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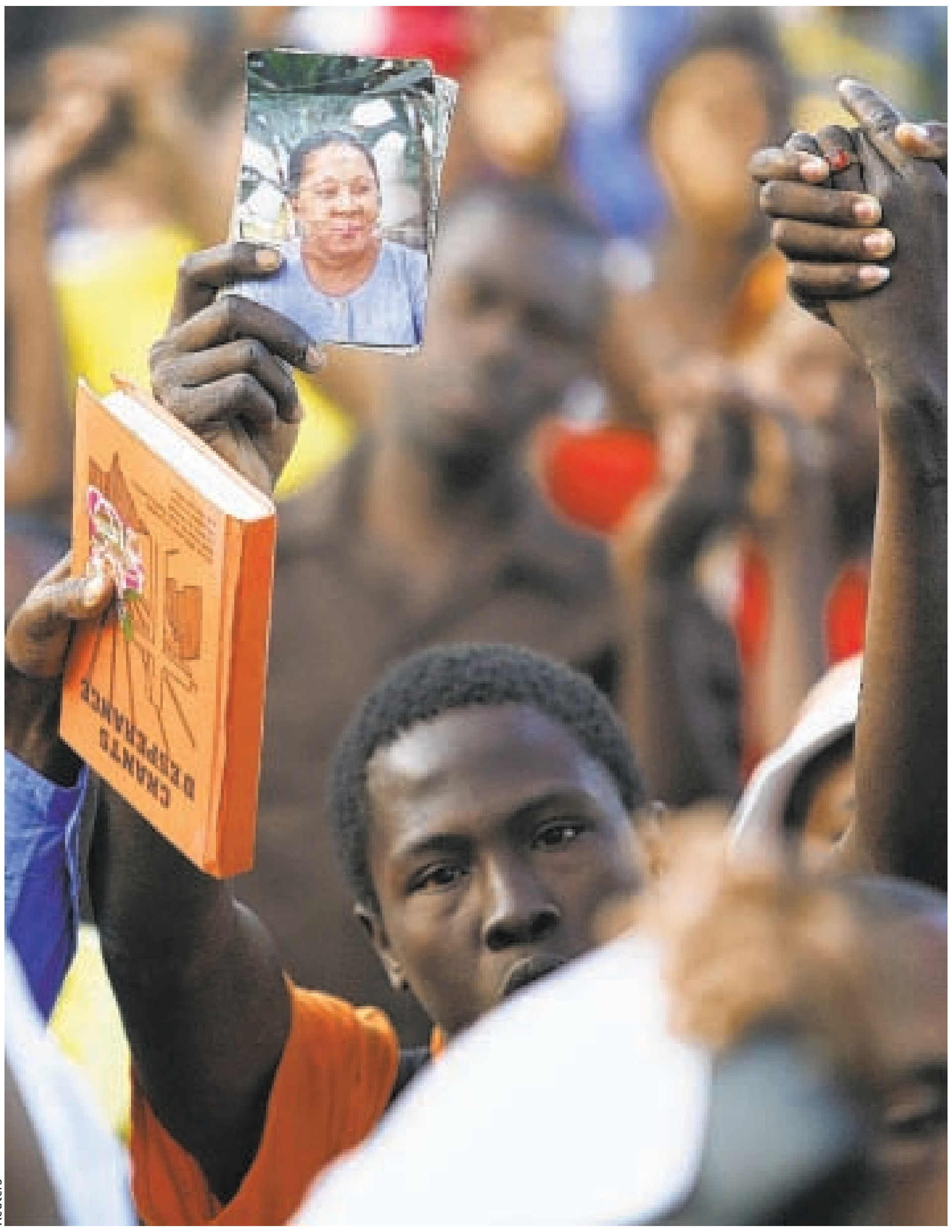
Haiti struggles with reminders of earthquake



Reuters

A man at a Port-au-Prince church service Sunday holds a photo of his mother, who died in the quake. Officials have confirmed a death toll of more than 110,000. **See article on page 10.**

White House pushes hard for Bernanke

By Brent Kendall

WASHINGTON—White House officials and a leading Republican senator on Sunday expressed confidence that Ben Bernanke would be confirmed for a second term as U.S. Federal Reserve chairman, despite expressions of opposition from a growing number of lawmakers.

Mr. Bernanke, whose term expires on Jan. 31, has come under fire from some lawmakers over the Fed's handling of the economic crisis.

While many officials and economists view Mr. Bernanke as having played a key role in staving off another economic depression, he has become a lightning rod for public anger over the bailout of the banking system and the U.S.'s continued high unemployment rate.

Among lawmakers, populist, antibank sentiment is running high, and erosion of support for Mr. Bernanke has crossed party lines. Two Democratic senators facing re-election in November, Barbara Boxer of California and Russ Feingold of Wisconsin, on Friday joined two Democrats and an independent who previously announced their opposition. Some Republicans said they, too, would oppose Mr. Bernanke.

The White House was pushing hard to persuade Democratic senators to support Mr. Bernanke, and on Sunday morning talk shows, administration officials said he had enough votes for another term.

"We believe he will be confirmed," White House Press Secretary Robert Gibbs said on "Fox News Sunday."

White House adviser David Axelrod, speaking on CNN's "State of the Union," said that while "there is a great deal of concern about public consternation relative to the financial sector ... Chairman Bernanke offered very strong and steady leadership during this crisis without which we also may have slipped into the abyss."

"We need his leadership," Mr. Axelrod said. "And the president is very confident that the chairman will be confirmed."

The Senate's top Republican, Mitch McConnell of Kentucky, said on Sunday that he believed Mr. Bernanke had enough votes to remain Fed chairman. "He's going to have bipartisan support in the Senate, and I would anticipate he'd be confirmed." Mr. McConnell said on NBC's "Meet the Press." Mr. McConnell declined to say how he would vote on the issue.

Another Republican senator, John Cornyn of Texas, appearing on "Fox News Sunday," came out in opposition to the Fed chairman. That brings to 16 the number of senators who have said they would oppose him, according to the Dow Jones Newswires tally. Eleven Republicans, four Democrats and one independent

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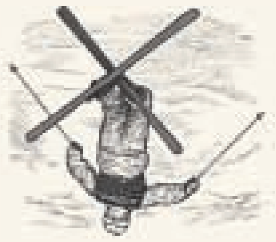
The Quirk



Australia's moguls champion is shy about his success as a mogul Page 29

World Watch

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Editorial & Opinion

In restricting alcohol, as in war, Britain need only ask: 'What would Churchill do?' Page 15

Boeing, Airbus ally in jet fight

By Daniel Michaels

Airbus and **Boeing** Co. are bitter rivals, but Canadian plane maker **Bombardier** Inc. has united them in opposing its plans for funding sales of a new jetliner, a flap that is forcing the world's richest countries to meet next week to revisit an aircraft-financing deal they signed less than three years ago.

The fight is over a new aircraft from Bombardier that is bigger than the propeller planes and regional jets that the Montreal-based company has made before and which will compete with models from industry giants Boeing of the U.S. and Airbus of Europe.

Canada has proposed financing the plane on advantageous terms permitted for smaller jets, but not for most Airbus and Boeing airliners. Canada says it is free to do so under current international rules.

The U.S., which is supporting Boeing, and the European Union, which is backing Airbus, don't agree with that interpretation. Canada's proposal "really doesn't hold any water," said Fred Hochberg, chairman of the U.S. Export-Import Bank, a government agency that helps fund Boeing sales. "I think it's a threat to American jobs," Mr. Hochberg said.

