the second half of 2009," Mr. Stark said Wednesday at an economics seminar in Leipzig, Germany. "This doesn't mean a double-dip recession,

but more in the character of a gradual and bumpy economic recovery over the next quarters," Mr. Stark said.

Private domestic demand in the euro zone has been persistently weak, leaving economies to rely unduly on temporary life support from government stimulus programs and export demand from Asia and the U.S.

Without them, Europe's nascent recovery is in trouble.

New private-sector investments are constrained by tight credit and current capacity that already is underutilized. Households also are holding back on a combination of job fears and tough new lending

standards.

But sooner or later, governments want to begin weaning the economy off fiscal stimulus. If domestic economies aren't on their feet, the withdrawal of support could have dire consequences.

In Germany's parliament Wednesday, Chancellor Angela Merkel said Germany will struggle to overcome the economic slump during most of the current legislative period, which expires 2013.

"We will have done good work if we reach a precrisis [GDP] level in 2013," Ms. Merkel said. For the time being, she said, exports remain crucial for supporting the German economy.

Spain works to curb deficits

BY JONATHAN HOUSE
AND DANIEL DE LA PUENT

MADRID—Spain's Socialist-led government is trying to forge a broad political consensus with regional leaders to rein in one of the euro zone's highest budget deficits, Finance Minister Elena Salgado said.

Getting bipartisan support for deep spending cuts would be a crucial step to avoid the credit ratings downgrades plaguing Greece, which this week is scrambling to convince financial markets that it can get fiscal imbalances under control.

Ms. Salgado's government is grappling with the collapse of a decade-long housing boom that has pitched the economy into a deep recession, sent tax revenue plummeting and social welfare costs soaring. With unemployment nearing 20%—by far the highest in the euro zone—Spain expects to spend over €30 billion (\$42 billion) on unemployment benefits alone in 2010.

But as one of Europe's most decentralized countries, Spain directly controls less than a third of public-sector spending. The government can set only broad guidelines for the regional and municipal administrations that control the rest, making it difficult to implement fiscal policy.

Bipartisan consensus is crucial: 'If the two parties come to an agreement it will be easier for the regions to come to an agreement.'

Spain is trying to rein in a budget deficit expected to top 10% of gross domestic product this year, far above the 3%-of-GDP limit for European Union countries. The European Commission has given Spain until 2013 to meet this limit.

"The next step is to talk to the Popular Party," Ms. Salgado said in



Economy Minister Elena Salgado

reference to Spain's main opposition party, which controls many of Spain's regional governments. "If the two parties come to an agreement it will be easier for the regions to come to an agreement."

Ms. Salgado said her government wants more oversight of the finances of the country's regional and municipal governments. Currently, the government gets detailed information on revenue, spending and deficits only once a year.

Prime Minister José Luis Rodríguez Zapatero failed to broker an accord at a December meeting with regional leaders over anticrisis measures, including steps to control spending.

Ms. Salgado blamed "political posturing" by some regional leaders and believes a new attempt will be successful as the two main political parties agree on the essential issues.

The government has said it will surpass its 2009 deficit forecast of 9.5% of GDP. "It will be a little more, we hope not too much," Ms. Salgado said, adding the overrun is the result of a new benefit for the long-term unemployed and lower-than-expected value-added-tax revenue from the ailing real-estate sector.

Financing fears hit Greece

Continued from first page
their bond buying as cheap money from the European Central Bank dries up.

The newly installed Socialist government, voted into office Oct. 4, has been in talks with Chinese investors and others to sell some of that debt. And the government has also suggested that it may issue a dollar- or yen-denominated bond in the hope of drumming up investor interest from countries linked to those two currencies.

"Greece is looking for alternative ways of financing its huge deficit in 2010," said Ioannis Sokos, a strategist at BNP Paribas.

One thing putting off potential investors is the increasing cost of insuring Greek sovereign debt against default. The interest rate on credit-default swaps, financial instruments used to do this, also rose to a record Wednesday, at 3.45 percentage points, compared with Tuesday's closing level of 3.17 percentage points. That meant the annual cost of insuring €10 million of

Greek government debt against default for five years had risen to €345,500.

Mr. Papaconstantinou said that following the auction of three-month, six-month and one-year Treasury bills earlier this month, Greece has covered its borrowing needs for January. But analysts say the near-term uncertainty surrounding Greece's borrowing plans—whether through a private placement, syndication, a popular bond for retail investors, or a foreign currency bond—has helped to stoke the nervousness in the market.

"All these rumors about a private placement or syndication have created uncertainty and markets don't like uncertainty," said a finance ministry official. "Maybe the markets will calm down if we proceed with an issue. Maybe yes, maybe no."

—Emese Bartha in Frankfurt and Clare Connaghan and Ainsley Thomson in London contributed to this article.

EUROPE NEWS



German Chancellor Angela Merkel during a financial debate over the 2010 budget at the German Federal Parliament in Berlin on Wednesday. "The aim is sustainable growth," she said.

Merkel calls for a global exit strategy

German chancellor says coordinating an exit strategy with the rest of the world is critical to efforts to return to sound finances

By ANDREA THOMAS

BERLIN—Chancellor Angela Merkel said Wednesday that exports will remain crucial for Germany's economy and warned that European Union countries' efforts to return to sound finances needed to be coordinated with the U.S. and Japan.

Ms. Merkel said finding an "internationally coordinated exit strategy" is possibly the "biggest challenge" to overcoming the global financial crisis that peaked in late 2008. Germany debt-limit rules won't matter if a "very different policy" is being pursued in the U.S.,

Japan, or elsewhere, she said.

"The crisis, which hasn't mainly originated in Europe, has taught us that if one big player in the global competition doesn't stick to rules, all others have to pay for the consequences," Ms. Merkel said.

The German chancellor said that among the most challenging tasks ahead will be not only to agree on an exit strategy with the European Central Bank and the European Commission while respecting what is unique in Germany's constitution, but to do everything possible to ensure "that others do this too."

Speaking to the lower house of

parliament during its first reading of the government's 2010 draft budget, which foresees record debt and a spending increase of around 10.5%, Ms. Merkel also said that Germany will have to deal with the economic slump during most of the current legislative term, which expires 2013.

