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WEEKEND JOURNAL

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Europe's Franco-German engine sputters



The relationship between Angela Merkel and Nicolas Sarkozy has worsened through the euro-zone crisis, depriving the European project of its Franco-German engine. One thing the leaders have in common: poor polls. Sarkozy's approval rating hit a new low Thursday. **Full article on pages 14-15.**

Global output loses steam, fuels worries

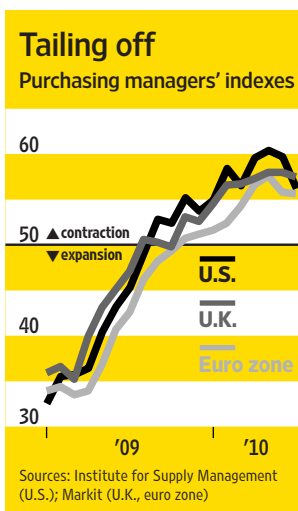
By SARA MURRAY AND MICHAEL S. ARNOLD

Manufacturing lost momentum around the world in June, adding to worries that global economies are poised for slower growth in the months ahead.

An index based on a survey of U.S. purchasing managers suggested that factory output expanded for the 11th month in June, but at a slower pace than the month before. Similar pullbacks occurred in China and the euro zone last month, according to separate indexes released Thursday. Japan was one of the few places where the factory sector has gained steam.

The U.S. and other major economies have relied heavily on manufacturing as a growth engine coming out of the recession. The question now is whether the slowing pace is more than just a natural adjustment as producers recover from the downturn. Many manufacturers have grown rapidly in recent months as they've restocked shelves; so some pullback in growth has been expected.

Growth in the U.S. factory sector is slowing, said Jay Feldman, a Credit Suisse Se-



curities LLC analyst, "but we're slowing from a very strong pace."

Separately, new filings for U.S. jobless benefits increased last week as the labor market continued to struggle. Pending home sales, no longer propped up by government incentives, declined as did construction spending. And a report earlier this week showed sagging consumer confidence. Those depressing signals weighed on investors on Thursday as the Dow Jones Industrial Average fell 41.49 points, or 0.4% to 9,732.53

An important clue to the strength of the recovery will come Friday when the U.S. government releases its employment report. Economists expect the overall number to decline as temporary Census hiring comes to an end but they predict some private-sector job growth.

In the U.S., the Institute for Supply Management's manufacturing index fell to 56.2 in June from 59.7 the prior month as new orders, production and exports slowed. Figures above 50 indicate expansion.

Prices continued to rise in June, the survey found, but the rate slowed dramatically—a sign that inflation remains a distant worry for U.S. policy makers. A J.P. Morgan Chase & Co. and Markit Economics index of global manufacturing prices showed a widespread slowdown in input prices, though they were still rising.

"Frankly our concern is deflation at this point," said J.P. Morgan's David Hensley.

The euro zone's manufacturing machine also lost momentum, but only slightly. An index based on a survey of 3,000 manufacturing firms

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The Quirk



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Editorial & Opinion

How not to save the euro. Page 12

AIG mulls sale of Japanese units

American International Group Inc. is reconsidering a sale of two Japanese life insurance companies for roughly \$5 billion, people familiar with the matter said.

A plan to sell the units would represent a reversal of AIG's decision last fall to hold on to the two subsidiaries, known as AIG Star Life Insurance Co. and AIG Edison Life Insurance Co. The units earlier had been on the block.

But after AIG Chief Executive Robert Benmosche visited the units in Japan in October 2009, AIG announced it

planned to retain the pair of companies "for the foreseeable future" in part to help stabilize their businesses. Since then, the performance of AIG Star and Edison, along with the deal-financing environment, have improved.

Meanwhile, Mr. Benmosche and AIG non-executive Chairman Harvey Golub have agreed to try to resolve their differences and work out a plan for AIA Group Ltd., people familiar with the matter said. A deal to sell AIA to British insurer **Prudential PLC** didn't stick after Pru

shareholders balked at the price.