Finance officials representing plane makers from Brazil, Japan, Russia and China are also likely to weigh in when talks aimed at resolving the dispute and redefining export-financing rules for the industry begin on Feb. 1 at the Organization for Economic Cooperation and Development in Paris.

A spokesman for Canada's Finance Department said his government "fully supports" efforts to resolve the dispute.

The tussle may be one of a series of similar headaches for Boeing and Airbus, a unit of **European Aeronautic Defence & Space** Co., which for more than a decade have split between them world-wide sales of passenger jets with more than 100 seats. Both value their combined market at more than $3 trillion over the next 20 years. However, the duo now are starting to face competition from around the world as small-plane makers offer slightly larger models.

Jet maker **Sukhoi** of Russia, **Mitsubishi Heavy Industries** Ltd. of Japan and a group of Chinese aerospace companies are developing new planes that will seat at least 100 passengers, spurred by a desire to extend their product

Please turn to page 20

PAGE TWO

The rest of the world can learn a lot from the Israeli formula for growth

[Agenda]

By Irwin Stelzer

Now is the time to take a close look at models.

No, not those who strut the catwalks of London, Paris and other rallying points of international fashionistas. Instead, those economic models that might contain clues for post-recession policy. The European Union wants to jack its growth rate up from a meager 1% to 2%, and the U.S. would like to see its economy grow at an annual rate of at least 3%. Faster growth means more jobs, and an increased flow of tax revenues with which to bring down the huge deficits many countries are running.

On offer are the Anglo-Saxon, more-or-less free-market model, modified to account for what we have learned during the past two years; the EU-French model of increasing regulation and government involvement in the economy; the Chávez-Castro-Kim Jong-Il state ownership model; and China's managed-economy model. And, attracting less attention, Israel's model of entrepreneurialism.

Israel's prime minister, Benjamin Netanyahu (a.k.a. Bibi) is known more for his foreign-policy positions than for his earlier role as the finance minister and economic reformer who rolled back regulation and impediments to the operation of market forces. He didn't let the crisis created by the 2003 recession go to waste: He cut benefits, liberalized the banking sector, and removed currency and capital controls.

Mr. Netanyahu received considerable help from Daniel Doron's determinedly market-oriented think tank, the Israel Center for Social & Economic Progress. Arthur Seldon, co-founder of Britain's Institute of Economic Affairs, which played an important role in shaping Margaret Thatcher's policies, said that Mr. Doron's think tank in a short time "had more influence … than we had in Britain in our first 10 years."

Agence France-Presse/Getty Images

Israeli Prime Minister Benjamin Netanyahu looked forward to economic reform

Finally, Israel benefited from an intelligently crafted macro-economic policy, thanks to Professor Stanley Fischer, governor of its central bank, who was the first major central-bank chief to raise interest rates after a successful recession-fighting loosening.

A reforming politician, backed by a think-tank director who helped change the intellectual climate, and a central banker who remembers what he taught when head of M.I.T.'s economics department weren't enough to produce some amazing results and an economy so advanced that it is on the verge of accession to the club of advanced countries, the Organization for Economic Cooperation and Development.

Dan Senor and Saul Singer's new book "Start-Up Nation: The Story of Israel's Economic Miracle," rattles off some interesting statistics that deserve consideration by policy makers in other countries. Per-capita venture-capital investment in Israel runs 2.5 times that in the U.S. and 30 times that in Europe. Tiny Israel—population 7.1 million—attracts as much venture capital as Britain (population 61 million), and France and Germany combined (combined population 145 million).

Israel has more companies listed on Nasdaq than any other country save the U.S. and has grown faster than the average for developed economies in most years since 1995. Between 1980 and 2000 7,652 patents were registered in the U.S. from Israel. That compares with 77 from Egypt.

Messrs. Netanyahu, Doron and Fischer were operating within a culture that is "skeptical of conventional explanations about what is possible" and characterized by "insatiable questioning of authority" according to Messrs. Senor and Singer. And a willingness to accept failure is a necessary part of any economy heavily reliant on start-ups for its economic growth, a feature also characteristic of the U.S., where entrepreneurs say that if an entrepreneur hasn't gone bankrupt by the age of 35, he hasn't taken enough risks. A Harvard University study puts it more scientifically: Entrepreneurs who fail in their first venture have a higher success rate in their next venture than first-time entrepreneurs. Credit Peter (now Lord) Mandelson for long ago recognizing that and leading an effort to reform U.K. bankruptcy laws to make second chances more possible for the country's risk-takers.

Throw in a superb university system and the obligation of all Israelis to serve in the military, the elite units of which have spawned many of the most successful high-tech entrepreneurs, and you have a recipe for world-class start-ups. These are firms that either end up selling shares in IPOs, or selling to Intel, eBay, Microsoft, or Google, among others. One unnamed eBay executive told Messrs. Senor and Singer, "The best-kept secret is that we all live and die by the work of our Israeli teams …. What we do in Israel is unlike what we do anywhere else in the world."

Obviously, no other country has Israel's combination of advantages and problems. But other countries can see what happens when a well-educated country allows failure and thereby encourages risk-taking, replaces pervasive government intervention with light-handed regulation, and benefits from intelligent management of its monetary policy: Job-creating start-ups flourish. The growth rate accelerates. Exports increase. Even in a country under continued threat from its enemies. Or perhaps because of that.

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

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Iain Martin on Gordon Brown's coming testimony before the U.K.'s Iraq inquiry

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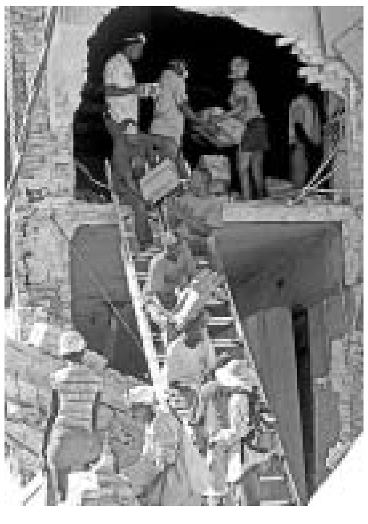

Follow the latest on Haiti, including new worries about malnutrition and disease, at **wsj.com/haiti**

Question of the day

Vote and discuss: Should Ben Bernanke get another term as chairman of the Federal Reserve?

Vote online at **wsj.com/dailyquestion**
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Previous results

Q: Do you think limits should be placed on bank size to ensure they don't become "too big to fail?"

Yes **52%**

No **48%**

What's News

■ **The stock-market turmoil** last week is a reminder that the unprecedented stimulus that spurred 2009's rally will start to be pulled back this year. And given how big and global the stimulus was, a simple increase in U.S. interest rates isn't likely to be the spark that sets off the fall. **19**

■ **The new head** of Switzerland's central bank endorsed Washington's regulatory push and reiterated that he would fight any "excessive" appreciation of the Swiss franc. **5**

■ **Greece's debt problems** have boosted interest in Portugal's budget plan, which investors will study for signs of similar fiscal frailty. **4**

■ **Al Qaeda leader bin Laden** issued a new audio message claiming responsibility for the Christmas Day bombing attempt of a U.S. airliner. **10**

■ **Former Prime Minister** Blair will undergo a public grilling Friday over the U.K.'s role in the Iraq war. **4**

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Russian proposal will put a chill on the football season. **28**

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NEWS

Back to the Falklands

Rising oil prices lure prospectors to area once deemed too expensive

By Caroline Henshaw

LONDON—Twelve years after the last prospectors left the Falkland Islands, British oil-exploration companies are returning, lured by rising oil prices and advances in deep-water drilling technology.