"The aim is sustainable growth," Ms. Merkel said. "Germany must ... remain a strong export nation." She also said that government measures, such as the growth-acceleration program and subsidies for short-term work, help to "secure the basis of the upswing."

Ms. Merkel said budget consoli-

dation is also necessary. More than one quarter of the €325.4 billion (\$465.39 billion) earmarked for spending in the budget will be funded with new debt.

Germany's budget deficit is likely to reach almost 6% of gross domestic product this year, compared with a deficit of 3.2% of GDP last year. The country, Europe's largest economy, has committed itself to get its deficit in line with the 3%-of-GDP threshold set by the European Union in 2013. Germany also must respect the country's debt-cap rule, which requires it to cut its current structural budget deficit, that's almost

€70 billion or 2.8% of GDP, to €10 billion, or 0.35% of GDP, by 2016.

Ms. Merkel said that irresponsible excesses led to the intentional financial and economic crisis.

The issue now is to implement the rules this year as far as they have been agreed upon in the G20, Ms. Merkel said. "The aim is to find further rules. ... to prevent banks from getting too big or so interconnected that they can blackmail us once again." Ms. Merkel said that different models are on the table to prevent such a scenario and that they should be discussed at coming Group of 20 meetings.

U.K. suspends direct flights from Yemen

By GUY CHAZAN
AND SUMMER SAID

Direct flights to the U.K. from Yemen were suspended Wednesday, part of a broad drive to improve airport security following the failed Christmas Day attack on an airliner bound for Detroit.

Prime Minister Gordon Brown also said a new "no-fly" list would be created to stop terror suspects aiming to travel to the U.K., while other individuals would be subjected to extra security measures.

The moves recognize the rising threat from militants based in Yemen and affiliated with al Qaeda. Umar Farouk Abdulmutallab, the Nigerian man charged in the Detroit plot, told officials he was in contact

with al Qaeda operatives in Yemen, which Mr. Brown called "both an incubator and potential safe haven for terrorism."

A spokesman for Yemenia, the Yemeni national airline, said the U.K. had asked for London-bound Yemenia flights to undergo additional security measures in Paris or Cairo. The spokesman didn't elaborate on why the two cities were selected.

"They wanted planes to be emptied and searched [and] passengers and luggage to go through security checks," he said. Those demands were unacceptable and the airline had decided to suspend flights, he said.

A spokesman for the U.K. Department of Transport declined to

comment.

Mr. Brown—speaking in the House of Commons after meeting with military, intelligence and border-security chiefs—said the U.K. was working closely with the Yemeni government to agree on "what security measures need to be put in place before flights are resumed." U.K. officials are currently in the Yemeni capital San'a to help improve aviation security, a spokesman said.

The prime minister said the government was introducing a new "no-fly list" of terror suspects barred from entering the U.K. That would be complemented by a larger list of suspect individuals who would be

subject to special measures, including expanded screening, before boarding flights bound for the U.K.

He also said that by the end of this year, the U.K. would be able to check all people planning to travel to the U.K. from other countries, including transit passengers, against a Home Office watch list a day before they travel.

Western governments are scrambling to tighten security since the Christmas Day plot, which President Barack Obama said had exposed a "systemic failure" in sharing and acting upon intelligence about terror suspects.

Mr. Abdulmutallab had a multi-



Gordon Brown

U.S. NEWS: MASSACHUSETTS ELECTION

Economic woes at root of voters' revolt

[Capital Journal]

BY GERALD F. SEIB



The Democrats' stunning loss of Ted Kennedy's old Senate seat raises a host of intriguing

questions, but they can be boiled down to one: How did it come to this—in Massachusetts of all places?

There's no simple answer, because the Massachusetts saga, like so much of what has happened during the past two years, suggests strange and unpredictable currents continue to run through America's political waters.

But much of the explanation of Republicans' Massachusetts miracle surely lies in two giant factors: an economy that is largely beyond Democrats' control, and a failure to close out a health-care debate that certainly has been within their control. Those two dominant forces were compounded by some underappreciated local factors, and garden-variety campaign stumbles by failed Democratic candidate Martha Coakley.

Political analyses often walk straight past the most obvious answer on their way to more exotic ones, and that's a danger here. Any analysis has to start with the simple fact that the economy is in bad shape—and is widely seen as being in even worse shape than it probably is. Democrats, as the party in power, are paying a huge price for that. Significantly, the Massachusetts campaign may come to represent the event that showed their

Leaning in another direction | Independents will be critical to coming U.S. midterm elections

How independents voted in previous elections 2008 presidential vote by state

Presidential and congressional

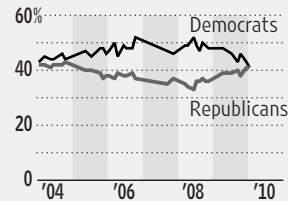
Year	% of total	Democrat	Republican
2000	26%	46%	48%
2002	19	58	38
2004	26	50	48
2006	26	57	39
2008	29	52	44

2009 gubernatorial

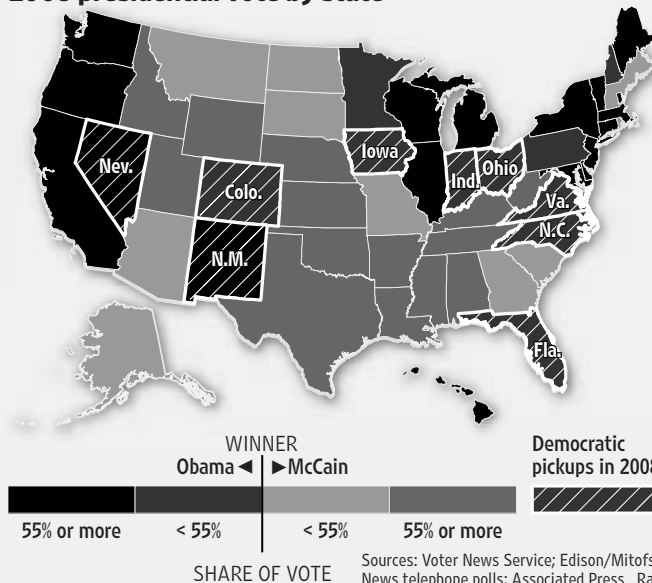
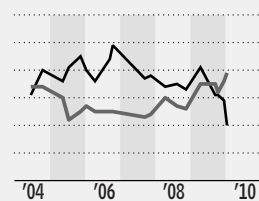
N.J.	28%	30%	60%
Va.	30	33	66

