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WEEKEND JOURNAL

In CEO Stringer's view, the future of Sony is in 3D
THE BIG READ 14-15

THE WALL STREET JOURNAL.

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A presidential pitchman on a Times Square billboard

Reuters

Outerwear company Weatherproof used a news photo of Barack Obama wearing one of its coats in front of the Great Wall of China. The White House said it will ask Weatherproof to remove the billboard because the ad misleadingly suggests it was approved by the White House.

Yemen tracks ties between al Qaeda and bomb suspect

By Margaret Coker

SAN'A, Yemen—The Nigerian man alleged to have tried to bring down a Detroit-bound flight on Christmas Day met al Qaeda elements in Yemen and likely met with a radical U.S.-born cleric who U.S. investigators have linked to the suspect, a high-ranking Yemeni official said.

Deputy Prime Minister Rashad al Alimi, citing Yemeni intelligence investigations, said Umar Farouk Abdulmutallab, the bombing suspect, left school in San'a, the capital, in late September, and traveled to Shabwa province, an al Qaeda stronghold.

"There is no doubt he met with al Qaeda elements in Shabwa, including likely with [Islamic cleric Anwar al Awlaki]," Mr. Alimi said.

Mr. Abdulmutallab left Yemen on Dec. 4. He allegedly tried to detonate a chemical explosive on Northwest Flight 253 from Amsterdam to Detroit. The plane landed safely after the crew and passengers overpowered him.

Border-patrol officers had singled out Mr. Abdulmutallab as his flight was in the air headed for Detroit, and customs agents were preparing to question him on landing, White House officials said.

Agents had no plans to arrest Mr. Abdulmutallab or subject him to the most rigorous search, the officials said. The failure to prepare more extensive questioning underscores what U.S. President Barack Obama has called "systemic" flaws in the nation's intelligence systems, an administration official said Thursday. The White House said it would release an unclassified version of a report on the Christmas Day bombing attempt Thursday afternoon, after Mr. Obama again addressed the country on the incident.

Associated Press

Nigerian bombing suspect Umar Farouk Abdulmutallab.

U.S. investigators have uncovered intelligence "chatter" indicating contacts between Mr. Abdulmutallab and Mr. Awlaki, the cleric.

Mr. Awlaki was born in Las Cruces, New Mexico, to Yemeni parents. He was the imam at a Virginia mosque attended by Maj. Nidal Hasan, the suspect in the Fort Hood, Texas, shooting spree in November, and had contact with two of the 9/11 bombers.

Yemeni officials haven't presented any specific evidence linking Mr. Awlaki operationally to the planning and execution of the attempted plane bombing or the Fort Hood shooting. But they say they consider him a significant security risk. People close to Mr. Awlaki say he isn't a member of al Qaeda and has no connection to Mr. Abdulmutallab's alleged attempt.

Consumers emerge as key to recovery

As growth returns to the global economy, economists are eyeing consumers for signs that they're ready to raise their spending at levels that will sustain that growth.

Retail spending in the euro zone unexpectedly fell in November, raising fresh doubts about Europe's economic recovery. The European Union's statistics agency Thursday showed that Germany saw a particularly sharp fall—1.1% in November from October.

With the euro-zone unemployment rate at its highest level for more than 10 years, penny-pinching in cautious households remains one of the biggest risks to the currency bloc's recovery.

Policy makers worry that they will need more than just a pick-up in exports to for the recovery to gain momentum. And without more domestic activity to create jobs and generate tax revenue, public-sector finances could go still deeper in the red.

In the U.S., chain stores showed improvements in December same-store sales and put the abysmal Christmas 2008 behind them. Based on better-than-expected holiday sales reported on Thursday many retailers raised estimates for fourth-quarter results.

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Tavern in the red: Famed eatery is forced to sell the silver **Page 29**

World Watch

A comprehensive rundown of news from around the world. **Pages 30-31**

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Britain's Department of Islamic Radicalization Studies. **Page 13**

Israel to pay damages to U.N.

By Joe Lauria And Joshua Mitnick

UNITED NATIONS—Israel agreed to pay the U.N. $10.5 million in compensation for damage to U.N. property and for the life of a U.N. driver during Israel's war last winter in Gaza, according to two U.N. officials.

"Agreement has been reached in principle on the terms of an arrangement under which Israel would make a payment to the United Nations," Martin Nesirky, the U.N. spokesman, said Thursday. "The United Nations is now waiting for a green light from the government of Israel and we anticipate receiving that green light imminently."

Mr. Nesirky said the U.N. submitted a claim for reimbursement to the Israeli foreign ministry in July "for the losses that the United Nations has sustained in a number of incidents during the Gaza conflict."

U.N. Secretary-General Ban Ki-moon and Israeli Defense Minister Ehud Barak discussed the payments by phone this week, Mr. Nesirky said.

Mr. Ban, who was in Israel during one of the incidents, demanded $11.2 million from Israel for damage to two U.N. schools and a World Food Program warehouse in Gaza City. The family of a driver of a U.N. truck, who the U.N. says was killed as a result of Israeli fire, would be compensated from the total amount, a U.N. official said.

It wasn't expected that Israel would accompany the payment with an acknowledgment of wrongdoing, said the official. Israel has said that the damage to U.N. property was a result of collateral damage, claiming Gazan militants were fighting near the properties. The U.N. has denied that militants were in the area of the warehouse and the two schools.

The payment would mark the first time Israel has agreed to compensate anyone in Gaza during the 3½-week war that killed about 1,400 Gazans and left behind billions of dollars in destroyed infrastructure before ending in January 2009.

Israel said it launched Operation Cast Lead to stop rocket fire from inside Gaza to civilian areas of Israel. Four Israelis died during the conflict.

PAGE TWO

Cadbury: a testbed for stewardship

[Agenda]

By Mark Goyder
and Philip Goldenberg

For the past six months the U.K. corporate-governance discussion has been all about stewardship. Sir David Walker—who conducted a review into governance of the U.K.'s banks—has called for major investors to exercise it. The Institutional Shareholders Committee has come up with its code. The Financial Reporting Council is taking this forward.

Yet at the same time we are witnessing a battle for control of Cadbury PLC, a company with a unique history, values and brand. The CEO has talked about the importance of the Cadbury heritage in choosing a new owner. The chairman tells us that the bid is all about price. And some of those long-term investors who are now talking about stewardship seem to have taken their profit and sold shares as the battle developed.

What is good stewardship in a takeover situation?

Major Study

In 2008, Tomorrow's Company completed a major study of ownership. It concluded that shareholders had four functions. The first is to provide finance. The second is to elect directors and hold them accountable. The third is to trade shares and through this to set the market price. And the fourth (too often neglected) function is stewardship.

In 2009, we talked to the owners and managers of many different businesses to understand the essence of stewardship.

Stewardship is a joint responsibility. Directors and investors should each play their part in doing four things well:

The first stewardship job of boards and investors is to provide a clear mandate within which directors and managers can then get on with the job. This covers purpose, values, strategy, relationships, roles, responsibilities. We call this "setting the course."

Agence France-Presse

Some investors in Cadbury have questions to answer about stewardship

The second job is to ensure there is a proper focus on performance. Boards and investors need to be sure that management is operationally excellent and forever improving.

The third is to be able to read the risks and opportunities that lie beyond the immediate boundaries of the business: from changing tastes, technologies and trends in the marketplace to fresh demands from society and government. We call this "part of the landscape."

Finally there is planting for the future. Good stewards make sure the right investments are being made in innovation, plant, reputation and talent, so that they do indeed pass on the company to their successors in the strongest possible shape.

Not Price Alone

These stewardship principles are important to the long-term creation of shareholder value. So why should a board or a long-term investor turn its back on them as soon as a bidder looms in to view?

A focus on price alone is mistaken from the point of view of the interests of shareholders; and for directors it is based on a flawed understanding of the law.

The ultimate shareholders—the beneficiaries—have an income need that generally stretches over decades. Of course, if they believe current management isn't up to the job, they need to take action, and disposal to a better owner might be the right option. But if asset managers make a decision on price alone, they risk doing a disservice to those beneficiaries; and the pension trustees who are their clients can, if they wish, give them clear guidance on the need to prioritize the building of strong and enduring companies.