But exploration and production around the remote wind-swept islands—best known as the location of a brief, bloody war 28 years ago—have been handicapped by a harsh climate and dicey politics.

Analysts say that as much as 60 billion barrels of high-grade oil could be found in the 500-square-kilometer economic zone that surrounds the islands. If estimates prove correct, this could make the Falklands one of the world's largest oil reserves, comparable with the North Sea, which so far has produced about 40 billion barrels.

Next month, **Desire Petroleum** PLC and **Rockhopper Exploration** PLC will begin exploring a region of the North Basin, 36 kilometers from the islands, where they have shared and separate prospects.

They are drilling in the same area where a consortium of large oil companies, including **Royal Dutch Shell** PLC, led the first wave of drilling in 1998. Although oil was found, prices around $10 a barrel made the prospects commercially unviable and further development was abandoned.

But improved technology and higher prices are prompting oil companies to return. The four companies that are leading the campaign, all listed on the Alternative Investment Market, raised a total £327 million ($527 million) in share placements in a single month.

Desire's shares have nearly doubled during the past three months.

"Exploration and risk are back in vogue," says Howard Obee, chief executive of **Borders & Southern Petroleum** PLC, which has prospects to the south. Borders & Southern raised £113 million in rights placements, more than its market capitalization.

Geologists believe the uncharted waters of the south could hold the largest finds.

Tim Bushell, chief executive of **Falklands Oil & Gas** Ltd., holds four prospects in the south in partnership with **BHP Billiton**.

If a company finds oil, it could be viable as long as oil fetches $25 a barrel, less than a third of current market prices, Mr. Bushell says. Crude oil closed Friday at $74.54 on the New York Mercantile Exchange.

The Falklands government only takes a 26% share of oil earnings in addition to a 9% royalty on each barrel of oil sold, making it one of the most favorable areas in the world for exploration.

Still, the hurdles to exploration are vast. The South Basin reaches depths of about 3,000 meters. Temperatures in the basin, one of the southernmost prospects in the world, average a low of around two degrees Celsius in winter months, and the average rainfall can be as high as 60 millimeters a day. While this environment is similar to the established oil fields of the North Sea, the costs of operating a rig run to around $1 million a day, meaning losses are high if drilling stops during storms.

Political tensions surrounding drilling are also high. After the 1982 Falklands War, the islands remained a U.K. overseas territory. But Argentina has done its best to isolate the Falklands and pressured neighboring countries, such as Chile, to do the same.

Tensions in the region have been growing in recent weeks, after Argentina's Congress passed a law on Dec. 9 identifying the Falklands, as well as part of the Antarctic shelf, as belonging to Argentina. Britain says it "firmly rejects" the claim.

The political complications make it difficult to know who would be willing to purchase or operate any finds in the Falklands, says Malcolm Graham-Wood, an analyst with Westhouse Securities. None of the majors with operations in Argentina have ventured into the islands.

"Geology doesn't stop at political borders," says Mr. Obee, of Borders & Southern. "There are complications. But if it were that easy, everyone would be in exploration."

Reuters

Famous for their penguins, the Falkland Islands also boast vast oil reserves.

EUROPE NEWS

Associated Press

British Prime Minister Tony Blair, left, emphasizes his conviction to disarm Iraqi leader Saddam Hussein during a 2003 news conference with President Bush in Washington in this file photograph.

Blair to face inquiry into Iraq war

Ex-prime minister goes before panel to answer questions on U.K. involvement as Labour heads into tough election

By Cassell Bryan-Low

LONDON—Tony Blair will undergo a public grilling this week over the U.K.'s role in the Iraq war, raising questions about the former prime minister's legacy and his value to the Labour Party he once led as it prepares for a tough election battle.

In a much-anticipated appearance on Jan. 29 before a five-member panel investigating the war, Mr. Blair is expected to face questions about the legitimacy—and even legality—of the U.K.'s involvement in Iraq. He will be confronted about whether he committed to overthrow Saddam Hussein long before the immediate run-up to the war, and quizzed about criticisms of the U.K's preparedness for the invasion and its minimal influence over U.S. allies.

The spotlight on Iraq is the latest in a series of dents Mr. Blair's reputation has sustained since leaving office in 2007 after a 10-year run. One of modern Britain's most influential and popular politicians, he led the seemingly unelectable Labour Party to power in 1997.

Now, however, the war and Britain's deep recession have soured voters on the Labour regime.

The former prime minister has taken a series of hits: the rejection by European governments of Britain's attempts to install Mr. Blair as the European Union's first president, questions about his effectiveness as a U.N. special envoy to the Middle East, and his acceptance of lucrative consulting work from companies such as the U.S. bank **J.P. Morgan Chase** & Co., leading to accusations—including from within his party—that he has cashed in on his status.

Mr. Blair has long said it was right to remove Iraqi leader Saddam Hussein because of the threat he posed to the region. A spokesman for Mr. Blair declined to comment on the coming hearing.

The spokesman said Mr. Blair remains focused on his charitable foundations, governance initiatives in Africa, advocacy for climate change and his work in the Middle East. On the latter, the spokesman said progress was being made in the West Bank, including a growing economy and the reduction of restrictions to movement, and that Mr. Blair also helped secure significant investment in the Palestinian Authority.

It is Mr. Blair's efforts to involve the U.K. in Iraq that may prove most problematic to his legacy and determine whether he can play any role in helping his successor, Gordon Brown, fight off a challenge from the resurgent Conservative Party in a general election that must be held by June. Mr. Brown is due to appear before the panel in late February or early March.

The conflict, from which Britain withdrew in July, left 179 British military personnel dead and resulted in massive public protests. Mr. Blair has been accused of war crimes by some relatives of the dead, who say he engaged in Britain in a war that broke international laws, which Mr. Blair denies.

The Iraq inquiry panel already has heard from a parade of military and intelligence officials and government ministers.

Many details to emerge from the hearings already have surfaced during earlier Iraq-related inquiries in the U.K., of which there have been several. And some former advisers have painted the picture of a prime minister who was working to secure a peaceful solution via the United Nations and to steer the U.S. away from pursuing conflict right up to just before the military invasion.

—Alistair MacDonald contributed to this article.

Greek woes put focus on Portugal

Greece's debt problems have boosted interest in Portugal's 2010 budget plan coming Tuesday, which international investors will study for signs of similar fiscal frailty.

By Jeffrey T. Lewis, Alkman Granitas and Emese Bartha

Portuguese stocks and bonds have sold off because of Portugal's high long-term deficits and low growth prospects. The government of Socialist Prime Minister José Sócrates faces a deficit that is estimated to have reached 8% of gross domestic product last year, and the European Commission has given Portugal until 2013 to bring the deficit below the 3%-of-GDP threshold required by European Union rules.

Late last year, Greece's recognition that its budget deficit was much larger than previously thought triggered a sharp rise in financing costs for that country, as well as other euro-zone states with weakened public finances such as Portugal, Ireland and Spain.

Portugal "has seen what happened in Greece, so that might encourage more austerity measures in the [budget] plan," said Sean Maloney, a fixed-income strategist at Nomura in London. "But any flippancy, if you like, in the policies to bring about a better number than in 2009 will be treated with a fair amount of suspicion by the markets. The market isn't just looking for promises in terms of their goals, they're also looking for some nuts and bolts."