Preference for control of Congress

Among all voters



Among independents



2010 targets

Seats rated as toss-ups by Cook Political Report

HOUSE DISTRICTS

15	2
Democrats	Republicans
Including Colorado 4th, Florida 8th, New Mexico 2nd, Ohio 1st and 15th, Virginia 5th	

SENATE

8	4
Democrats	Republicans
Including Colorado, Nevada, Arkansas, Pennsylvania	

GOVERNORS

4	10
Democrats	Republicans
Including Colorado and Iowa	

ability to lay the blame on the previous Republican administration is nearing its end.

"In a different political environment, this race wouldn't even have been competitive," said Mark Mellman, a Democratic pollster who surveyed Massachusetts for his party. "And it's the economy that's made this political environment."

It's hard for voters to feel good about the party in power amid 10% official unemployment, and an effective jobless rate (counting those who have given up looking) that may be closer to 17%.

Worse for Democrats, the process of fighting back against those kinds of economic problems has prompted a revving up of the government machinery, which has played into a populist impulse

among independent voters, from Massachusetts to California, that the government was simply getting more expensive while its citizens were forced to cut back in their own lives.

Democrats may have contributed to that sense of overreach with issues that weren't core to the job and wage concerns of everyday voters, as when the House voted in mid-2009 to pass a global-warming bill including a cap-and-trade system for holding down greenhouse-gas emissions. That bill has gone nowhere in the Senate.

"On everything from the economy to spending and deficits, there is this vast canyon between voters' expectations and Washington's abilities," said Kevin Madden, a Republican political

analyst who worked for a former Massachusetts governor, Mitt Romney.

The second big factor complicating Democrats' prospects in Massachusetts was the health-care debate—specifically, the failure to wrap it up months ago, as the White House urged congressional Democrats to do. It seems like a distant memory now, but President Barack Obama and his aides wanted Congress to finish up a health-care bill by its August recess—a full five months ago.

That didn't happen, and the health-care overhaul got progressively less popular with each passing month. In Massachusetts, that allowed the successful Republican candidate, state Sen. Scott Brown, to base a

campaign on the idea that he would become the "41st senator" from the GOP and thereby provide the additional vote his party needed to stop the bill from reaching the finish line.

On top of that, Ms. Coakley ran a flawed campaign, failing to hit the hustings as aggressively as did Mr. Brown, committing some badly timed verbal gaffes, and appearing aloof from the fight.

Democrats now will be left to ponder not just the fate of their legislative agenda, but the power of their president to shape the electoral landscape for the more important midterm elections that lie ahead in November. Ultimately, the lesson of Massachusetts may be that nothing will be able to help Democrats as much as a true economic turnaround.

Four reasons Obama's bank tax still has a chance

[Capital]

BY DAVID WESSEL



The proposed tax on banks is one Obama initiative likely to survive this week's Boston

Massacre. Beating up on banks is one of the few things that brings depressed Democrats and reinvigorated Republicans together these days.

Here are four reasons the tax still has a chance:

■ One, the politics favor the tax. Many Americans believe that Wall Street got bailed out, and Main Street didn't. The rising stock market, the return of bonuses and the arrogance of some Wall Street CEOs infuriate taxpayers facing 10% unemployment and shrunken home values. The White House and Federal Reserve mantra—it could have been worse—isn't working.

The instant take-away from Massachusetts by politicians and their consultants is that populist sentiment in both parties is too strong to ignore. Indeed, some

Democrats mutter that had President Barack Obama been more aggressive about the banks, he and other Democrats might be more popular. (Of course, these same Democrats hoped the bank tax might help Massachusetts Democrat Martha Coakley beat Republican Scott Brown, who opposed it. But the issue never caught on in the Senate race there amid angst about health care and jobs.)

A bank tax is almost certain to get through the House, perhaps one even harsher than the Obama version. The big question is what Senate Republicans do. Do those up for re-election in 2010 back the tax? Or do Senate Republican leaders block almost everything this year?

■ Two, banks are going to have a hard time fighting this one. About the only headline that cheered the White House this week: word that big financial firms were pondering a constitutional challenge to the levy. (You could almost hear someone in the administration saying: Bring 'em on!) With most big banks regaining their health, the administration no longer feels the need to reassure markets that

the banks will survive.

Big financial firms argue that the tax isn't fair. We paid the government back; don't make us pay for bailing out General Motors, they say. The administration counters that the Troubled Asset Relief Program law requires that the government be paid back by 2013. The money is going to come from the winners, not the losers, and the benefits to the winners of saving the system surely exceed the fees they paid on direct aid. And, seriously now, do bankers really think they can win a debate about fairness?

Banks say the \$9-billion-a-year levy will curtail lending because they'll have less to lend. That's a better defense. But the administration fires back: Doesn't paying big bonuses have the same effect on your ability to lend? "It is more than a little disingenuous for bank lobbyists to heatedly deny that bonus or dividend payments could possibly cut into lending, and then to turn around and assert that reasonable fees that represent a small fraction of profits will reduce lending by a trillion dollars," says Lawrence Summers, the White House

economic adviser.

■ Three, the Massachusetts vote pushed the budget deficit up a notch on the to-do list. It was no coincidence that the White House and congressional Democrats came to terms on a deficit-reduction commission this week. Anything that raises \$90 billion over 10 years looks attractive, especially because the fragility of the economic recovery and the Republicans' muscle in the Senate may lead the president to accept an extension of all the Bush tax cuts due to expire at year's end.