Fund managers may do very nicely out of accepting a bid. The short-term gain may help the "star" manager achieve a target and even obtain a bonus. But pension-fund trustees have to worry about the soundness of the machinery that will generate dividends over 30 years—and that means looking at much more than the price on offer.

What about the obligations of directors? Directors' fiduciary duties, are owed to their company, not directly to its shareholders. True, the City Takeover Code imposes a specific duty on offeree-company directors to advise shareholders whether an offer price is fair and reasonable. But—as almost no merchant bankers and far too few City lawyers understand—neither the Code, nor the general law, imposes a duty on directors to recommend a bid on price grounds alone where they feel that it isn't in the best interests of the company.

If Cadbury directors feel that a Kraft wrapper isn't the best packaging for the company they have built up, they have not only a right but also a duty to say so.

A Stewardship Culture

To build stewardship in the capital markets of tomorrow, we need to encourage the development of a class of committed stewardship investors. Here's how:

1) The investment industry should create a new Investment Council, which would be committed to the highest standards of stewardship, and which would build on the four stewardship principles to create a kite mark for stewardship investors.

2) This council would promote collaboration between investing institutions to lower the effective cost of stewardship.

3) Consumer bodies and regulators should start to rank different asset managers and different funds on their stewardship performance, including their effectiveness if fulfilling their stewardship responsibilities in a bid situation.

4) Government should require pension trustees to define their policy toward stewardship investment and at the same time require asset managers to set out precisely how far each of their funds follows stewardship principles. The trustees could then make clear in the mandates what criteria they want asset managers to apply when judging the appropriateness of a particular bid.

—Mark Goyder is founder director of Tomorrow's Company and joint author of "Tomorrow's Owners—defining, differentiating and rewarding stewardship". www.tomorrowscompany.com. Philip Goldenberg gave legal advice to the 1995 RSA Tomorrow's Company inquiry, and the U.K. Company Law Review. He is a consultant to Michael Conn Goldsobel.

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The Source

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"At the end of the day, the market will bear whatever is the cost of attracting big TV audiences.

Lauren Mills on whether the departure of BBC's Ross will impact pay packages

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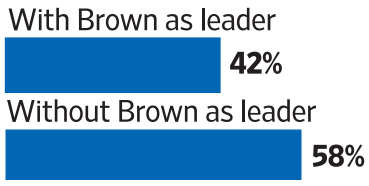

What's News

■ **The Bank of England's** monetary policy committee kept its bond-purchasing plan and interest rates unchanged, as business surveys and official data indicated the U.K. economy returned to growth at the end of 2009. **4**

■ **Retail spending** unexpectedly plunged in the euro zone, raising doubts about Europe's economic recovery. Consumer spending also fell sharply in Germany. **4**

■ **Ferrero is still in talks** with Hershey over a possible joint bid for Cadbury, and also is discussing a possible offer with buyout firms. **17**

■ **Areva is poised to raise** about $1.44 billion by selling its stake in a French nickel-mining firm. **17**

■ **The U.K. struggled** to cope with snow and freezing conditions as energy supplies to power companies were interrupted, share trading fell and much of the transport network remained paralyzed. **6**

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NEWS

Highly paid host leaves BBC

Jonathan Ross's departure comes as broadcaster seeks to project a more cost-conscious image

By William Lyons

LONDON—One of the U.K.'s highest paid television and radio presenters, Jonathan Ross, said he was leaving his post at the **British Broadcasting Corp.** Thursday as the publicly funded broadcaster faces growing pressure to slash costs.

In a surprise announcement, Mr. Ross, 49 years old, said he plans to leave his BBC1 TV talk show, his Radio 2 Saturday-morning program and his late-night film program when his contract ends in July.

The news comes as the BBC has faced criticism of how it spends its funding, with the salaries of its executives and huge contracts for its highest-paid stars under scrutiny. The BBC is funded by a mandatory license fee paid by all U.K. households with a TV, which currently stands at £142.50 (about $227) per year.

BBC's competitors in the U.K., and broadcasters across Europe, are grappling with a prolonged slump in advertising markets that has slashed core revenue. Free-to-air broadcasters such as **RTL Group** SA, Germany's **ProSiebenSat.1 Media** and the U.K.'s **ITV** PLC have had to face the structural shift to digital content and increased competition.

Mr. Ross, who will continue to host the Bafta Awards and Comic Relief for BBC Television, has been embroiled in controversy over his salary, reported to be £6 million a year. His departure comes as the BBC is trying to project a more cost-conscious image. When details of Mr. Ross's salary emerged many British politicians expressed surprise.

Mr. Ross said he decided in the past two weeks to not renegotiate his contract. He added the decision was "not financially motivated."

Jana Bennett, director of BBC Vision, said: "Jonathan is an extremely talented broadcaster and his programs for BBC TV and Radio have been a great success. However, it's been a difficult year for him and I understand why he feels it's the right thing to do."

In late 2008, the host was suspended for making a series of lewd phone calls to actor Andrew Sachs on Russell Brand's Radio 2 show.

Press Association

Jonathan Ross waves outside his London home. Below, how big TV presenters on both sides of the Atlantic compare.

	Jay Leno (U.S.)	Katie Couric (U.S.)	Jonathan Ross (U.K.)	Graham Norton (U.K.)	Anne Will (Germany)	Laurent Ruquier (France)
	Successor to Johnny Carson on chat show the "Tonight Show;" began "The Jay Leno Show" last year, a rare live comedy show.	Signed a five-year contract with CBS in 2006 to anchor "CBS Evening News;" before that she was an anchor at NBC's "Today" show.	Hosts "Friday Night with Jonathan Ross" as well as a movie-review show and a radio broadcast for the BBC.	Moved from commercial Channel 4 to the BBC in 2004. Agreed to a pay cut earlier this week while signing a new BBC contract.	Host of "Anne Will," a Sunday evening politics talk show on ARD, a German public TV station; first woman to present sports on ARD's Sportschau.	Host of "On n'est pas couché" ("We're not in bed yet"), a Saturday late-night talk show on public TV station France 2. Also presents a daily radio show.
Estimated salary (in millions)	$30	15	9.5	6.3	11*	2.4

Photos: Associated Press; Leno, Couric, Ross, Norton. Reuters; Will. Agence France-Presse; Ruquier.

*Includes production costs of her show.

NBC focuses on performance of 'Leno' show

By Shira Ovide and Sam Schechner

NBC Universal, responding to a report the company plans to dump Jay Leno's primetime television show, issued a statement acknowledging problems for local-TV stations arising from the show, but said Mr. Leno and the show are "committed" to working to "improve the performance."

NBC Universal had said it expected ratings for "The Jay Leno Show" to be smaller than those for typical 10 p.m. network shows, but the company expected the cost savings to be more than enough to offset lower advertising revenue. But the audience for Mr. Leno's show has been shrinking, prompting complaints from local NBC stations, some of whom have seen their ratings drop for late local news programs following Mr. Leno's show.

"Jay Leno is one of the most compelling entertainers in the world today," NBC Universal's statement said. "As we have said all along, Jay's show has performed exactly as we anticipated on the network."

But NBC Universal said the show has "presented some issues for our affiliates," adding that Mr. Leno and the show are "committed to working closely with them to find ways to improve the performance."

NBC Universal, which is majority owned by **General Electric** Co., issued the statement after Web site FTVLive said NBC had decided to take "The Jay Leno Show" off the air.

In September, NBC Universal started airing a new variety show with Mr. Leno, the former host of "The Tonight Show," each weeknight at 10 p.m. The move marked a profound shift for a major broadcast network. NBC said it would save millions of dollars by not producing expensive hour-long dramatic series for the time slot. It also said the move kept Mr. Leno from starting a rival late-night show on another network.

Rights court raises sex-trafficking oversight

By Paula Park

The European Court of Human Rights ruled for the first time since it was created in 1998 that sex trafficking is a violation of antislavery conventions, in the case of a 20-year-old Russian woman who died two weeks after she came to Cyprus to work in a cabaret where she was sexually exploited.