Messrs. Benmosche and Golub made commitments to work together on AIG's restructuring after Mr. Benmosche said at a board meeting last week that he wanted Mr. Golub gone and threatened to resign himself, the people said. They are also planning to stay on in their current roles for now. An AIG spokeswoman declined to comment. Messrs. Benmosche and Golub weren't immediately reached for comment.

The news comes as AIG

has been looking to divest several overseas life insurance businesses to repay over \$50 billion to the Federal Reserve Bank of New York. Another deal—to sell American Life Insurance Co., which has a large presence in Japan and Europe, to **MetLife Inc.** for \$15.5 billion—is on track to be completed in the coming months.

As AIG worked to sort out its recovery plan, a hearing in Washington examined its troubled past. In testimony Thursday, **Goldman Sachs Group Inc.** executives defended valuations for credit

default swaps that were presented to AIG during the financial crisis.

That sparring between the two firms, which dated back to 2007, moved into the public eye Thursday as the Financial Crisis Inquiry Commission asked Goldman executives to describe a collateral dispute about AIG's swaps that took place in the year before AIG collapsed in 2008.

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Real pain is still to come for U.K.

[Agenda]

BY PATIENCE WHEATCROFT



As he moves to reduce France's deficit, President Nicolas Sarkozy is opting for a series of cuts so petits that he hopes the public will barely notice them. The multitude of different measures he has announced come nowhere near the €100 billion (\$122 billion) or so he needs to find by 2013 but they have still been enough to occasion national strikes. The president's popularity has plummeted to give him an approval rating of just 26%. The proportion of people who trust him is nearly as bad, with 71% telling pollsters they distrust Mr. Sarkozy.

By comparison, the U.K. government appears to have received a relatively gentle public reaction to its much more drastic deficit reduction plan. But that is, in part, because it is still not clear exactly what form the threatened cuts are going to take. What is really meant by a declaration that most government departments are going to have to cut their spending by 25% has yet to become clear. Yet what is inescapable is that most of those savings will eventually have to be found by means of job losses.

Efficiencies will be found through improved procurement but this is not a novel idea and successive governments have claimed that they have already made strides in that direction. A tougher approach to welfare will bring savings and will, initially, require people to implement it but, in the end, a state that does less requires fewer workers.

Leaked Treasury documents appear to show an expectation that 600,000 jobs could be lost in the public sector over the next five years with a knock-on effect of 700,000 jobs vanishing from the private sector. The U.K. government has been quick to



General Electric CEO and Chairman Jeffrey Immelt speaking this week.

dismiss the numbers as entirely speculative but that has not stopped a flurry of outrage from the opposition.

Since a few weeks ago, when the opposition was the government, it too had been promising some swingeing cuts in public spending, there was some hypocrisy involved in this. But there was also fear. Because, while it is clear that budget cuts will

An outsider's business brain has to be brought to bear on the massive government machine.

mean a hefty number of public sector jobs will go, it is less clear where new employment opportunities will arise. As the leaked documents demonstrate, so many private-sector businesses have become highly dependent on public-sector work that the risk is that the coming cutbacks will hit the private sector hard too.

There will be some functions currently carried out by government which can be transferred to the private sector at considerable savings. Kenneth Clarke, the minister in charge of penal policy, has, for instance, suggested that he would save money by not locking so many offenders in prison but using

private-sector firms to rehabilitate lesser offenders, many of whom have drink and drug problems. Their remuneration could be tied to their success in reducing what is now a disastrously high rate of re-offending.

This is potentially a doubly attractive policy, with lower outgoings delivering improved outcomes. Its success, though, will depend upon there being employment for those who are weaned off crime, otherwise they will quickly revert to old habits.

The U.K. coalition has recruited Lord Browne to inject some business efficiencies into government. This is somewhat controversial, given that he was formerly chief executive of BP and loud questions are being asked about whether the efficiencies he wrought there have had unwanted consequences. But it is essential that an outsider's business brain should be brought to bear on the massive government machine. There will be more than enough push-back from officials to ensure that overly red-blooded schemes get diluted.