■ Four, the tax is cleverly designed. The administration considered and rejected a British-style tax on bonuses, a tax on bank profits, even tweaking the tax code to disallow some interest deductions. Instead, it decided to levy a 0.15% tax—technically a fee, which makes it tax-deductible—aimed at short-term borrowing of U.S. and foreign banks, investment banks and insurance companies.

To avoid bank runs, the government insures bank deposits; banks pay a premium for that insurance. In the recent crisis, there was no widespread run on bank deposits. There was a

run on short-term borrowing by financial firms in financial markets, a run so virulent that the government had to step in to save the system. The Obama tax, in essence, imposes a tax on that new government insurance.

"We could promise never to bail out financial institutions again. Yet nobody would ever believe us," former Bush economic adviser Gregory Mankiw wrote in an endorsement of the tax on his blog. "If well written, the new tax law would counteract the effects of the implicit subsidies from expected future bailouts."

The tax is also intended to discourage banks and insurers from borrowing so much. In this sense, the tax is part of an evolving Obama "never again" program aimed at avoiding a repeat of the Panic of '08.

There's more to come. While rejecting calls to restore the old Glass-Steagall walls between banking and underwriting, the White House and Treasury are contemplating other proposals to restrain financial firms from getting so big or so interconnected that the government can't safely let them fail.

U.S. NEWS: MASSACHUSETTS ELECTION

Obama feels sting of election loss

Brown's victory shakes up Washington, imperils health-care overhaul; challenges ahead for Democrats

BY GREG HITT
AND PETER WALLSTEN

BOSTON—A little-known Republican shook up the balance of power in Washington by winning a U.S. Senate seat in Massachusetts, a result that imperils President Barack Obama's top legislative priorities and points to trouble for his party in this year's midterm elections.

Republican Scott Brown's come-from-behind victory over Martha Coakley, the Democratic state attorney general, gives Republicans their 41st senator, costing Democrats their 60-vote Senate majority and ensuring the minority has enough votes to block legislation.

The White House and congressional leaders now must decide how to salvage their long-sought health-care overhaul. Rushing the bill after losing Massachusetts carries political risks. So does letting it collapse.

Mr. Obama Wednesday said lawmakers shouldn't move forward on health-care legislation until Mr. Brown takes office.

"Here's one thing I know and I just want to make sure that this is off the table: The Senate certainly shouldn't try to jam anything through until Scott Brown is seated," Mr. Obama said in an interview with ABC News. "The people of Massachusetts spoke. He's got to be part of that process."

Mr. Brown said he hopes he can be seated soon. At a Boston news conference Wednesday, he said his election had sent a "very powerful message" that voters are tired of business as usual in Washington politics.

Speaking on the Senate floor Wednesday, Majority Leader Harry Reid said Senate Democrats will press ahead with the overhaul. Sen. Reid acknowledged Tuesday's loss, but urged Republicans and Democrats to work together as partners, not partisans, reported the Associated Press.

Other Democratic priorities are now also uncertain. Although they still hold substantial majorities in both chambers, nervous Democrats with an eye on November midterm elections could start to keep their distance from the White House.

Senate Banking Committee Chairman Christopher Dodd (D., Conn.) will be under pressure to negotiate with Republicans who oppose the administration's overhaul of financial regulation, another centerpiece bill, congressional aides said.

The loss also sparked what could become a bitter fight between liberals who urged Democrats to keep on course with health care, and centrists who argued the party needed to focus on the economy. Some of the latter suggested the party drop its health-care overhaul altogether.

Mr. Brown's victory turned the focus toward independents. A debate erupted late Tuesday among Democratic leaders and activists over how to win back this group. Massachusetts is now the third Obama-won state in the past three months where independents have swung decisively Republican.

Liberal groups, such as union officials, demanded the party stick to its guns on core issues such as health care. But party leaders called for shifting to a populist message talking about the economy and bashing Wall Street. Democrats plan

Massachusetts results

99% of precincts reporting

COAKLEY Democrat	BROWN Republican
47%	52%
Turnout (est.): 40-55%	

2006 results

KENNEDY Democrat	CHASE Republican
69%	31%
Turnout: 56%	

Sources: Associated Press;
Massachusetts Elections Division

to blame Republicans for the economy and align GOP candidates with their unpopular national leadership.

"The message needs to be on jobs, fiscal responsibility, and reminding people that if you turn back the clock, you're going to get the same policies that got us into this mess in the first place," said Rep. Chris Van Hollen (D., Md.), chairman of the Democrats' House campaign committee.

"Let them take a look at what happened in Massachusetts," Mr. Brown said in his victory speech Tuesday night, referring to the coming midterm elections. "What happened here in Massachusetts can happen all over the country."

At Coakley headquarters, the mood grew somber Tuesday night as it became clear that a loss was at hand, and some started dissecting where the campaign went wrong. In her concession speech, Ms. Coakley said she received a call from Mr. Obama, who told her, "We can't win them all." Ms. Coakley added: "Though our campaign ends tonight we know our mission goes on."

As recently as a couple of weeks ago, few gave the 50-year-old Mr. Brown, a state senator, a chance to win the special election prompted by the death of liberal icon Sen. Edward Kennedy. A Republican last held a Senate seat here in 1979. Yet polls showed Mr. Brown benefited from antigovernment sentiment, a sour economy and discontent with Mr. Obama's agenda.

The election results signal challenges for Democratic prospects in midterm elections. A handful of Democrats facing competitive races have announced plans to retire, and party officials are trying to prevent more following suit. Republicans, too, face challenges as the party navigates internal strife between anti-establishment activists and the party's Washington leadership, which remains unpopular.

A new Wall Street Journal/NBC poll shows nearly six in 10 independent voters think it's time to "give a new person a chance" rather than re-elect their representatives. About half of all voters feel that way.

Democratic officials were already assessing their plans for this year's elections. Strategists said Tuesday that for the rest of the year the party must play down health care and focus on addressing voter concerns about the economy.

"You've got to focus on jobs. Nothing is more important in this economy than jobs," said Delaware Gov. Jack Markell, chairman of the Democratic Governors Association.

A faster recovery could soothe the national angst. Presidents Rea-



Scott Brown will become the 41st Republican senator, having defeated Democrat Martha Coakley in Massachusetts.

gan and Clinton suffered big reversals in their first two years in office, only to rebound with the economy.