International credit-ratings companies are similarly skeptical. Last month, Moody's Investors Service and Standard & Poor's Corp. both warned of possible downgrades on Portuguese debt. Moody's then lumped Portugal in with Greece, saying both countries' economies risked a "slow death" as their debt payments rise.

Portugal has had one of the slowest-growing economies in the EU for years. Since 2001, its economy's performance has lagged behind the average growth in the 16 countries now sharing the euro in every year except for 2001 and 2009. The economy's fastest growth during that period was 2%, in 2001, and it has grown by more than 1% only four of the years in that period, while shrinking in two of them.

When Mr. Sócrates was first elected prime minister at the beginning of 2005, he inherited a budget plan that would have left the country with a deficit equal to 6.8% of GDP. His government then passed a revised budget that brought the figure in at 6.1% for the year. Tax increases, spending cuts and overhauls of the social-security and health-care systems lowered the deficit to 2.6% of GDP in 2007 and 2.7% in 2008.

The spending plan for this year should shave one or two percentage points off the deficit, helped partly by a budding recovery of Portugal's economy and partly by measures taken a few years ago to slash an outsized deficit, economists said.

"They did it in the past, and given the pressure they're under, and the developments in Greece, I'm sure they'll be able to do it again," said Rui Constantino, chief economist at Santander Totta in Lisbon.

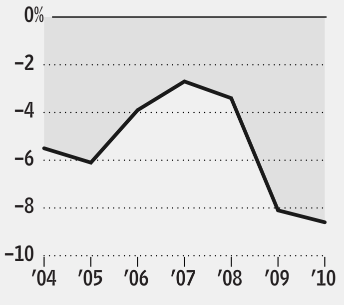
Meanwhile, Greece said Friday that it plans to syndicate a five-year benchmark bond to finance its giant budget deficit, even as yields on Greek debt hit a high.

The bond, seen as a key test of Greece's ability to attract investors amid jitters over the government's deficit, will raise between €3 billion and €5 billion, or $4 billion to $7 billion, the head of the country's debt agency said.

Greece's finances have been under close scrutiny by the EU, financial markets and credit raters since it disclosed late last year that its budget deficit would hit 12.7% of GDP, well above the EU's 3% limit.

Another Greece

Portugal's budget deficit as a percentage of GDP



Note: 2009 and 2010 are estimates
Source: International Monetary Fund

After news of the bond issue, the spread between 10-year Greek bonds and their German equivalent widened sharply to a record of 3.18 percentage points, reflecting an increase the perceived risk of Greek debt among investors. The spread between 10-year Portuguese bonds and their German equivalent stood at 1.081 percentage points.

EUROPE NEWS

Swiss official backs U.S.

Head of central bank echoes Obama's move on banking regulation

By Deborah Ball
And Dave Kansas

ZURICH—The new head of Switzerland's central bank endorsed the fresh banking regulatory push out of Washington and reiterated that he would fight any "excessive" appreciation of the Swiss franc.

Philipp Hildebrand, who became president of the Swiss National Bank this month, also chided bankers for doling out big bonuses so soon after taxpayers had paid huge sums to rescue the financial system.

He acknowledged that central bankers should view compensation only as it relates to how risk is managed, but added it is in the interest of banks now to "show restraint"—which he said they hadn't done.

He warned that this lack of restraint is contributing to a populist backlash that could, in the longer-term, undermine the market-based system that ultimately benefits banks.

"I think they have not sufficiently taken this [political] dimension into account," he said. "I would urge them to do so very quickly...it is high time they do so."

Switzerland is an economic minnow compared to the European Union or the U.S., but it is also the home of two huge banks, **UBS** AG and Credit Suisse Group, and a banking industry that holds total assets seven times the size of the country's gross domestic product. That gives the SNB an outsized role in the global-banking debate.

To that end, Mr. Hildebrand welcomed U.S. President Barack Obama's proposals that would substantially curb the risk-taking activities at banks.

He said that the move, as he understands it, isn't a return to a Glass-Steagall environment in which commercial and investment banks are separated, but a responsible reform that should reduce the likelihood of future financial crises.

"The proposal ... is certainly something we are extremely interested in," Mr. Hildebrand said. "And, broadly speaking, we are very supportive of making sure certain activities ... must not be allowed to grow again the way they did or really explode again."

Mr. Hildebrand's backing of Washington's regulatory push came as bank stocks stumbled across the globe in reaction to the prospect of tougher banking regulations.

Some in the industry had hoped the U.S. would act as a restraint on the global regulatory push.

Instead, it now appears the U.S. is moving into a leading position.

Reuters

Philipp Hildebrand, head of the Swiss central bank, endorses the U.S. move on banking rules. Switzerland is home to two huge banks, UBS and Credit Suisse.

Germany loses key politician from left party

By Marcus Walker

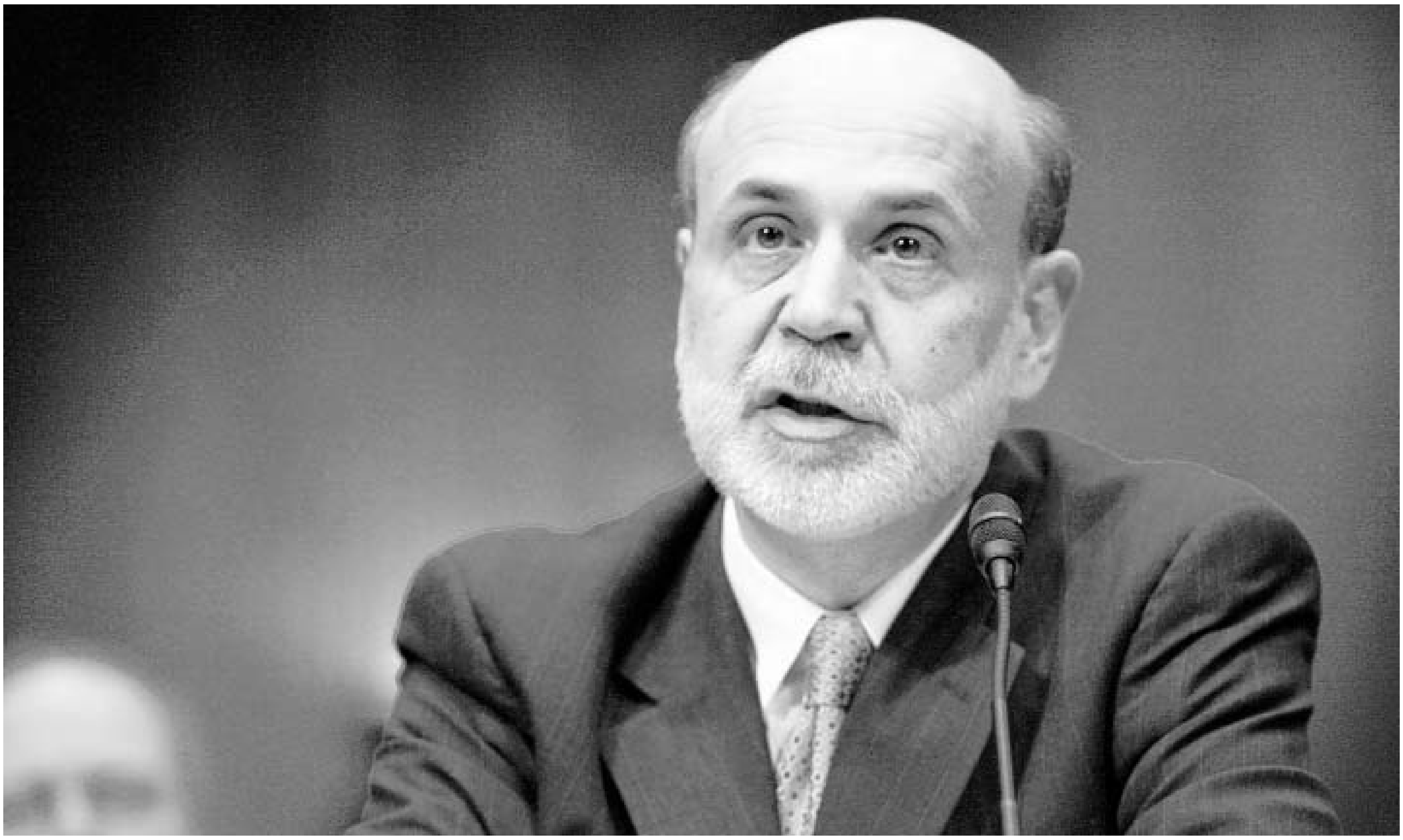
BERLIN—Germany's best-known left-wing politician, Oskar Lafontaine, announced his retirement from national politics over the weekend, throwing the future of his radical Left party into doubt and potentially setting off a realignment of German politics.