Although trafficking is already illegal in many of the European countries the court covers, the ruling spells out the duties of those states in trafficking cases—by saying that civil authorities from the victim's country of origin as well as the transit and the destination where the sexual exploitation occurs are obliged to investigate the crime and enforce laws against it. The court ruled that both Russia and Cyprus had failed to adequately investigate the sex-trafficking of Oxana Rantseva and that Cyprus violated her right to life by holding her in custody without charge, placing her in the custody of her traffickers and failing to investigate her death in 2001.

"When the police have a credible suspicion of someone being trafficked, at that stage they have to make investigations in order to protect the unsuspecting victims," said Andrea Coomber, legal director of Interights, a U.K. charity that submitted arguments for the plaintiff in the case.

The court has ruled previously in labor-trafficking cases. But it has never ruled on a sex-trafficking case because victims, often under constant threat of violence, have little access to the justice system in any country, Ms. Coomber said. Yet the crime is illegal in most of the 47 countries that have signed the European Convention on Human Rights, which lays out democratic rights across the Continent. The European Court of Human Rights enforces the convention—and provides a legal forum for people whose rights are violated by the state but who fail to get redress in that state.

While the ruling doesn't change existing laws it declares that victims have a right to expect vigorous enforcement of the laws and they can seek sanctions and penalties from governments who fail to implement antitrafficking laws.

The case was brought by the woman's father, Nikolay Rantsev, who campaigned in both countries for an investigation of her death.

The court found that Cyprus had violated the girl's right to life and right to protection under the law and ordered the government to pay €40,000 ($57,600) in damages. Russia was found to have violated the European conventions against slavery and ordered to pay €2,000. Mr. Rantsev was also awarded €3,150 for costs.

Both countries have been criticized by law-enforcement authorities—Russia as being a major place of origin for trafficking and Cyprus as a destination. Ludmila Mikhailovna Churkina, the lawyer representing Russia, didn't respond to requests to comment on Russia's problems. She lauded the ruling for prohibiting "Cyprus businessmen and cabaret owners to use Russian Ukrainian and other young women from being included in trafficking sex exploitation." Michael Katsounotos, a spokesman for the Cypriot police, defended its record. "This criticism is exaggerated because we make our efforts ... for the whole country,' he said.

Oxana Rantseva, entered Cyprus with an "artiste" visa March 5, 2001, and on March 28 around 6:30 a.m. was found dead below the fifth-story apartment she had been staying in. The police found a bedspread loosely tied to the balcony. Mr. Rantsev demanded an investigation and the Russian ambassador repeated his request several times before Cypriot authorities actually staged an inquest in December 2001.

On March 28 the cabaret owner, Marios Athanasiou, found Ms. Rantseva in a discotheque and took her to the police saying she was in the country illegally. "I wanted Oxana to leave so that I could bring another girl to work in the cabaret," he said at the inquest, according to ECHR documents.

Around 4 a.m. the police released the woman into Mr. Athanasiou's custody. He took Ms. Rantseva to the apartment; and he said he slept in the living room. A corroborating witness, the wife of the apartment owner, confirmed some of Mr. Athanasiou's statements but gave two separate and conflicting descriptions of the events. Unsatisfied, Mr. Rantsev sought redress with the Russian authorities and then with the ECHR.

"Although the facts had occurred in 2001 there had not yet been a clear explanation as to what had happened," the ruling said.

EUROPE NEWS

Falling retail sales imperil EU upturn

Consumers stay cautious amid high euro-zone unemployment; economists say German data are particularly problematic

BY NICHOLAS WINNING AND PAUL HANNON

Retail spending in the euro zone unexpectedly plunged, raising fresh doubts about Europe's economic recovery, which has relied on exports and companies restocking depleted shelves.

Consumer spending also fell sharply in Germany. Economists said that is a particular concern because Europe is depending on its largest economy to drive the region's recovery while countries in Southern Europe and Ireland still grapple with painful downturns.

The European Union's statistics agency said retail-sales volumes slumped 1.2% in November from October. Sales were 4% weaker than in the year-earlier month, the sharpest annual drop in nine months and the 18th consecutive month that sales have fallen on a year-to-year basis, it said.

In Germany, retail sales dropped 1.1% in November from October—compared with economists' expectations of a 0.3% increase. Manufacturing orders rose 0.2% in November.

With the euro-zone unemployment rate at its highest level in more than 10 years, penny-pinching in cautious households remains one of the biggest risks to the currency bloc's recovery from recession.

As a result, European Central Bank officials are likely to keep the bank's key interest rate at 1% well into the year.

Policy makers worry that they will need more than just a pickup in exports for the recovery to gain momentum. And without more domestic activity to create jobs and generate tax revenue, public-sector finances could go further into debt.

Economists say government initiatives to support car markets across Europe also may have had a detrimental impact on spending on other goods. The retail-spending figures don't include motor-vehicle sales.

"It appears that the measures introduced to stimulate consumption, such as car-purchase incentives, have given a temporary boost to car sales in mid-2009 but may also have led to less spending on other items against a backdrop of high unemployment, a squeeze on real incomes and subdued consumer sentiment," Ken Wattret, an economist at BNP Paribas, said in a note to clients.

The breakdown of the euro-zone retail data showed record falls in sales of nonfood products—ranging from clothing to furniture and computer equipment—both on a monthly and annual basis.

Still, the euro zone is expected to have expanded again last quarter at a modest pace thanks to gains in exports and an improved services sector.

The euro zone returned to quarterly economic growth in the third quarter of last year after contracting in each of the previous five quarters amid the global credit crisis and resulting slump in world trade.

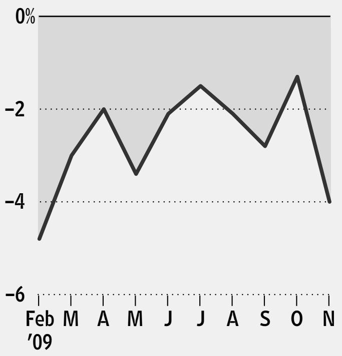
One bright spot came from the European Commission's economic-sentiment indicator for the euro zone, which rose more than expected in December. The pickup was strongest among manufacturing companies. Consumer confidence also improved, driven by reduced labor-market fears.

Still, until confidence translates into spending—particularly in Germany—the recovery remains at risk.

"It is a bit of a new situation because Germany is used ... to feeding off strong demand for exports coming out of Southern Europe. In the last two years, that's not happened," said Barclays Capital economist Julian Callow.

Retail sales slump

Euro-zone retail sales volumes, year-on-year percentage change



Source: Eurostat

Agence France-Presse/Getty Images

A woman walks past a shop window in a Berlin shopping mall touting sales on Thursday. German retail sales dropped 1.1% in November from October—compared with economists' expectations of a 0.3% increase.

BOE maintains policies

BY NATASHA BRERETON

LONDON—The Bank of England's monetary policy committee kept its bond-purchasing plan and interest rates unchanged Thursday, as business surveys and official data indicated the U.K. economy returned to growth at the end of 2009.

But the signs of recovery are fragile, and the prospects for expansion are weighed down by the large debts of the public sector and households. Huge amounts of spare capacity in the economy suggest inflationary pressures also will remain muted.

That means BOE policy makers are likely to consider in February whether to extend their £200 billion (about $320 billion) quantitative easing bond-buying program, in light of their new quarterly forecasts for inflation and output.

"The committee has left the door ajar on the possibility of raising the asset-purchase target further," said Philip Shaw, an economist at Investec. "With the economy appearing to be making progress, we judge that the committee will not sanction further [quantitative easing]. However, another increase in asset purchases is not totally out of the question, if members fear a substantial rise in long-term rates when QE purchases stop."

Yields on U.K. government bonds are likely to rise when the BOE stops its bond-buying program, although it isn't clear how sharp that increase will be. Higher borrowing costs for the government would raise borrowing costs for companies and households, acting as a drag on the recovery.

Thursday's decision was widely expected. None of the 14 economists surveyed prior to the announcement predicted a change in interest rates from the record low of 0.5%.

The BOE is almost alone among leading central banks in considering further steps to boost demand. The U.S. Federal Reserve and the European Central Bank already have begun, or started to pave the way to, removing stimulus, while a number of smaller central banks have raised their key interest rates in response to the global economic recovery.