Coming almost a year to the day of his inauguration, Tuesday's result is a blow to Mr. Obama, who was elected with heavy support from independents.

Even before Mr. Brown's win, Democrats engaged in a round of finger-pointing, with some blaming Ms. Coakley for running an ineffective campaign and others arguing that the party's national leadership and its focus on health care turned voters helped turn swing voters against the candidate.

White House officials declined to take responsibility for Ms. Coakley's defeat, saying the president and his policies remain popular in Massachusetts. White House press secretary Robert Gibbs released a statement saying only that Mr. Obama had spoken to both candidates and congratulated Mr. Brown.

On the campaign trail, Mr. Brown sounded like a member of the Republicans caucus in Washington, calling for tax and spending cuts, as well as opposing the current health-care bill. He touted himself as the "41st" Republican senator, reinforcing the threat he poses to the Obama agenda.

Not all of his stances are clearly conservative. On social issues, he supports some abortion rights, although he opposes partial-birth abortion and supported efforts to overturn Massachusetts's same-sex marriage law. In one bill he sponsored, Mr. Brown took aim at auto emissions, a goal more commonly associated with Democrats.

"I'm Scott Brown from Wrentham," he said on the campaign trail over the weekend, skirting questions about whether he's a conservative.

In a recent interview, state Sen. Brian A. Joyce, a Coakley supporter, described Mr. Brown as a "moderate" along the lines of most Massachusetts Republicans. Mr. Joyce said Mr. Brown was once considered a "sacrificial lamb," running a presumably losing effort to catapult himself into higher state office. "I

guess he didn't get the memo," Mr. Joyce said.

From the start, Mr. Brown was the more aggressive candidate. He moved in late December to shape the race, airing one ad that featured President John F. Kennedy and highlighted his support for tax cuts, and another that portrayed him as a regular guy driving a pickup.

By the second week of January, polls suggested he could pose a serious challenge. In the final days, Democrats tried to make the election about health care and abortion rights. Ms. Coakley seemed to gain

momentum, especially over the weekend, as she condemned Wall Street's latest round of bonuses.

One intangible effect on voters has been Mr. Brown's easygoing way on the trail, in contrast with Ms. Coakley. In the stretch run, Mr. Brown tried to turn Democratic attacks to his advantage, mustering mock anger after Mr. Obama and others derided his pickup truck. "When you start talking about my truck, that's where I draw the line," he said.

—Tamara Audi and Henry J. Pulizzi contributed to this article.

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WORLD NEWS

Medical care for Haitians falls short

Many people wounded in the earthquake desperately need emergency surgery; U.S. hospital ship gets into position

BY IANTHE JEANNE DUGAN
AND COREY DADE

PORT-AU-PRINCE, Haiti—Aid workers said on Wednesday they fear that many Haitians could be dying every day from a lack of medical care in the wake of last week's earthquake, compounding the nation's tragedy.

At the main hospital in devastated capital, hit by a large aftershock on Wednesday, more than 1,000 people are waiting for surgery at any given time, said Andrew Marx, spokesman for Partners in Health, a U.S.-based aid group that has been providing health care in Haiti for two decades.

Even as a U.S. medical ship arrived and began taking on patients, the need was overwhelming. Hundreds of injured, some grievously, wait outside almost every hospital or clinic, pleading for treatment.

Partners in Health warned on its Web site on Tuesday that as many as 20,000 people might be dying every day from infections such as gangrene and sepsis, raising the possibility that as many people could die in the days and weeks after the quake as died in the actual 7.0 tremor.

"TENS OF THOUSANDS OF EARTHQUAKE VICTIMS NEED EMERGENCY SURGICAL CARE NOW!!!!," the group said on its Web site Tuesday. "The death toll and the incidence of gangrene and other deadly infections will continue to rise unless a massive effort is made to open and staff more operating rooms and to deliver essential equipment and supplies."

Others said that figure was likely way too high. "I've seen that figure, and it seems too high," said Sir John Holmes, a United Nations Under-Secretary-General and its emer-



Haitians stretch out their hands for biscuit packets as the United Nations distributes food in the center of the country's capital, Port-au-Prince.

gency relief coordinator.

The Haitian government, meanwhile, rejected an offer of 800 troops from neighboring Dominican Republic that had been offered as part of new deployment of 2,000 UN peacekeepers approved by the Security Council on Tuesday, according to a senior Western diplomat.

"The Haitian government said no," said the diplomat. Haiti and the Dominican Republic, who share the island of Hispaniola, have a long

history of tense relations.

On Wednesday morning, a powerful aftershock measuring 5.9 sent Haitians screaming into the streets, adding to the physical damage but causing no reports of death.

The dire medical situation will be helped somewhat by the arrival Wednesday—a day ahead of schedule—of hospital ship U.S.N.S. Comfort, carrying 550 medical staff and 1,000 beds. A U.S. military helicopter delivered the first two patients,

a six-year-old boy and a 20-year-old man, to the Comfort in the early hours of the day, according to the U.S. military.

The U.S. military is sending around 10,000 troops under U.S. command to assist in recovery. Many of the troops have arrived and have fanned out to distribute aid.

Still, the lack of supplies could turn even the shreds of good news over the past week into tragedy.

For instance, about 121 people have been pulled out of the rubble in the past week by international rescue teams, not to mention many Haitians pulled out by locals.

Late on Tuesday, there were several dramatic rescues, including that of a 15-day-old baby that survived for a week with no food and water in the coastal city of Jacmel.

Some of those miraculous survivors, however, could die in the coming days if they don't get medical treatment for their injuries.

Doctors Without Borders, which has more than 700 workers at several Haiti hospitals and is building a 100-bed inflatable hospital in the Delmas area of the capital, said one of the greatest problems is an inability to treat patients with "crush syndrome," in which damaged muscle tissue releases toxins to the bloodstream that can cause kidney failure and then death. The condition is treated with dialysis machines, two of which were on one of the organization's cargo planes blocked from landing at Toussaint Louverture International Airport in Port-au-Prince three times on Sunday.