Mr. Lafontaine, a 66-year-old firebrand who has been a leading voice in Germany against business-friendly overhauls of the economy, said he is stepping down as co-head of the Left party for health reasons. He had cancer surgery late last year.

The announcement comes amid a power struggle over the Left's strategy, between Mr. Lafontaine's acolytes who want to keep up their critique of free-market capitalism and globalization, and pragmatists who hope to enter government with the Germany's mainstream center-left party, the Social Democrats, or SPD.

If Mr. Lafontaine's withdrawal emboldens the Left's pragmatic wing, the result could be a more cohesive left-of-center opposition to Chancellor Angela Merkel's conservative-led government. A rapprochement between the Left and the SPD could also force the chancellor to tack left in her own policies.

Social Democrats called on Left members to join them at the weekend, seeing a chance to revive the SPD's fortunes after it took a beating in national elections.



Associated Press

U.S. Federal Reserve Chairman Ben Bernanke testifies on Capitol Hill in December. Even senators supporting him for a second term have voiced criticism of the Fed's actions.

Confirmation fight harmful to Fed

Even if U.S. Senate approves Bernanke's second term, he won't be able to speak with the same authority

By Jon Hilsenrath

No matter how it plays out, Ben Bernanke's bruising confirmation battle has damaged the U.S. Federal Reserve's clout and perceived independence.

Mr. Bernanke is more than the Fed's chief decision maker. Fed officials see him as their brand, a smart, honest and stoic voice best able to defend decisions of the past two years to Congress and the public. Even if the Senate backs Mr. Bernanke, the criticism and second-guessing that preceded the vote could undermine his public credibility. The battle also makes it harder for the Fed to cast itself as immune from partisan politics—and thus free to raise interest rates someday even if not politically popular.

Fortunately for the Fed, the hard call about when to raise interest rates doesn't need to be made now. Fortunately for Mr. Bernanke, his support inside the Obama administration, and more so inside the Fed, is solid. But the longer the battle drags on, the more it could interfere with the Fed's ability to communicate convincingly. And the Fed will have less sway as Congress debates whether to rein in its powers.

Here is a look at three scenarios:

Speedy resolution. In the best case for Mr. Bernanke, and the one that many analysts deemed most likely late Sunday, the Senate will confirm him before his term ends Jan. 31. Then, he would continue to unwind emergency programs launched to prop up the financial system and plot strategy for raising short-term interest rates in response to an improving economy—a move at least several months off. Meanwhile, he would continue to resist efforts to intensify congressional oversight of the Fed's monetary policy decisions or strip the Fed of its power to oversee banks. Winning that battle is looking harder; even senators supporting him for a second term have voiced criticism of the Fed's actions during the confirmation battle.

"It's not about the person as much as it is about the institution" says Vincent Reinhart, a former senior Fed staffer. "The Fed is the focus of a lot of anger, and politicians are going to have to align with that constituent anger. Change is coming and the Fed has got to appreciate it now."

Limbo. Given the politics and policy forces at work, the Senate may not vote by the end of the week. In that event, the Fed's vice chairman, Donald Kohn, will likely step in as chairman of the Washington-based Federal Reserve Board while Mr. Bernanke continues to serve as a member of the board because his term as a governor runs to 2020. The Fed's monetary-policy committee, the Federal Open Market Committee, which includes the presidents of the 12 regional Fed banks and members of the board in Washington, will likely elect Mr. Bernanke as its chairman when it meets Tuesday. This outcome is seen inside the Fed as manageable for a while and wouldn't yield any changes in policy.

But a prolonged limbo would weaken the Fed's ability to send clear, credible signals to markets on the outlook for interest rates.

A new chairman. If Mr. Bernanke is defeated or steps aside, the White House would pull out a list prepared last year when considering whether to reappoint Mr. Bernanke. They would need someone who can steer the economy, calm markets and win Senate confirmation.

Among the possibilities: Janet Yellen, president of the Federal Reserve Bank of San Francisco who is seen as a dove, more worried about unemployment today than inflation tomorrow; Lawrence Summers, the brilliant, polarizing White House economic adviser; Roger Ferguson, the former Fed vice chairman and now chief executive of TIAA-CREF; Alan Blinder, a former Fed vice chairman who is now a Princeton University professor; and Christina Romer, chairman of the White House Council of Economic Advisers.

Under any scenario, investors are likely to look at the Fed's decisions with new wariness. Senate Majority Leader Harry Reid's tepid endorsement could be a sign of what's to come. "To merit confirmation, Chairman Bernanke must redouble his efforts to ensure families can access the credit they need to buy or keep their home, send their children to college or start a small business," he said Friday.

"That statement was awful," says David Zervos, head of fixed income strategy at Jefferies Inc., an investment bank. "It was like, 'If I get you in, you owe me.' "

White House is confident about Bernanke vote

Continued from first page

dent, Bernie Sanders of Vermont, have said they would vote no. Mr. Sanders has led the charge from the left against Mr. Bernanke. In the latest Dow Jones Newswires tally, 31 senators have said they would vote to confirm Mr. Bernanke.

Mr. Cornyn said Mr. Bernanke was a "brilliant and honorable man, but one who has presided over what is a crisis of confidence of the American people due to a lack of transparency and accountability with regard to the bailouts and other activities by the Federal Reserve."

Senate Majority Leader Harry Reid of Nevada, who is facing a tough re-election fight, had earlier refused to take a position on Mr. Bernanke's confirmation. He issued another statement late Friday saying he would vote in favor of it but that his support wasn't "unconditional." He said that to merit confirmation, Mr. Bernanke "must redouble his efforts to ensure families can access the credit they need."

Because four senators have put what's known as a "hold" on the nomination, it will take 60 votes to bring the Bernanke confirmation to the floor for a vote. Once that hurdle is cleared, it would take a majority to confirm him. The earliest a vote could come is Wednesday.

No Fed nominee in recent memory has been rejected outright by the Senate. The worst performance in modern times was Paul Volcker's 84-16 confirmation in 1983.