Meanwhile, U.K. house prices in December rose in annual terms for the first time since March 2008, ending the year on a high that was unexpected at the beginning of 2009, U.K. lender Halifax reported Thursday.

The lender also said it expects house prices to be flat over the course of 2010.

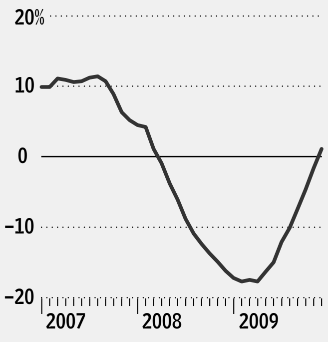
The Halifax house-price index showed prices rose 1% for the month, the sixth straight monthly increase, and increased 1.1% on the year. That compared with a 1.3% monthly gain in November and an annual fall of 1.6%.

"The significant cut in interest rates following the world-wide financial upheaval in the autumn of 2008 has markedly reduced the burden of servicing a mortgage for many households," said Martin Ellis, Halifax housing economist. "This has helped to stimulate housing demand, albeit from a low base."

—Ilona Billington contributed to this article.

Downturn reversed

U.K. Halifax house-price index, year-to-year percentage change



Source: Halifax

Energy data underline end to OECD deflation

BY PAUL HANNON

LONDON—Rising energy prices in November confirmed the developed world's emergence from a deflationary period, as the prices of most goods and services continued to climb.

The world's developed economies emerged from four months of deflation in October, an indication that the global economy is recovering. Prices rose again in November from the year-earlier month.

Figures released by the Organization for Economic Cooperation and Development on Thursday showed consumer prices in its 30 member states rose 1.3% in the 12 months to November, having edged up 0.2% in the 12 months to October.

From June to September, developed economies experienced their first collective deflation since the OECD began compiling data in 1971—a testament to the severity of the global financial crisis and the recession it engendered.

However, the world's leading central banks are likely to keep their key interest rates close to record lows for many months, because there is no sign of the emergence of broad-based price increase. Falling energy prices were the main driver behind the developed world's deflation, and subsequent rising energy prices have been responsible for the return to inflation.

In the 12 months to November, energy prices rose 2.4%, having fallen 9.2% in October. That was offset slightly by a larger fall in food prices, which were down 1.1% on the year in November, having fallen 1% in October.

Throughout the period of deflation, prices of goods and services other than energy and food continued to rise. But there is no sign they are rising at a more rapid pace. Indeed, core prices, which strip out energy and food, were up 1.5% in November, having risen 1.6% in October.

Some smaller central banks have already begun to raise their key interest rates in anticipation of further inflationary pressures as the global economy recovers, including the Reserve Bank of Australia, the Bank of Israel and Norway's Norges Bank.

A number of OECD members continued to experience deflation in November, including Belgium, Finland, Ireland, Japan, Portugal and Sweden.

EUROPE NEWS

Agence France-Presse/Getty Images

A tractor clears snow in Hawick, Scotland, Thursday, in what has been one of Europe's most brutal winters in decades.

Snow crushes Britain

By William Lyons And Angela Henshall

LONDON—The U.K. was struggling to cope with heavy snow and freezing conditions Thursday as energy supplies to power companies were interrupted, trading on the London Stock Exchange fell, and much of the transport network remained paralyzed.

Business groups warned the cold snap could cost the U.K. up to £14 billion ($22 billion).

As the Arctic conditions swept across Britain, thousands of schools remained shut and the U.K.'s Met Office issued warnings of heavy snow for the South East of England on Friday. The storm shut airport runways, closed roads and led to train delays across the country, with the worst-hit areas receiving a half-meter of snow.

EDF Energy estimated that no more than 2,000 people were without electricity in southern England, and drivers faced difficult journeys on icy roads. Major airports including London's Heathrow and Gatwick were open, but hundreds of flights were canceled due to snow and ice. Budget airline **easyJet** PLC and **British Airways** PLC were both forced to cancel flights, while roads remained treacherous outside London.

RSA, the insurer, predicted that a day of severe snow could cost Britain's economy as much as £690 million and as much as £14 billion over three weeks.

Demand for gas threatened to outstrip supply, forcing the U.K.'s **National Grid** PLC to issue a gas balancing alert, the second such alert this week. The alert warns major users of gas that they may need to cut consumption. Prior to this week, National Grid had only once resorted to using the alert, in 2006, following a prolonged shutdown at the U.K.'s primary storage site after a fire.

"This is a major concern," said British Glass Director General David Workman. "So far I've no feedback on disruptions but the longer the cold snap goes on, the more worrying the situation becomes for the [glass] industry. Even in mild winters we've worried about interruptions because of the lack of gas-storage provision."

With many staff unable to get into work, trading on the London Stock Exchange fell by nearly a fifth Wednesday. The value of trading at the main U.K. exchange fell 17% to €5.2 billion from €6.3 billion on Tuesday and €6.5 billion on the first Wednesday of last year, according to data from European trading platform Bats Europe.

Rail services across the country were badly affected Thursday. Passengers were delayed on the Eurostar as a Brussels-to-London train broke down in the tunnel. A spokesman for the operator said it was too early to tell whether the breakdown had been caused by the weather.

Many councils around the U.K. are restricting gritting to major roads, as salt supplies are stretched. Salt Union, the company supplying 80% of the country's grit, said that if the severe weather continues beyond the weekend it will have exhausted its above-ground stockpiles by the early part of next week.

Britain is experiencing its longest cold snap since 1981. Richard Young, chief forecaster at the Met Office, said strong east to northeasterly winds will pick up across many areas later Friday, with temperatures forecast to plummet to as low as minus 20 degrees Celsius.

—Luke Jeffs contributed to this article.

Brown brushes off coup bid

By Natasha Brereton And Laurence Norman

LONDON—A day after a failed challenge to his leadership, British Prime Minister Gordon Brown on Thursday laid out plans to stimulate the U.K.'s industrial economy.

Speaking to an audience of business leaders, Mr. Brown said the British economy needed more balanced growth in the future, after a long period when it has depended on consumer spending and financial services.

Mr. Brown spoke after an interview with the British Broadcasting Corp., in which he described a stymied rebellion as a "storm in a tea cup" and said the issue had "taken up very little of my time."

On Wednesday, Geoff Hoon and Patricia Hewitt, who have held various ministerial jobs since the Labour Party came to power in 1997, urged fellow lawmakers to hold a secret ballot on Mr. Brown's leadership. The two cited concerns about Labour's prospects in the general election, which must be held by June 3.

Asked how he felt about Wednesday's developments, Mr. Brown said "every day there's a new problem, every day a new challenge. ... So you've just got to keep going on with the job that you're doing."

Mr. Brown, who spoke Thursday night alongside Business Secretary Peter Mandelson, said the new growth plans would give the government a greater role in promoting key sectors of industry, like the digital sector and low carbon businesses.

They wouldn't come at the expense of tackling the U.K.'s debt burden, however, Mr. Brown said. The government has pledged to halve the deficit over the next four years. Nor would they involve lessening the important of the financial sector, he said.

The new growth plans aim to increase the government's role in advancing key areas of the economy. They include £70 million ($112 million) in fresh government cash for three new manufacturing research centers to focus on regenerative medicine, and new technologies for reusing and recycling metals. They also follow the government's £1 billion investment to upgrade the country's digital infrastructure.

"I think our industrial policies haven't been strong enough, they haven't been far-reaching enough, and they haven't been backed by sufficient resources," Lord Mandelson said. He said that the agenda of industrial activism that he launched last year was focused on creating a more diverse economy, with more sources of growth, employment and indeed public revenues.

Mr. Brown bemoaned the failure of governments to conclude major trade accords in recent years, saying that boosting global trade is "very important for growth."

How much should the EU pay its civil servants?

[Brussels Beat]

By Charles Forelle

How much of a pay raise should European Union staffers get this year?

A tricky question. To help answer it, the EU polls ... European Union staffers.

That's one of the odd twists—more on it later—in the EU's pay formula, a little-noticed slice of technocracy that's unintentionally precipitated the kerfuffle of the moment in Brussels.