The organization says that five of its planes carrying a total of 85 tons of supplies have diverted from Port-au-Prince to the Dominican Republic since Jan. 14.

"We have had five patients in Martissant health center die for lack of the medical supplies that this plane was carrying" on Sunday, said Loris de Filippi, emergency coordinator for the organization's Choscal Hospital in Cite Soleil, in a state-

ment. "Today, there are 12 people who need lifesaving amputations at Choscal Hospital. We were forced to buy a saw in the market to continue amputations. We are running against time here."

Doctors Without Borders says it has provided primary care to an estimated 3,000 people in the capital and performed more than 400 surgeries at several hospitals, often without morphine for patients.

At the Partners in Health flagship facility in Cange, a doctor on Tuesday morning cried after losing a patient. The earthquake victim had been transferred from another hospital, paralyzed from the waist down, but had kidney failure as an ambulance waited to bring him back to Port-au-Prince.

In the compound's church, which was converted into a triage center, another paralyzed patient died, unable to breathe.

Lack of food and water is another looming problem. Despite a huge increase in the flow of aid—daily flights at Port-au-Prince's one-runway airport have rocketed from 30 to 180—the amount of relief supplies remains ominously inadequate to the need.

The World Food Program, for example, said more than a quarter million ready-to-eat food rations had been distributed in Haiti by Tuesday, but that was enough for only a fraction of the 3 million people thought to be in desperate need.

The WFP said it needs to deliver 100 million ready-to-eat rations in the next 30 days, but it only had 16 million meals in the pipeline.

Hundreds of thousands of newly homeless residents of Haiti's capital have set up makeshift homes everywhere from public squares to gas-line stations.

Some Haitian government officials say between one to three million people may have been displaced by the quake in the nation of some 10 million.

—Joe Lauria contributed to this article.

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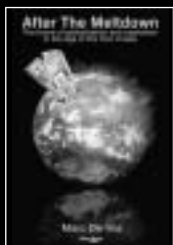
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E/P

WORLD NEWS

Gates warns of terror in South Asia

Visiting U.S. defense chief says al Qaeda aims to destabilize the region by triggering a Pakistan-India war

By YOCHI J. DREAZEN

NEW DELHI—U.S. Defense Secretary Robert Gates said al Qaeda is working with an array of local militant groups to destabilize South Asia and trigger a war between India and Pakistan, an indication of growing U.S. fears about terror attacks throughout the volatile region.

Mr. Gates said al Qaeda had formed alliances with the Afghan and Pakistani Taliban as well as with Lashkar-e-Taiba, a Pakistani-based group that carried out the attacks in Mumbai in 2008 that left more than 160 dead.

The American defense chief, who is in the middle of a three-day visit to India, said the al Qaeda-led “syndicate” is trying “to destabilize not just Afghanistan, not just Pakistan, but potentially the whole region.”

The Indian government has repeatedly called on Pakistan to do more to curtail terrorists that have dedicated themselves to attacking India.

Speaking to reporters here, Mr. Gates said the Islamist groups were focusing particular attention on India and Pakistan, regional rivals that have fought three major wars since 1947. He said Pakistani-based militants were trying to carry out strikes within India in hopes of provoking an Indian counterattack that could escalate into a new conflict between the two nations.

Mr. Gates said the groups also posed an “existential” threat to Pakistan and warned that India’s government—which refrained from reprisal attacks on Pakistan after the Mumbai assault—wasn’t likely to exercise similar restraint if new at-

tacks occurred on its territory.

“I think it’s not unreasonable to assume that Indian patience would be limited were there to be further attacks,” he said.

The three-day trip here was designed to bolster Washington’s ties to New Delhi, a U.S. ally that is rapidly emerging as one of the biggest purchasers of American-made weapons, airplanes and military vehicles in the world.

In an editorial published in the Times of India on Tuesday, Mr. Gates said India and U.S. had made “significant strides in developing a stable defense trade.”

On Wednesday, Mr. Gates encouraged India’s government to sign a series of technical agreements that would clear the way for India to purchase high-tech American-made encryption, navigation and targeting systems. The agreements, which have been under discussion for months, face significant Indian opposition.

Beyond the commercial dealings, Mr. Gates’s meetings with senior Indian officials including Prime Minister Manmohan Singh focused heavily on the threat posed by al Qaeda and its regional allies. Mr. Gates said Wednesday that Pakistani-based militants might try to provoke a new war “through some provocative act” within India.

After the Mumbai attacks in November 2008, New Delhi has pursued an international diplomatic push to force Pakistan to take responsibility for the fact that the terrorists emanated from there.

With United Nations and U.S. pressure, Pakistan agreed to pursue the Lashkar-e-Taiba militants responsible for the attack and to clamp down on the organization’s charitable wing. Pakistan also brought charges against several individuals suspected of helping plan the attack.

Indian officials take pride in the fact that their response was handled



U.S. Defense Secretary Robert Gates said on Wednesday that al Qaeda is forming alliances in South Asia.

entirely through diplomatic channels and Mr. Gates praised them this week for behaving with “great statesmanship.”

But the Indian government has also repeatedly called on Pakistan to do more to curtail terrorists dedicated to attacking India and officials have cautioned that if there is another attack on India emanating from Pakistan, the response would likely go further than mere diplomacy.

If new major attacks take place

in India, it is widely expected here that India would respond with what it considers to be military restraint—such as targeted missile strikes against terrorist camps on the Pakistani side of Kashmir.

That scenario presents American officials in the region with a huge challenge: how to create enough political breathing space to prevent a subsequent escalation that could lead to outright war. It is an effort that U.S. officials in the region view as central to their mission of help-

ing maintain and improve relations between the two neighbors.

On Wednesday, Mr. Gates encouraged India and Pakistan to share information about the militants imperiling both their countries and to avoid blaming each other for any new violence.

“It’s very dangerous for the region as a whole,” he said. “It does require a high level of cooperation among us all.”

—Paul Beckett in New Delhi contributed to this article.

NATO creates top Kabul post

By YAROSLAV TROFIMOV

KABUL—The North Atlantic Treaty Organization plans to create a new top civilian post in Kabul to flank its military chief in Afghanistan, and the British ambassador to Afghanistan is the leading contender, according to senior officials familiar with the matter.