President Barack Obama "has a great deal of confidence in what Chairman Bernanke did to bring our economy back from the brink," deputy White House press secretary Bill Burton told reporters aboard Air Force One. "And he continues to think that he's the best person for the job, and will be confirmed by the United States Senate."

Although seen by many officials and economists as one of the heroes who helped stave off another Great Depression, Mr. Bernanke has been a lightning rod for public anger over the bailout of the banking system and the rescue of insurer American International Group. "It is time for Main Street to have a champion at the Fed," said Sen. Boxer.

—Sudeep Reddy, Greg Hitt and Mark Gongloff contributed to this article.

Morgan Stanley

We are proud to introduce our new Managing Directors.

Congratulations to these talented, committed individuals, whose integrity, intellect and pursuit of excellence embody the principles that have guided us for 75 years.

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U.S. NEWS

Economies hinge on exit strategies

Recent upturns have expansionary policies to thank, but as they fade out, consumers, businesses must adjust

By Marcus Walker

Massive interventions by governments and central banks are helping the world economy recover from the Great Recession. At some point, however, economies will have to remember how to walk without crutches.

THE OUTLOOK

Avoiding a bumpy ride could well depend on export-dependent countries, such as China and Germany, mending their ways, and on indebted U.S. consumers failing to do so.

When the global financial elite gathers at the Swiss ski resort of Davos this week for the World Economic Forum's annual gabfest, many will praise the surprisingly strong recovery. A year ago, the specter of global depression haunted Davos Man.

Today, short-term economic prospects look fair in the U.S., strong in Asia, and shakier but still positive in Europe.

The next two to five years could prove more challenging. Current upturns in consumption, investment, exports and asset prices depend on highly expansionary fiscal and monetary policies.

Those supports come at a rising price. Gaping budget deficits in the U.S. and Europe are causing concern about the sustainability of public debts. Worries are also growing that central banks' ultra-low interest rates are inflating new asset-price bubbles.

Ideally, policy would return to normal in time to avoid another financial crisis.

Much recent debate has focused on the timing of government "exit strategies." But the other half of the transition is just as important: How private-sector demand can wean itself off stimulus.

For example, global car sales can no longer rely on cash-for-clunkers incentives, which have expired in many countries. If growth doesn't become self-sustaining soon, today's global bounce could give way to years of low growth at best, and renewed recession at worst, once the supports are withdrawn.

In a model recovery, spending by households and businesses becomes self-sustaining with help from the so-called multiplier effect. Government stimulus gives a temporary boost to consumption and investment, which generates more income and jobs, which lead to further rounds of consumption and investment. This works best when there's pent-up demand from people who postponed buying goods and services during lean times, and regain the confidence to do so.

But a financial crisis differs from a garden-variety recession. Banks can't or won't lend as normal, individuals and companies have to pay down onerous debts, and households need to save to rebuild shrunken wealth.

In such conditions, private demand can fail to gain traction.

"When you have a recession amplified by a financial crisis, the recovery is a long and painful process," says Harvard economist Ken Rogoff, whose recent co-authored book "This Time is Different" crunches the numbers from financial crises since the Middle Ages.

The past century offers little encouragement. The U.S. struggled to achieve a self-sustaining recovery during the Great Depression. Tightening monetary and fiscal policy led to a renewed slump in 1937. Only the giant stimulus of World War Two ended the Depression.

Many Americans feared the end of war production would bring the Depression back. Instead, pent-up demand for consumer goods and housing fueled a long boom around the capitalist world.

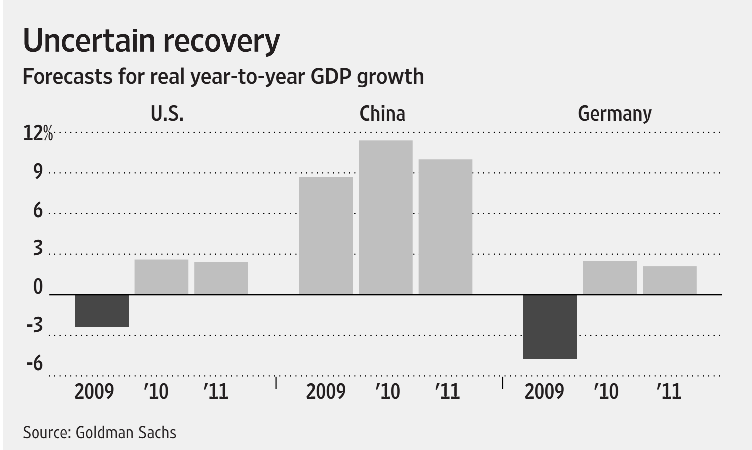
However, today's recovery follows years of consumer excess rather than self-denial.

"The idea of 'pent-up demand' is a real stretch just now," says Stephen Roach, chairman of Morgan Stanley in Asia. Consumption, juiced by debt, has made an unsustainably large contribution to U.S. growth for at least a decade, he says.

U.S. households have begun reducing their debts, but most economists say that process has some way to run—especially once interest rates start to rise.

Optimists say debt reduction might make this U.S. recovery weaker than average, but point out that U.S. consumers are already spending more freely than expected.

Whether that outlives the stimulus could hinge on how deeply households break with past habits. If the financial crisis leads to a chastened, more prudent American consumer, then weak growth is more likely to follow today's bounce.



That might be healthier for the world economy in the long run. How to break with the recent pattern of unsustainable growth followed by crashes will be a big theme of the Davos gathering.

Europe and Asia face the opposite challenge to the U.S. The dominant economies in each region, Germany and China, need to raise consumers' contribution to growth, and save less.

In both countries, stimulus measures centered on infrastructure investments and consumer incentives—particularly to buy cars—made a quick impact.

But neither country has tackled deeper overhauls to foster growth in underdeveloped service sectors, which could create more jobs and consumer demand than capital-intensive export industries.

The consequence could be that stimulus efforts are a bridge to nowhere. In Germany, car-scrapping subsidies led to a spike in car sales that ended as soon as the incentives ran out.

China's state-sponsored investment boom helped its economy to grow by 8.7% in 2009, but analysts fear it's leading to excessive construction and adding to overcapacity in Chinese industry.

Germany's government has reaffirmed its belief in an export-centric economy. That isn't helping weaker European economies, which are struggling to pay down their private and public debts, and would benefit from stronger German demand for imports.

Chinese policy makers at least talk about the need to rebalance their economy toward consumers. That could help its neighbors' exports and sustain the pan-Asian recovery. That in turn could be a new engine of U.S. growth.

Some hedge funds expect opportunity

By Jenny Strasburg And Aaron Lucchetti

Although investors and bankers greeted President Barack Obama's latest banking proposals with dismay, some sensed opportunity.

Senior executives of a $7 billion hedge-fund firm owned by **Morgan Stanley** on Thursday made plans to meet to discuss ramifications of Mr. Obama's plan, including the possibility of buying their business back from the investment bank.

Similar talks last year involving the firm FrontPoint Partners went nowhere, according to people familiar with the matter. But Morgan Stanley and other banks could face mounting pressure to become sellers as a result of Mr. Obama's proposals to rein in their risk-taking.

The talks came amid wider mobilization for and against the plan on Friday. Broadly outlined, it would curb banks' ability to trade firm capital through proprietary investment accounts, hedge funds or private-equity firms, and possibly limit bank ownership of hedge and private-equity funds, which administration officials described as risky.

Many details of the plan remained murky last week, including which provisions might be left up to Congress and how requirements could affect banks' bottom lines.