Yet while Lord Browne is helping with the cuts, it is equally important that the best business brains are employed on the other side of the equation, working out where the new jobs are to be found. Plans for a new government fund to back green energy projects, announced this week, could be a start in that

direction. Across Europe, the need to create new jobs is pressing. In Spain, for instance, almost 40% of youths are unemployed. Yet statistics that emerged Thursday indicated that the global slowdown could be further endangering jobs. Indices from purchasing managers around the world all registered a downturn last month.

If European manufacturers are to flourish, and create jobs, then they must look beyond their traditional markets. This is no easy task. Jeffrey Immelt, chief executive of General Electric, had little encouraging to say when he addressed a gathering in Rome this week.

Talking of China, the tantalizingly vast market that so many companies are hoping may produce new openings for them, he apparently suggested that the country was becoming increasingly protectionist. Although \$5.3 billion of GE's revenue comes from China, Mr. Immelt is reported to have said that the company was finding conditions there to be increasingly difficult. His view seems to be that China is intent on encouraging its own companies, not those from overseas.

And he seems to have made no secret of his opinion that his own government appeared to have a very different attitude. The criticism that President Barack Obama does not like business has been heard regularly in the light of what he has said about BP but it is still somewhat surprising to hear a top U.S. businessman quoted as making the same allegations.

But Mr Immelt's complaints seem borne out of frustration. He wants to see US business thriving. "We have to become an industrial powerhouse again but you don't do this when government and entrepreneurs are not in synch," he was reported as saying. Any chance of the U.K. being even a minor industrial powerhouse depends on the same partnership. Finding ways to build it must be a top priority.

What's News

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■ **Auto makers saw** their U.S. sales fall in June from May as jittery consumers slowed the pace of recovery in the car market. 21

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'Strong correlations on the way up suggest strong correlations on the way down as well.'

Alan Mattich on a global downturn's possible effect on emerging markets



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Question of the day

Q: Will the Russia spy investigation harm the relationship between Russia and the U.S.?

Vote online and share your thoughts with other readers at wsj.com/polls

Previous results

Q: Do you expect to see a downturn in global economic growth?

Yes

73%

No

27%

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NEWS

Diageo tries a neat idea for pensions

By MICHAEL CAROLAN
AND MOLLY NEAL

Diageo PLC, over a barrel when it comes to funding its pension plan, is using whisky to fill the gap.

Where retailers have used real estate and British Airways has used planes as security for its pension trustees, the spirits company is pledging up to 2.5 million barrels of its maturing whisky—enough to fill about 180 Olympic swimming pools.

The transfer of whisky to its U.K. pension fund is part of a 10-year funding plan Diageo has agreed with its trustees, to help address pension-fund deficit that totals £862 million, or about \$1.29 billion.

As the world's largest whisky producer, with brands such as Johnnie Walker and Talisker, Diageo will use some of the highly valuable barrels of whisky it has maturing in warehouses across Scotland.

The liquid stock held by the pension fund will come from Diageo's malt and grain distilleries in Scotland and represents around 30% of Diageo's total whisky stock.

While the Diageo deal seems unique in its use of whisky, the rationale behind it is no different to a raft of recent property-based pension deals, said independent pension consultant John Ralfe. "Companies are looking for corporate assets which they can pledge to pension schemes which mean they don't have to put in cash," he said.

Diageo's move follows similar schemes from other U.K. companies



Diageo, maker of Johnnie Walker and other brands, is pledging 2.5 million barrels of whisky to pension-fund trustees.

that have used non-cash assets to boost their pension funds. Hotel and restaurant group Whitbread PLC, J Sainsbury PLC and Marks & Spencer Group PLC have all put real estate assets into their pension funds. In 2006, British Airways PLC gave its pension trustees rights over aircraft in the event of insolvency and last week BA agreed to a deal giving

pension trustees £250 million in security against aircraft, property or cash.

Marc Hommel, pensions partner at advisory firm PricewaterhouseCoopers, said he has seen "an exponential increase in the use of non-cash funding for U.K. pension schemes because deficits are large and trustees are under pressure to

ensure deficits are plugged as quickly as possible." The unusual assets, whether property, royalties on a brand, or a stake in a subsidiary, are used as security for the trustees in the event of insolvency and allow the company to make lower cash payments as a result, he said.