Here's the issue: The formula says the EU's 40,000 officials automatically get a 3.7% pay raise, retroactive to July 1. Plenty of politicians think that's loony, particularly when Brussels is preaching parsimony to several EU countries teetering under staggering budget deficits.

The EU's council of 27 governments, playing Solomon, split the baby and decreed a 1.85% raise just before Christmas. This made no one happy, and panic descended. The European Commission this week said it would sue the council for the other half. Various unions of EU workers are threatening strikes. All eyes are on the judges of the European Court of Justice, which will hear the suit. (The jurists also are up for the raise.)

Commission President José Manuel Barroso stood with his troops, writing in a Christmas letter that "the Commission is determined to make sure that all rights and obligations of staff laid down in the Staff Regulations are respected." (The missing 1.85% is worth €5,421.86 ($7,800) to Mr. Barroso, who made €293,073.60 last year, excluding various emoluments linked to salary.)

The whole affair has elicited vast quantities of sturm und drang and produced bushels of fodder for outrage during the slow holiday season.

This wasn't meant to be. The whole point of the formula, says Valerie Rampi, a commission spokeswoman, is to ensure "social peace in the institutions" and avoid "time-consuming negotiations every year." Some variant of the formula has been in use since the 1960s, she says.

But few have stopped to have a look at the numbers themselves: At a time of anemic inflation and rising unemployment, how did a formula based on consumer prices and wages manage to spit out a 3.7% raise?

Part of it is that the raise is based on the pay of officials of eight Western European governments. They got a fillip of 2.8%, adjusted for inflation.

The rest of the answer isn't easily found. As befits a great bureaucracy, the EU's formula is a doozy of breathtaking complexity, pulling in data from two custom surveys and two sets of Belgian figures (one nonpublic). More or less, it takes the average of national-government wages and adjusts them to reflect the cost of living in Brussels.

The formula deviates from standard Belgian figures to better reflect, for instance, the price of hairdressing and personal grooming in the capital city. It also reweights categories according to EU-specific spending patterns: EU bureaucrats, apparently, smoke and drink less than your average Belgian, but travel more.

Amid all this, one piece stands out: To crunch the civil servants' cost-of-living adjustment, the EU's statistical office doesn't rely on Belgian data for housing costs. Instead, each year it surveys its own staffers, asking them how much they pay.

The purpose isn't lost on those surveyed. A privacy statement attached to the survey says the data will be used "for the calculation of the annual salary adjustment." The EU's statistical office says the survey better reflects the type of housing used by EU officials.

In the most recent year (June 2008 compared with June 2009), the survey yielded a 4.1% increase in rents. In each of the 11 housing categories from studio apartment to large detached house, the 7,000 survey respondents reported paying higher rents in 2009 than 2008.

The 4.1% figure doesn't jibe with other measures. The nonsubsidized rent component of the Belgian national consumer-price index rose by 1.9%, less than half the amount of the EU survey, during the period.

And in Belgium, landlords generally can't raise rent in the course of a lease (usually nine years) by more than a legal maximum inflation-linked "rent index." That rent index fell 0.1%-meaning it's unlikely many EU staffers who stayed in their homes saw any bump in rent at all.

The numbers matter.

The rent-survey data accounted for nearly all of the increase in the EU's bespoke cost-of-living figure, which turned out to be 0.9%. (Without rents, it is almost flat at 0.1%.)

Had the EU used the Belgian consumer-price index—which fell 1.1%—to adjust the civil-servant salaries, the raise would have been a more recession-friendly 1.7%, instead of the now-vilified 3.7%.

Net of adjusted pension contributions, and EU taxes and levies, the 3.7% raise will cost the EU €146 million this year, if the court blesses it. That figure doesn't account for promotions and automatic seniority raises: Independently of annual adjustments, an EU official's pay rises about 13% over the eight years it takes to move through all the steps of a salary grade—though the bumps then stop until the official is promoted.

To be sure, the custom formula hasn't always been a boon. A commission official offers data showing that, since 2004, the formula has lagged behind Belgian inflation slightly.

And Ms. Rampi notes that next year might not be so flush, since many countries are forcing wage cuts on their civil servants. That would show up in the 2011 figures, and may mean smaller salaries in Brussels. "It cuts both ways," she says.

EUROPE NEWS

The Opel man GM needs to win over

Klaus Franz has Merkel's ear as the U.S. parent seeks German government funding for the European unit

BY VANESSA FUHRMANS

Associated Press

GM Europe CEO Nick Reilly, left, and Opel workers council leader Klaus Franz, after a meeting with workers last month.

For much of the past year, Klaus Franz has been a thorn in **General Motors** Co.'s side. Mr. Franz, the labor chief at GM's Opel, has blamed the European car unit's troubles on its American parent, saying GM was "filled with yes-men" and that it had a "centralized planning system worse than in [former] East Germany."

Now, GM needs to make nice with Mr. Franz.

The U.S. company decided in November to keep Opel and its sister British brand, Vauxhall, rather than sell control to a group led by a Canadian car-parts maker. To fix Opel's many problems, GM says it needs Germany and other European countries with Opel plants to come up with billions of dollars in financing.

A key to winning much of that funding could be Mr. Franz.

Hamstrung by Opel's uncertain fate, GM's European management all but disappeared from public view last year. Mr. Franz, a boisterous former Opel paint-shop worker, immediately filled the void. In interviews and worker rallies, Mr. Franz harangued GM executives for not doing more to save Opel and encouraged German politicians to intervene on the workers' behalf.

He also used German Chancellor Angela Merkel's desire to present her government as a vigilant protector of German jobs to his advantage, gaining her support first for an Opel bailout, then a sale to the partnership of parts supplier Magna International Inc. and Russia's OAO Sberbank

"Klaus probably stepped over the normal role [of a works council chief] because there was a vacuum," said Fred Irwin, chairman of the now-dissolved trust created by the German government last spring to supervise Opel through GM's bankruptcy. "No one else was filling it." Those efforts make Mr. Franz an important player in the Opel funding deliberations.

GM executives will meet Thursday to discuss the restructuring of Opel, GM Chairman Edward E. Whitacre Jr. told reporters Wednesday in a news conference. GM is expected to present its long-awaited blueprint for Opel's revival in coming weeks. It needs to persuade Germany, where Opel is based, and other countries to back its €3.3 billion ($4.75 billion) plan. Winning over Germanyâ·"which GM says it wants to provide a large share of the financingâ·"could depend in large part on Mr. Franz. Germany's government "will make sure to hear what he has to say," said Hans Eichel, a former German finance minister and friend of the 57-year-old Mr. Franz.

GM's sudden decision to keep Opel rather than sell it angered many in Ms. Merkel's government, who worked with the intended purchasers for months on a revival plan. That has raised doubts over whether Germany will provide the funds GM needs.

Mr. Whitacre seems aware of Mr. Franz's clout. Days after Mr. Whitacre also took over as chief executive in early December, Mr. Franz flew to Detroit to discuss with him ways to limit Opel job cuts. "He's open to unconventional ideas," Mr. Franz said of the new CEO.

But both GM and Mr. Franz say tough negotiations lie ahead. Mr. Franz is demanding GM give Opel more autonomy and labor representation by changing its legal structure to the type used by large German companies. Mr. Franz also wants Opel to share profits with employees and give them an equity stake.

Though GM has signaled it is open to those ideas, Mr. Franz is impatient for more evidence that GM's management style has changed.

'This is a vision shared by both management and employee representatives, and therefore I'm confident that we can come to a positive conclusion.'

A druggist by training (his father ran a drugstore) and a former political activist, Mr. Franz joined Opel's factory work force in the mid-1970s, not to start a career on the assembly line but in the cause "of the proletariat," he said. He rose in the ranks of Opel's labor hierarchy, becoming its European chief in 2000 and cultivating allies across Germany's major parties. He became deputy chairman of Opel's supervisory board in 2003.

Mr. Franz's wire-rimmed glasses, trim mustache and trademark black sports coat are a frequent sight on German talk shows and in ministry offices. There, and in public, he has given voice to the commonly held view in Germany that GM's stewardship has been the main source of Opel's troubles.

The morning after GM changed its mind about selling Opel, Mr. Franz was one of the first people Ms. Merkel summoned to the chancellor's office for a consultation, a meeting her staff was quick to make public.