In an interview Friday, Paul Volcker, the former U.S. Federal Reserve Board chairman whose belief in separating banks' trading and commercial operations informed Mr. Obama's thinking, said, "The questions have to be worked on in detail." He added: "They have no off-the-top-of-the-head answers."

Goldman Sachs Group Inc. officials have discussed the idea of selling or spinning off its banking unit, which has about $36 billion in deposits, if Mr. Obama's plan is passed by Congress, said people familiar with the matter. That could help Goldman escape from the curbs.

Congress is expected to fold the latest proposals into the broader effort to overhaul financial rules. Republicans have already called for hearings, but Democrats haven't set a timetable for when the plan might see a vote.

A restriction on banks' ability to own hedge funds would undercut a hot growth area for banks in recent years. During the hedge-fund boom before the financial crisis, banks snapped up hedge-fund stakes, seeking a piece of the rich fee streams hedge-fund managers were earning as their assets climbed.

Reuters

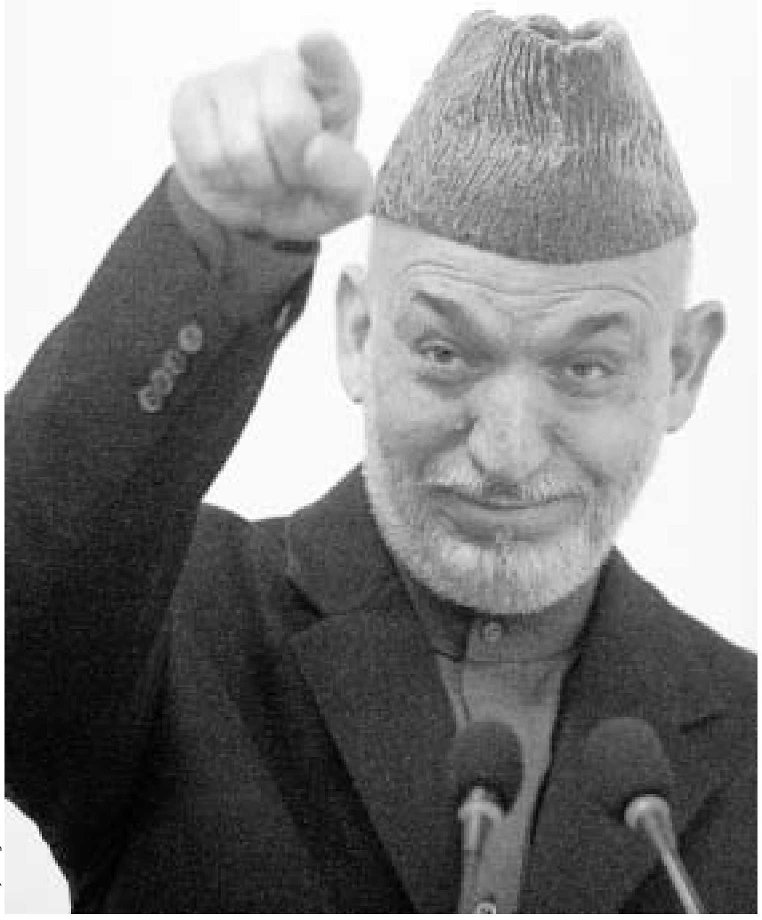
U.S. President Barack Obama with Presidential Economic Recovery Advisory Board Chairman Paul Volcker (left)

The biggest bank-owned fund purchased during the recent hedge-fund boom years is **J.P. Morgan Chase** & Co.'s Highbridge Capital Management. J.P. Morgan executives weren't expecting proposed hedge-fund limits to affect its ownership of Highbridge, because the majority of the Highbridge funds' $21 billion in assets belong to clients.

The proposal also may prompt banks to reconsider how they handle in-house funds that are seeded with the banks' own capital. At **Citigroup** Inc., where about 40% of the assets under management in its alternative-investments business are Citigroup's own capital, executives already are opening some funds to outside investors and are looking to open others, according to a Citigroup official. The company believes this will allow the funds to pass muster under the Obama proposal.

—David Enrich, Kate Kelly and Damian Paletta contributed to this article.

WORLD NEWS



Getty Images

President Hamid Karzai at a news conference. The vote will be in September.

Afghanistan postpones its elections

Move follows foreign concerns to avoid another fraud-tainted vote

By Alan Cullison
And Habib Zahori

KABUL—The Afghan government said it will postpone parliamentary elections until September, bowing to pressure from foreign backers who fear a reprise of the fraud-tainted presidential contest in the fall.

Afghanistan's election commission cited lack of funding and security as a reason for the delay. The government is asking international donors to ante up about $50 million of the estimated $120 million cost of the elections, which were originally scheduled for May.

Afghanistan "can't hold any election unless its budget is approved by donors," said a spokesman for Afghanistan's Independent Election Commission, the IEC.

With about 40,000 North Atlantic Treaty Organization troops arriving in the country in the coming months, officials also are hoping for an improvement in security by summer, the spokesman said.

Vote fraud in last year's presidential elections was a serious irritant to relations between President Hamid Karzai's government and NATO partners, whose troops endured heightened attacks in the run-up to voting.

So far this year, Taliban attacks have shown no sign of ebbing, and over the weekend five U.S. soldiers were killed, bringing the number of NATO deaths so far this year to 38, already surpassing the 25 killed during the whole of January last year.

Opponents of Mr. Karzai have also favored a delay in parliamentary elections and are hoping international donors will force Mr. Karzai to shuffle the Afghan election commission, whose objectivity was questioned during fraud investigations into the presidential vote.

Lately parliament has shown stiffer opposition to Mr. Karzai, and earlier this it month rejected most of his cabinet choices, alleging that the candidates were chosen out of political favoritism.

If parliamentary elections were tainted by allegations of vote fraud, it would "have repercussions beyond our imaginations," said Haroon Mir, co-director of the Afghanistan Center for Research and Policy Studies. Parliament, he said, "is not ready for elections."