The announcement could be made as soon as Jan. 28, the day of an international conference on Afghanistan to be held in London, the officials said.

The new appointee would head the civilian pillar of the U.S.-led coalition’s work here, directing the flow of funds and aid to the provinces, and—if necessary—bypassing corrupt Afghan institutions. The official would play a prominent role in the effort to get insurgents to switch sides and to reintegrate them into society.

A British government official said the United Nations and European Union will also likely announce new special representatives to Afghanistan at or around the London conference. The British government wants the London meeting to result



British Ambassador Mark Sedwill

in a new strategy for reversing Taliban advances and for steering President Hamid Karzai’s administration toward more efficient and competent governance.

American officials have long advocated for a senior international civilian figure to work hand-in-hand with the military on rolling back the insurgency and supervising economic development, in part through the existing network of military-run provincial reconstruction teams. The new position would help enact

the so-called civilian surge, providing development and reconstruction to districts that have been cleared of insurgents. It would also create a civilian counterpart to U.S. Gen. Stanley McChrystal, the top commander for all the 110,000 U.S. and NATO troops in Afghanistan, making it easier for the alliance to oversee nonmilitary aspects of the counter-insurgency strategy.

The new position won’t be as influential as similar civilian administrator jobs in Bosnia-Herzegovina or Kosovo, proposals that Mr. Karzai had rejected. But the official is expected to have much greater authority than the alliance’s current senior civilian representative in Kabul, Fernando Gentilini of Italy, who is expected to leave Kabul after the London conference.

While no final decision on the appointment has been made, the plan backed by the U.S. and likely to be endorsed by other allies envisions giving the new job to the current British ambassador in Kabul, Mark Sedwill. A representative for the British Embassy in Kabul said: “It’s up to NATO to agree on their appointments.”

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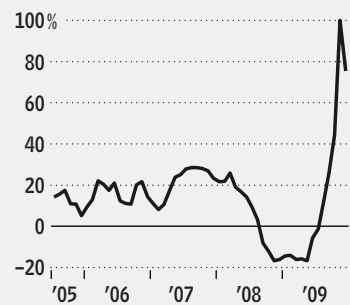
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WORLD NEWS

Up, up and away | A look at China's property indicators

New construction is booming at an unprecedented rate...

New floor space started, year-to-year percentage change



As prices surge at their fastest pace in two years...

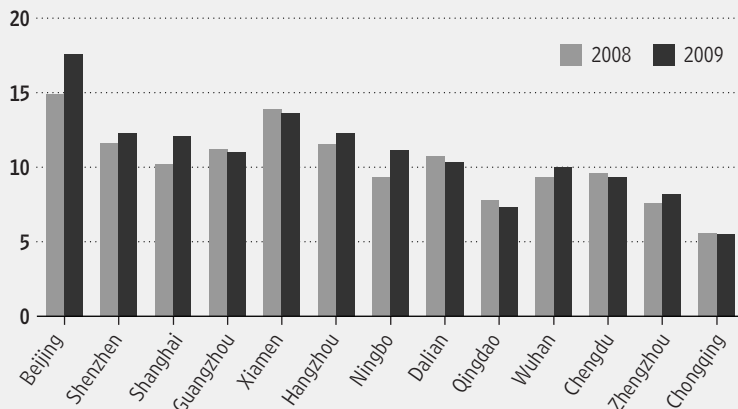
National average property prices, annualized percentage change



Sources: China's National Bureau of Statistics; Dragonomics

And housing is increasingly unaffordable in big cities.

Years of income required to buy a 100 square-meter apartment



Home boom worries China

Housing market is central to economic fortunes, but fears of a bubble temper enthusiasm

By Andrew Batson

BEIJING—China's resurgent housing market has underpinned its world-leading economic recovery during the past year. Now the real-estate boom could be turning into one of the biggest risks to the nation's continued growth.

China's economy likely expanded around 8.5% in all of 2009, easily surpassing the 8% target the government had set early last year, when some economists were warning that growth might only reach 5% or so. The government publishes official data for the fourth quarter and full year of 2009 early Thursday in Beijing.

That strong growth brings China closer to overtaking Japan as the world's second-largest economy, though final numbers from that country won't be out until next month. Like Japan did in earlier decades, China has grown by rapid industrialization, shifting its rural population into cities where they get better jobs and buy homes and consumer goods.

But as China booms, the similarities to Japan may be too close for comfort: There's increasing concern China could be headed for some of the same pitfalls Japan encountered leading up to the early 1990s, when the bursting of a massive real-estate bubble curtailed growth for years. Wang Shi, the head of China's biggest property developer, **China Vanke Co.**, said in an interview last month that his country is at risk of a Japan-style property bubble if rapid price gains spread beyond major cities.

The latest evidence of Beijing's concern over possible bubbles came Wednesday, as the government

placed further controls on the state bank lending that helped fuel the boom. Regulators said they would step up loan oversight and tightened lending controls on several banks, including Bank of China Ltd. The moves spooked investors in China, sending share prices down.

The fate of China's housing market is increasingly central to its economic fortunes. As the government gradually withdraws its stimulus programs, private businesses need to spend more if growth is to stay robust. According to the World Bank, the construction boom has been the main driver of private-sector investment in the past year. Other businesses remain reluctant to expand given weakness in the global economy and excess capacity in domestic industries.

"With exports facing hard times, real estate has become an important pillar of China's economic growth," said Ji Zhu, professor of economics at Beijing Technological and Business University. "No one wants to see housing prices fall," he argued—not investors, not property developers, and certainly not government officials.

Prices of new residential property are now rising at an annualized rate of more than 20% nationwide. High-end apartments in big cities have gained much more. So far, higher prices have encouraged developers to build more housing, boosting demand for construction workers and raw materials and supporting the overall economy. Both November and December saw a record volume of construction starts, which are up 75% from a year earlier for the quarter.

Koyo Ozeki, the Tokyo-based head of Asian credit research for bond-fund manager Pacific Investment Management Co., says that comparisons of China's real-estate boom with Japan's speculative bubble are overdone, in part because Japan's economy was much more mature in the 1980s than China's is today.