GM, led by its new European chief, Nick Reilly, is moving quickly to repair relations with Mr. Franz and Germany's labor and political leaders. Key to GM's restructuring efforts is procuring €265 million in cost concessions from Opel workers.

The U.S. auto maker has so far promised to keep open in some capacity all four plants in Germany—employing roughly half of Opel's 50,000 workers—and to cut about 8,300 jobs overall, slightly fewer than the Magna plan called for.

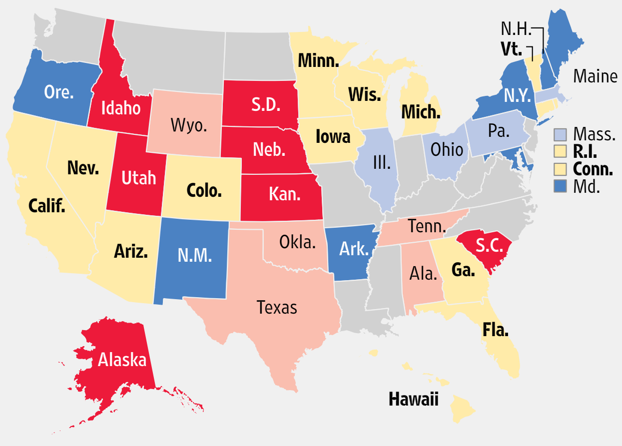
Particularly significant was GM's recent move to preserve 550 engineering jobs at Opel's development center at its RÃ sselsheim, Germany, headquarters, and Mr. Reilly's calls for Opel to soon develop a new small car for urban customers and a full-electric car. Mr. Franz has been adamant about exploiting Opel's engineering staff to design smaller, more fuel-efficient vehicles more aligned with European preferences.

Calling Mr. Franz "an engaged and hard-working negotiator," Mr. Reilly said, "We need to establish a business plan for a sustainable future and that requires financial support from many stakeholders. I believe this is a vision that is shared by both management and employee representatives, and therefore I'm confident that we can come to a positive conclusion." Even if GM is able to mend fences in Germany, Opel's future is uncertain. The unit hasn't made a profit in a decade. And despite a restructuring five years ago and a volley of new models, it has struggled in Europe's car market.

State of play | A look at the 2010 U.S. midterm elections

Race ratings: DEMOCRAT Solid/likely, Leaning; Toss up; REPUBLICAN Leaning, Solid/likely

Governors

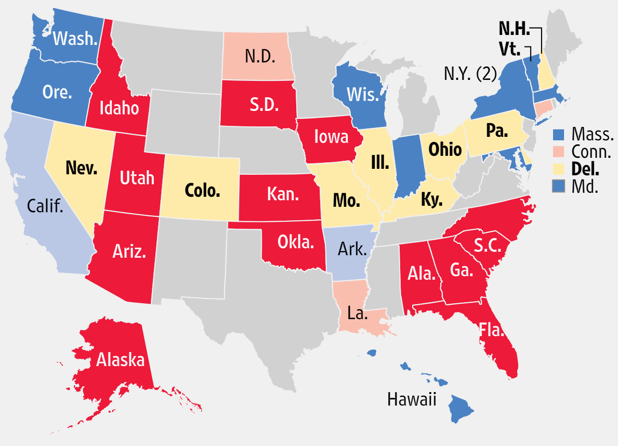


Current division by party	26 Democrats	24 Republicans

37 up for election this year · **19** Democratic seats · **18** Republican seats

22 open seats: 11 Democrat (2 retiring, 1 not running, 8 term-limited); 11 Republican (3 retiring, 1 running for other office, 7 term-limited)

Senate

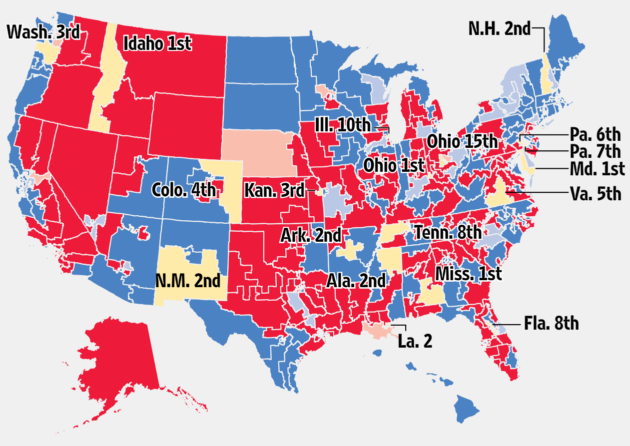


Current division by party	60 Democrats	40 Republicans

37 up for election this year · **19** Democratic seats · **18** Republican seats

10 open seats: 4 Democrat (3 retiring, 1 not running); 6 Republican (5 retiring, 1 not running)

House of Representatives



Current division by party	256 Democrats	178 Republicans

All 435 up for election this year

25 open seats: 11 Democrat (4 retiring, 6 running for other office, 1 vacancy); 14 Republican (3 retiring, 11 not running)

Note: Current count of governors reflects incoming governors in New Jersey and Virginia; Senate count includes two independents who align with Democrats

Sources: Cook Political Report (race ratings, open seats); National Governors Association; Senate; House of Representatives (current divisions)

Randy Yeip/The WallStreet Journal

Dodd exit muddles financial overhaul

By Damian Paletta

The planned retirement of Sen. Chris Dodd complicates the overhaul of financial regulation that is one of the Obama administration's top priorities, congressional aides said.

Mr. Dodd, the Connecticut Democrat who as Banking Committee chairman is leading the Senate's effort to revamp the finance rules, said Wednesday that he isn't running for re-election this fall. If Mr. Dodd wants to pass the bill by November to bolster his legislative legacy, Capitol Hill aides said, he and the White House will likely have to water down their proposals and broker a deal with Republicans, who oppose the legislation and have little incentive to give Democrats a victory.

"If Dodd still wants a bill, he can get one; he just has to compromise much more than he would have had to before," said Mark Calabria, a former Senate Republican aide who is now director of financial-regulation studies at the libertarian Cato Institute think tank. It's a view echoed by liberal consumer groups.

More broadly, Mr. Dodd's retirement, combined with an almost simultaneous similar announcement from Democratic North Dakota Sen. Byron Dorgan, makes it almost certain that struggling legislative initiatives, including a climate-change bill, an overhaul of immigration laws, and an easing of union organization rules, are off the table this year.

Democrats are shifting from legislative action to defending their majority in Congress. With the party's political difficulties increasing, its appetite for controversial legislation, already weak in an election year, has shrunk further.


Chris Dodd

The financial regulatory overhaul's fate in the Senate will likely revolve around a regulatory agency to oversee consumer financial products, a concept dear to the Democratic left. A compromise could ensure passage of a bill, but at a cost of dismaying the party base.

Financial executives were mostly measured in their public reaction to Mr. Dodd's announcement. But privately, several said any legislation that passed would likely be more industry-friendly than what was under consideration even a few weeks ago.

The proposed overhaul would be sweeping. It would give the government the power to take over and break up large faltering financial companies, create more scrutiny of exotic financial products such as derivatives, and require large financial companies to face more supervision.

Illustrating how difficult a bipartisan deal will be to achieve, the House passed its version of new financial rules in December by a 223-202 vote, with no Republican support.

Mr. Dodd's proposals to rework financial regulation have been controversial. He has proposed stripping power away from the Federal Reserve and combining four bank regulators into a single entity. Negotiations under way are set to dial back his proposals. Mr. Dodd is likely to bend on his wish for a single banking regulator, people familiar with the matter said.

This deal would appear to meet concerns raised by Sen. Richard Shelby (R., Ala.) and Sen. Tim Johnson (D., S.D.), who is likely to become chairman of the committee once Mr. Dodd steps down. Mr. Johnson, who is still recovering from a 2006 cerebral hemorrhage that left his mobility and speech limited, is less liberal than Mr. Dodd.

On the consumer agency, Senate aides haven't been able to find much common ground, but Sen. Mark Warner (D., Va.) suggested in an interview Wednesday that a compromise could be within reach. "There are paths to get there," said Mr. Warner.