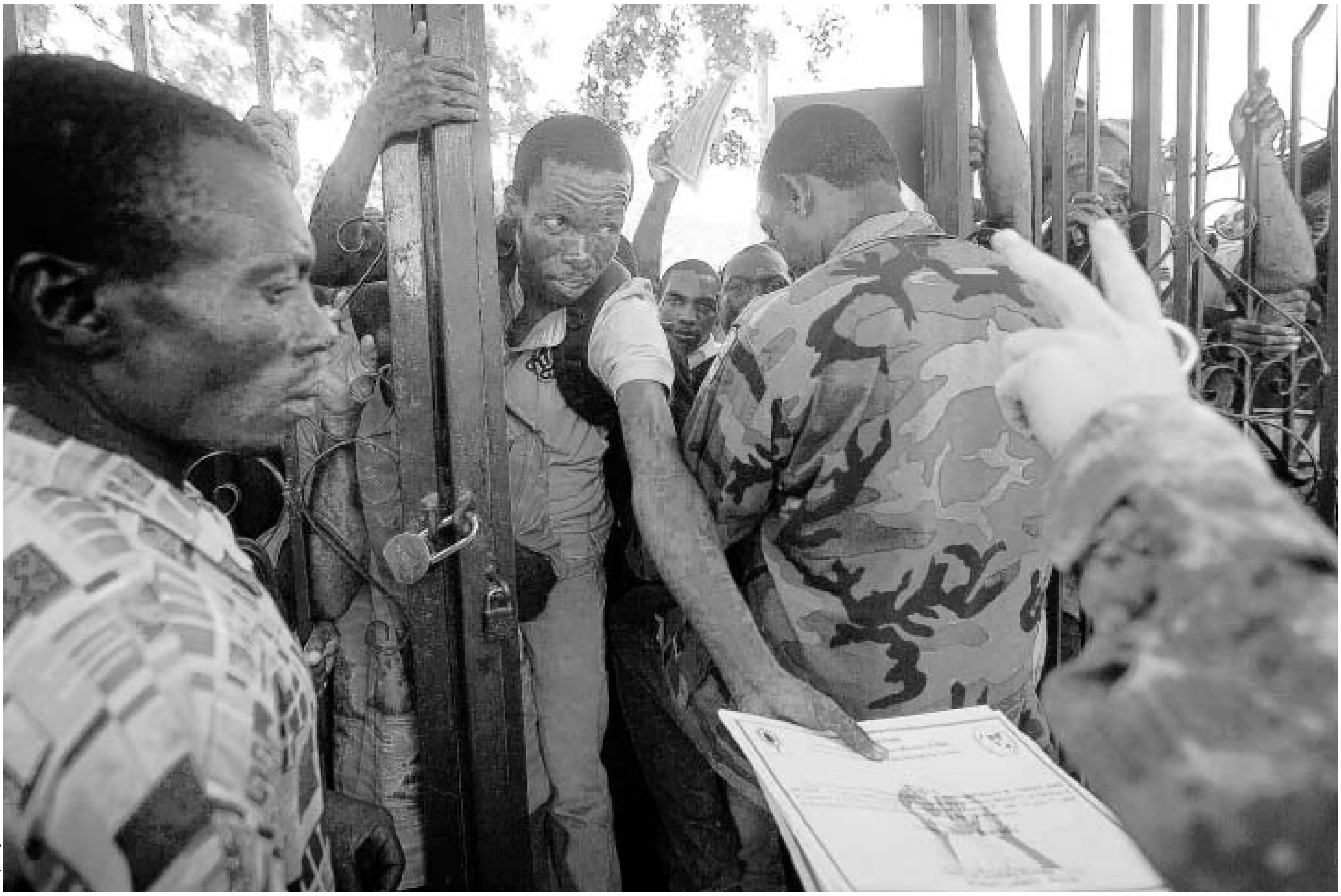
Coalition members have said they want to devote a large chunk of their new troops to training Afghan security forces to take on the Taliban independently. But the Afghan army remains undersized for the fight, and the Afghan police force riddled by low morale and a high desertion rate.

Three of the U.S. troops killed over the weekend died from improvised explosive devices, known as IEDs.

On Sunday Mr. Karzai's government revealed details of its plans to stop the import of ammonium-nitrate fertilizers, which when mixed with other ingredients make up a majority of the IEDs today.

The question now, though, is whether Afghan border police and customs officers can execute his orders. Diplomats argue that the outcome will be a test of not just the Taliban insurgency, but also the Afghan government's functionality.

WORLD NEWS



Getty Images

A man tries to pass his diploma to a U.S. soldier as people gather to look for work in Port-au-Prince on Sunday. International leaders are hoping to create a long-term plan to rebuild Haiti's economy,

Haiti efforts turn to economic plan

International leaders at Davos will seek to galvanize businesses to invest in the quake-devastated nation

By Stephen Fidler and Goran Mijuk

As search-and-rescue teams head home after abandoning the search for survivors in the ruins of earthquake-shattered Haiti, international efforts are beginning to build a future for an economy that was the poorest in the Americas even before the disaster.

The reconstruction of the Haitian economy will be the subject of a meeting of leading government donors in Montreal on Monday and at the forefront of discussions at the annual gathering this week of political and business leaders from around the world in Davos, Switzerland.

The meeting Monday in Montreal, called by the Canadian government in the city which is home to an estimated 100,000 expatriate Haitians, will bring together more than a dozen foreign ministers with officials from the International Monetary Fund, the United Nations and other international organizations.

At the World Economic Forum meeting in Davos, which has been held in the Alpine ski resort for 40 years, the emphasis will be on galvanizing international businesses to invest in an economy they largely shunned during the global investment boom of the last decade.

U.S. Secretary of State Hillary Clinton, French Foreign Minister Bernard Kouchner and Haitian Prime Minister Jean-Max Bellerive are among those expected to attend the Montreal meeting described by one international official as "a stock-taking session." The meeting is likely to be a precursor for a more formal donors' conference.

Dominique Strauss-Kahn, the IMF managing director, called last week for a new Marshall Plan for Haiti, evoking the U.S. reconstruction effort in Europe after World War II.

The World Bank estimates that in 2008 Haiti's annual average income per person was $660, ranking it 180th among 210 economies.

As efforts continue to provide emergency relief to keep people alive, IMF staff are already in Haiti making preliminary assessments of needs, and have been working with the central bank to restart the banking and payments systems to help people gain access to cash.

The IMF has pledged a $100 million loan, but officials say it is too early to estimate the final reconstruction bill, which could run into billions of dollars.

At Davos, the focus will be more on the private sector and how business can help Haiti over the long term by boosting investment.

Klaus Schwab, chairman and WEF founder, said last week that he hoped the Haiti discussions would "would present a major common effort to the world community showing true corporate global citizenship in Davos."

French President Nicolas Sarkozy, who has called for an international campaign to reconstruct the Haitian economy after the earthquake, will open the conference Wednesday.

Pledges of relief help to provide food, shelter and medicines from governments and private citizens and companies have so far exceeded more than $200 million.

According to the Haitian government, the earthquake killed more than 110,000 people and injured nearly 200,000.

Bin Laden takes credit for jet-bombing bid

By Summer Said

Osama bin Laden, purportedly speaking in a newly released audio tape, said the top al Qaeda leadership ordered the attempted Christmas Day bombing of a Detroit-bound airliner and vowed to continue attacks against America and its allies.

The claim of responsibility appears to trump an earlier statement by the Yemen-based branch of the terror group and suggests a high level of coordination and communication between the top leadership thought to be hiding along the Afghanistan-Pakistan border and the group based in and operating from the impoverished Arab country.

On Friday, meanwhile, India put its security apparatus on high alert following intelligence reports of two possible assaults in the air—one from a plane hijacking, the other from paragliders, officials said.

Also Friday, the U.K. raised its terrorist-threat level to severe from substantial, but declined to say why it was doing so.

Indian officials said the Pakistan-based terrorist group Lashkar-e-Taiba was behind both threats.

The alerts came two days after U.S. Defense Secretary Robert Gates warned of efforts by al Qaeda and affiliates to destabilize South Asia.

Intelligence officials and al Qaeda experts have debated how much control Mr. bin Laden has over operations conducted by regional branches of the terror group.

In the tape aired Sunday by Arabic-language broadcaster Al Jazeera, Mr. bin Laden suggested the Yemeni branch was following his orders to attack the U.S. and its allies.

The tape's authenticity or when it was recorded, couldn't be independently confirmed. However, al Qaeda experts in the region say the voice on the tape is similar to other tapes aired from Mr. bin Laden.

White House officials said they couldn't immediately authenticate the message, but White House adviser David Axelrod told CNN's "State of the Union" it "contains the same hollow justification for the mass slaughter of innocents," the Associated Press reported.

Mr. bin Laden last made a public statement four months ago when he was quoted Sept. 25 by SITE Intelligence Group monitoring service as urging European countries to pull their forces out of Afghanistan.

—Vibhuti Agarwal and Dave Kansas contributed to this article.