China is still far behind developed-world living standards, and with its cities expanding and incomes rising, Mr. Ozeki says, there will be plenty of genuine demand for new housing for years to come.

But that doesn't mean that speculation isn't also a factor in the housing market, especially with wealthy Chinese investing much of their savings in property.

"You do have a secular trend of

increasing demand over time, but on the other hand you could still get a bubble," said Wang Tao, China economist for UBS. "On the ground, there is a certainly a bubbly feeling: People are waiting to buy luxury apartments like they are waiting in line for cabbage."

The risk is that too much new housing is being built at prices too high to ever find buyers, resulting in wasted investments and bad debts that would weaken the economy in later years. Even without a crash, a housing market that serves only a narrow slice of the urban elite could turn into a political problem for the rulers in Beijing.

The less affluent have been watching the steady upward march of housing prices with dismay

The less affluent, like Huang Haiying, a 28-year-old who works for a hospital in Chengdu, have been watching the steady upward march of housing prices with dismay. She'd like to buy an apartment downtown near her work, since traffic is so bad further out from the center, but can't make the math work.

Prices in the center city have already surged well past \$1,170 per square meter, or about \$110 per square foot—and at that rate, mortgage payments on a small apartment would eat up well over half of her monthly salary. "Some of my friends and former classmates have bought houses here, but I am still watching," Ms. Huang said. "The price now is just too high, and it's hard for me to make a decision."

Housing prices in Beijing and Shanghai are now largely out of reach for middle and low-income families. China International Capital Corp., a Beijing investment bank, estimates that 20% of the urban population that can still afford homes.

That's a sizable market—roughly 120 million people—but there are worries the rest are getting left behind.

"If the market is only focused on this small group of people, it can't go far, because they are after all limited relative to China's population of 1.3 billion people," said Wang Lina, a scholar at the Chinese Academy of Social Sciences. Two-thirds of Chinese households surveyed re-

cently by the central bank say housing prices are too high.

Those concerns have been dramatized by a hit TV series last year called "Woju," or "A Snail's House," a Chinese expression meaning humble abode.

The tale focuses on the difficulties a young couple faces in buying their own home in a big city modeled on Shanghai. One character becomes a government official's mistress to help her sister afford the downpayment on a new apartment.

Some young couples can afford housing only with the support of their extended families. Wang Bin, a 27-year-old employee of a telecommunications company in Beijing, paid 980,000 yuan (about \$144,000) in August for a two-bedroom, 97-square-meter (1,040-square-foot) apartment. But he was able to afford even that modest dwelling only because his parents and those of his fiancée paid the 30% downpayment.

"It seems that prices are still going up, so I better buy now. Otherwise I might not be able to afford a house in the future," Mr. Wang said. Even with the financial strain on the family, buying a house now is still a better deal than continuing to rent, he thinks. The market value of his new apartment has risen another 20% since he signed the contract.

The government has started to respond to public concerns over high housing prices, issuing a series of measures in recent weeks aimed at restricting speculative purchases. China's governing State Council acknowledged this month that price rises in some cities "have drawn great concern."

But officials are still smarting from their attempt to deflate what looked like a property bubble in late 2007 and early 2008. Its efforts then caused Chinese households to lose confidence in the market, sending sales and construction into free fall even before the worst of the global financial crisis hit.

This time, the government is trading more carefully. Its main strategy is not to crack down on the market, but to increase the supply of cheaper and subsidized housing. But developers have little incentive to build less-profitable units for low-income households. An investigation by China's legislature last year found that only 24% of public-housing investments had been completed by August.

—Sue Feng
contributed to this article

Bank of China orders officials to rein in loans

BEIJING—As China signaled a further tightening of controls on lending growth, one of the country's big banks said it was taking steps to rein in loans.

Bank of China Ltd. has ordered its credit officials to stop making new yuan loans because of overly fast lending growth in January, a person familiar with the situation said Wednesday.

An official at another bank said that in a meeting with the central bank earlier Wednesday, industry officials were informed that some small- to medium-sized stockholding commercial banks were being told to raise the amount of reserves they hold at the central bank, as part of the government's efforts to curb lending growth.

For these banks, the move comes on top of the central bank's 0.5 percentage point increase Monday in the reserve-requirement ratio for most lenders. Officials at a number of banks reached by Dow Jones Newswires couldn't immediately confirm the reported move on Wednesday by the central bank, the People's Bank of China.

An official in the People's Bank of China's news department said he wasn't aware of any such move.

Liu Mingkang, chairman of the China Banking Regulatory Commission, said Wednesday the regulator will "continue to control the pace of the credit supply" this year. He said he expects a substantial drop in new yuan lending after last year's explosive growth, though he added that the regulatory commission hasn't specifically told banks to suspend lending in January.

"I've made it very clear about bank lending. We have never asked the banks to stop lending," Mr. Liu said on the sidelines of a conference in Hong Kong.

Fears that China might further tighten lending as part of efforts to sent its economy from overheating kept Shanghai's main stock index was down 2.9% Wednesday, with large declines in banking stocks, and also kept a lid on gains in markets elsewhere in Asia.

News of the central bank move was cited by traders as hurting currencies linked to an appetite for risk, such as the Australian and New Zealand dollars.

With China serving as one of the main engines pulling the global economy out of recession, any move to slow its momentum could have repercussions around the world.

But widespread concerns that last year's fast growth in credit may inflate an asset bubble have led Chinese authorities to look for ways to rein in lending and adjust policy with an eye on inflation threats.

Beijing's stance on monetary policy has been hardening over the last week as it prepares to gradually wean the country off the massive stimulus that has supported the economy over the past year. So far, it has taken fairly moderate actions, guiding up the interest rate on government bills and increasing the reserve-requirement ratio, which decreases the amount banks have available to lend. The moves come as lending has risen at a breakneck clip in the first few weeks of the year, when banks traditionally ramp up lending. A media report this month said new loans in the first week of the year grew by 600 billion yuan (\$88 billion).

—Dow Jones Newswires

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