Many Republicans and business groups oppose the idea, saying it creates too much government bureaucracy and could cut off access to credit.

White House backs more health subsidies

By Janet Adamy And Laura Meckler

WASHINGTON—The White House supports an effort to tweak the health bill so it makes insurance more affordable for the lowest earners. But the change would drive up the cost of the overhaul, an area where lawmakers have little room to maneuver.

President Barack Obama met with top Democrats for the second consecutive day Wednesday to hash out the final legislation. The White House is using the more moderate health bill passed by the Senate on Christmas Eve as the basis for a final bill, while adapting some provisions from the more liberal version the House passed Nov. 7.

Rep. Charles Rangel, chairman of the House Ways and Means Committee, suggested that much work remained. "The president has been very patient with his time and understanding that we have to get 218 votes and we really have to be able to sell it, not just to our Democratic caucus but to the American people," the New York Democrat said, referring to the number of votes the House needed to pass a bill.

Mr. Obama's message to the House leaders Wednesday was "get it done," said Rep. Henry Waxman (D., Calif.), chairman of the Energy and Commerce Committee. The most significant idea to survive from the House could be its more-generous support for lower-income Americans. The House bill gives more Americans access to low-cost Medicaid insurance, provides greater subsidies for lower earners to buy insurance and goes further to reduce out-of-pocket costs.

Making health insurance affordable is one of Democrats' biggest quandaries. For the first time, most Americans would be required to carry insurance or pay a fine under the legislation. Republicans say people should have the right to go without coverage if they wish, especially if it costs a lot. Democrats say they won't force people to buy something they can't afford.

Adding subsidies threatens to drive the cost of the bill past the ceiling of $900 billion over a decade that Mr. Obama set last year. The more generous subsidies in the House bill cost $602 billion over a decade, while the subsidies in the Senate bill cost $436 billion during that period.

> Adding subsidies threatens to drive the cost of the bill past the ceiling that Mr. Obama set last year.

"The further you push towards the House approach, the more expensive the legislation is," said Drew Altman, president of the nonprofit Kaiser Family Foundation. "Clearly the financing is an issue."

A White House official said Wednesday that the president would support the House effort to make subsidies more generous, though the official didn't give details.

The Senate raises the new money needed to pay for its bill almost entirely through tax increases inside the health sector, including a tax on generous health-insurance plans and new fees on insurers, pharmaceutical makers and medical-device companies. The House relies largely on an across-the-board tax on high-income Americans—a strategy that the final bill isn't likely to incorporate. Both bills also include hundreds of billions of dollars in cuts to health-care providers through Medicare as a major funding source.

The White House made its case for why the final bill should include a tax on generous health-insurance plans, a key funding component of the Senate's version, a Democratic aide said. House leaders countered that their plan to tax the wealthy is a better alternative. While the House bill gives greater assistance to the poorest Americans, the Senate gives more help to middle-income Americans.

Under the House bill, a family of four earning about $44,000 a year would spend no more than 5.5% of its income on insurance premiums for a plan that paid an average of 93% of its medical costs. In the Senate bill, that same family would pay up to 6.3% of its income for premiums for a plan that covers an average of 80% of its medical costs. The House bill caps that family's out-of-pocket medical costs at $2,000 a year, about half the level of the Senate bill.

The assistance shifts for middle earners. Under the House bill, a family of four earning about $88,000 a year could spend up to 12% of its income on insurance for a plan that covered an average of 70% of its medical expenses. The Senate bill would make that family pay no more than 9.8% of income for a similar plan, and also would have a slightly lower cap on out-of-pocket expenses. Democrats have little room to bolster the subsidies because the latest version of the Senate's bill costs $871 billion over a decade, according to the Congressional Budget Office.

U.S. NEWS

Political outlook shifts

Democrats are weakened, but it's unclear if Republicans can capitalize

By Greg Hitt

The political climate appears hostile for Democrats, but it isn't clear Republicans are ready to take advantage.

The Republican Party has its own string of retirements. And while voter unease with the Democratic agenda has grown, most polls don't show a significant turn in support toward the GOP. "What you see is discontent with the status quo, but there's been no sea change in attitudes toward the parties," said Andrew Kohut, president of the Pew Research Center in Washington.

Mr. Kohut, who closely tracks public opinions about politics, said most polls showed an increase in "anti-incumbent sentiment," and this could create an opening for Republicans.

That is the hope of the strategists at the campaign arms for House and Senate Republicans. "The landscape has shifted," said Brian Walsh, a spokesman for the National Republican Senatorial Committee. "As Democrats are sensing the possibility of defeat, Republicans are sensing opportunity," said Ken Spain, a spokesman for the National Republican Congressional Committee.

Michael Steele

Strategists in both parties expect Republican gains this fall, but the size of the potential gains unclear. Republican National Committee Chairman Michael Steele, asked by Fox News pundit Sean Hannity if he thought his party could take over the House, answered, "Not this year," in an interview aired Monday night. Mr. Steele went on to say that he didn't know whether Republicans were ready for that victory. Democrats hold 256 seats in the House, to the Republicans' 178. There is one vacancy.

For Republicans, the good political news is tempered. While Republicans won big in November's elections in Virginia and New Jersey, the party hasn't done well in special congressional elections to fill seats that have opened up in the past year.

Democrats say they are ready for the fight. "We absolutely understand the challenges Democrats face this cycle," said Jennifer Crider, a spokeswoman for the Democratic Congressional Campaign Committee, the campaign arm of House Democrats. "But Republicans—as much as they want to spin it—they don't have a clear path."

Republicans are vowing to boost candidate recruitment in the coming weeks, in an effort to force more Democrats into competitive races.

Reuters

A man in a red vehicle is approached by police after a pursuit ends in the Federal Building parking lot in Los Angeles, in August.

Los Angeles crime hits low

By Tamara Audi
And Gary Fields

Violent crime in Los Angeles hit its lowest level in more than half a century last year, one of a growing number of U.S. cities reporting its streets were remarkably safe in 2009.

Washington, D.C., finished the year with 143 killings, the lowest tally in the nation's capital since 1966. San Francisco reported 45 homicides last year, its lowest in 48 years. New York, Chicago, Boston and Dallas also reported dramatic year-over-year declines in 2009 compared with 2008.

Los Angeles Mayor Antonio Villaraigosa announced Wednesday there had been 314 homicides in 2009—the lowest number of killings since 1967, when there were 281. In 2005, 489 people were killed in the city. Los Angeles also saw declines in rapes, robberies and assaults in 2009, compared with the previous year.

Violent crimes nationwide—including homicide, forcible rape, robbery and aggravated assault—have been shrinking since 2007, after a slight increase in 2006, according to the Federal Bureau of Investigation. Killings dropped 4.4% in 2008 from 2007. Preliminary FBI statistics for the first six months of 2009 showed homicides were down 10%.

Reported statistics showed the greatest drop in cities with populations greater than a million people. Violent crime in those cities fell 7% in the first six months of the year; homicides were down 13.4% compared with the same period in 2008.

Experts believe the fall in violent crime is tied to the aging U.S. population.

"The graying of America is a significant factor," said James Alan Fox, Lipman Professor of Criminal Justice at Northeastern University in Boston. "The largest and fastest growing segment of the population is people over 50. People over 50 also happen to be the age group that is the least likely to commit crimes. As the group grows, crime rates do decline."

Prof. Fox said a common assumption that crime goes up during a recession was wrong. Historical data show there is little connection between economic conditions and crime, particularly violent crime.

Prof. Fox said the crimes most likely to increase during a recession were such offenses as fraud, check forgeries and insurance schemes.

In Chicago, there were 453 homicides between Jan. 1 and Dec. 27 last year, according to preliminary figures from the police department, down 11% from 509 over the same period in 2008. The number of killings has fallen steadily from about 900 a year in the early 1990s until 2007, when they hit 442.

In New York, police reported 466 homicides in 2009, down 10.9% from 2008.

Dallas also hit historical lows last year with 166 homicides, according to Dallas police. It was the lowest number of killings there since 1967, when the city registered 133. The homicide rate in 2009, which is based on the population, is the lowest the city has seen in 51 years. Killings in the city have dropped by 33% in the last five years.

—Jim Carlton and Joe Barrett contributed to this article.

All isn't lost for Democrats: Five ways to boost prospects

[Capital Journal]

By Gerald F. Seib

You know things are bad for Democrats when a move that actually improved their chances in this fall's elections—Wednesday's retirement of the politically troubled Sen. Christopher Dodd of Connecticut—was universally interpreted as yet another sign of the party's bleak prospects in 2010.

In fact, the man who will step in for Democrats to try to keep that Senate seat—state Attorney General Richard Blumenthal—is more popular than Mr. Dodd and actually has a better shot at winning. Yet the broader take-away was that the Dodd retirement, coming within hours of more shocking departure announcements by North Dakota Sen. Byron Dorgan and Colorado Gov. Bill Ritter, was a metaphor for a party in trouble, bringing forth the inevitable rats-jumping-sinking-ships analogies.

With some justification. The Dorgan retirement, more than the Dodd one, makes it exceedingly unlikely that Democrats can hold onto that magic, filibuster-proof majority of 60 Senate seats. And the consensus now is that they will lose 25 to 30 seats in the House in November's midterm elections. That would leave Democrats in control of Congress, but in much the same way President Hamid Karzai is in control of Afghanistan, which is to say barely.

Still, the new year is but eight days old, which invites a question: Are there things Democrats could do, or have done for them, to improve their prospects? The answer, obviously, is yes. Here are five developments that still might lighten those storm clouds hanging over Democrats:

Change the perception of health legislation.

As Democrats try to reconcile the different House and Senate versions of health legislation, Republicans are going to try one last time to kill the whole thing. But Democrats probably have climbed too far out on the health limb to allow it to be sawed off behind them now.

So let us assume a final version is passed and signed by President Barack Obama in the next month or so. The question then becomes: Can Democrats make the product more popular once it is finished than it was while under assembly? In particular, can they convince fully employed, middle-class Americans that they are getting some tangible benefits from the bill's insurance reforms, or at least a greater sense of security about their insurance, in return for its big price tag?

White House officials take some solace in the way attitudes changed over an equally unpopular piece of legislation, the North American Free Trade Agreement. In the fall of 1993, as Congress was heatedly debating the legislation, Americans opposed it by 36% to 25%, according to Wall Street Journal/NBC News polling. President Bill Clinton, who vigorously backed the trade deal, saw his job approval fall to 47%.

But by the time he signed it into law in December of that year, public opinion had shifted, and the deal was supported by 36% to 31%. By the next spring, Mr. Clinton's approval rating had risen to 57%. (Of course, there soon followed a scandal over Mr. Clinton's alleged marital infidelities, and his own disastrous attempt at health reform, so his reprieve was short-lived.)

Find job growth.

The unemployment rate is virtually certain to remain uncomfortably close to the politically perilous 10% level through the November election. The key for Democrats will be whether new jobs are starting to be created, producing a perception that the trend line is turning around.

So look for the administration to start talking less about unemployment rates, and more job creation. If you listened closely, you would have heard White House economic adviser Lawrence Summers make that rhetorical pivot last month, predicting on ABC's "This Week" that there would be "employment growth" by spring.

Convince America the deficit is being handled.

The federal budget deficit has morphed from an abstraction into a real concern for most Americans. It is now running $1.4 trillion annually, and the Obama administration has no real hope of doing much to materially change that by November. Its political imperative, instead, is to do enough in presenting its new budget in February to convince people that it knows how to get its arms around the problem.

Find an issue that is popular in the political middle.

That isn't likely to be the proposed climate-change legislation that would launch a giant new cap-and-trade system for controlling greenhouse gases. After health care, cap-and-trade likely will simply feel risky to a middle America seeking reassurance.

Instead, some Democrats think a more winning issue in 2010 is education. There, Education Secretary Arne Duncan is taking steps that have actual bipartisan appeal. He is forcing changes in ossified education systems by making states actually compete to win federal grants and is working to address the Double-A problems confronting parents with kids approaching college: access and affordability of higher education. Look for more from the president on that.

Get help from the opposition.

However dire their straits, the two parties can usually count on the fact that the other side rarely misses an opportunity to miss an opportunity. In this case, Republicans could fall into two traps: They could descend into ideological warfare among themselves, or fail to co-opt the "tea party" movement, whose adherents are seething at Democrats but not enamored of Republicans either.

WORLD NEWS

Copts riot in Egypt

Clashes with police erupt in South following shooting of churchgoers

By Shereen El Gazzar

CAIRO—Around 1,000 Coptic Christians clashed with police in southern Egypt on Thursday, after assailants in a car opened fire on churchgoers after they exited Midnight Mass, killing seven people and wounding nine.

The clashes occurred as mourners received the bodies of the dead from the hospital, and after burial services. Protesters in Nag Hamadi, about 40 miles north of the ancient ruins of Luxor, attacked a police station with rocks, smashed shop windows and tore down light poles, according to a security official and witness accounts reported by the Associated Press.

Some Copts—a group that makes up about 10% of Egypt's majority Muslim population of 78 million—claim that Egyptian police have sided with Muslims in recent tensions between the two groups.

The strife stems from the alleged rape of a 12-year-old Muslim girl by a Coptic man late last year. Some Christian pharmacies and cars were attacked after the incident, said the Rev. Lucca Helal, a priest at Mary Hannah Church, the site of the attacks. The suspect is in custody, awaiting trial.

The Bishop of the Nag Hamadi Diocese told the AP he had received a threat and called for an early end to Wednesday night's service, which was held to celebrate Coptic Christmas.

Three men opened fire on the churchgoers, the security official said. They had earlier fired shots randomly in a commercial area of a main street, without killing anyone. None of the three was apprehended.

The fatalities outside the church included six Coptic Christians and a Muslim church guard, the Egyptian state news agency MENA reported. The bishop said the dead were mostly young males in their teens.

Father Helal called the incident "a terrorist attack at a sensitive time."

On Thursday, tensions rose as authorities delayed the release of the bodies. Protesters smashed ambulances outside the hospital. Police dispersed the crowd with tear gas, the AP reported.

Fawzi Zafzaf, former president of the interfaith dialogue committee at Al-Azhar, the top Sunni Islamic authority, said the motivation behind the incident was social, rather than religious.

"It is a social problem. The concept of revenge is strong in southern Egypt and it can happen between any two families," said Mr. Zafzaf.

Wednesday's attack was the worst known incident of sectarian violence in Egypt since 2000, when Christian-Muslim clashes left 23 people dead, most of them Copts.

Associated Press

An Egyptian riot policeman fires tear gas against protesters during clashes between Coptic Christian mourners and police in southern Egypt on Thursday.

U.S. demands Pakistan stop harassing staff

The U.S. Embassy in Islamabad demanded Thursday that Pakistan stop detaining American diplomats at police checkpoints on the country's roads—an unusual public complaint intended, in part, to counter rumors of U.S. plots against Pakistan.

*By **Zahid Hussain** in Islamabad and **Matthew Rosenberg** in New Delhi*

U.S. officials privately say the traffic stops, which they describe as harassment, are part of a broader campaign aimed at limiting America's diplomatic presence in Pakistan. The officials say they believe the campaign is being driven by elements in the military and the Inter-Services Intelligence spy agency.

Pakistan is a U.S. ally, but anti-American sentiment is rising in the nation. Many of its officials, soldiers and spies are mistrustful of Washington's intentions in neighboring Afghanistan and growing ties to archrival India. Many ordinary Pakistanis believe the U.S. is pouring spies into Pakistan and aims to take away its nuclear arsenal.

U.S. diplomats also say scores of American diplomats and officials were waiting on visas to come to Pakistan or extensions to remain in the country. U.S. officials say the delays risk undermining efforts to beat back the Taliban and al Qaeda and stabilize Pakistan. Many of the people waiting on visas are to help oversee a $7.5 billion civilian aid package.

Washington believes the harassment and visa delays were partly an attempt to keep the U.S. from nearly doubling the size of its embassy in Pakistan, a U.S. diplomat said.

The embassy's statement called for "immediate action" by Pakistani authorities "to cease these contrived incidents involving U.S. mission vehicles and personnel."