While the practice is most com-

mon in the U.K., it is starting to become more prevalent elsewhere, with corporations in the U.S., Canada and the Netherlands considering the feasibility of the structure, said Mr. Hommel.

The liquid held by the pension scheme will be a maximum of three years old and will therefore not be old enough to be bottled as whisky. Once the liquid reaches three years old and becomes usable, Diageo will take back the stock and replace it with fresh liquid, thereby ensuring that the value of the stock held remains constant at £430 million.

After 15 years, the pension trustee will sell its share of the partnership back to Diageo for an amount equal to the remaining deficit and no more than £430 million.

The deal provides the pension fund with an immediate and significant reduction in its deficit, a Diageo spokesman said, while having no impact on the drinks giant's free cash flow. It also ensures Diageo retains complete control over its ability to use the liquid, he said.

Diageo will continue to make the annual £50 million payments and also made a one-time payment of £197 million into the pension fund as agreed under the 2006 funding plan.

The Diageo spokesman said the deficit was not significant when compared with Diageo's assets and cash flow, however, and will be much lower when Diageo reports its results in August. Diageo's pension fund has 62,000 members of which 4,000 are current employees.

Global output loses steam

Continued from first page
across the region fell to a four-month low of 55.6, from 55.8 the month before, according to Markit.

Growth eased in China as well. In recent months Chinese authorities have moved to rein in the surging economy and prick potential asset bubbles, and Thursday's data suggested those steps are beginning to take hold.

China's manufacturing index fell to 52.1 in June from 53.9 a month earlier, the China Federation of Logistics and Purchasing said. It was the second month in a row that the data showed slower growth.

The euro zone's manufacturing machine also lost momentum, but only slightly.

The trend was repeated across the Asia-Pacific region as India, Australia, South Korea and Taiwan all experienced more sluggish growth. While that's likely to heighten concerns that the exit from the global recession has hit a significant speed bump, economists noted that Asia's economic growth remains generally strong.

"What this likely signals is slow growth in the third quarter. But the data is not consistent with a hard landing," HSBC senior Asian economist Frederic Neumann says. "To the extent that we see this as a normalization—and not a double-dip recession—the support that Asia lends to the world economy should still be there for the foreseeable future."

As factory growth slowed elsewhere in Asia, Japan was going the other way. Sentiment among manufacturers in that nation turned positive for the first time in two years in the second quarter, according to the Bank of Japan's quarterly *tankan* survey. Japan's manufacturing index rose to 1, from minus-14 for the first quarter. The figure represents the percent of companies saying business conditions are good, minus the percentage saying conditions are bad.

The U.S., meanwhile, continues to face severe headwinds from a weak job market. New claims for unemployment benefits rose by 13,000 to a seasonally adjusted 472,000 for the week ended June 26, the Labor Department said Thursday. The four-week moving average for such claims, which smooths volatility in the data, also increased by 3,250 to 466,500.

Signs of weakness in other corners of the U.S. economy emerged Thursday as well. An index of pending home sales dropped 30% to 77.6 in May, down from 110.9 in April, the National Association of Realtors said. The index is based on contract signings. The decline comes after three months of gains as buyers rushed to take advantage of a home-buyer tax credit which expired at the end of April.

Construction spending also declined 0.2% to a seasonally adjusted annual rate of \$841.9 billion in May, from the prior month and is 8% below year-ago levels, the Commerce Department said. Private construction declined while public construction spending increased.

—Nicholas Winning
and Tomoyuki Tachikawa
contributed to this article.

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EUROPE NEWS

Spy-suspect detention sought

U.S. prosecutors sought to detain until trial alleged Russian secret agents arrested over the weekend, in part because another alleged agent fled after being released on bail in Cyprus, where police continued to hunt for him Thursday.

By Evan Perez
in Washington
and Alkman Granitsas
in Larnaca, Cyprus

A court filing in New York asked a judge not to grant bail to four of the alleged agents due in court Thursday, and prosecutors plan to make similar requests for six others in custody, according to U.S. officials.

In Cyprus, meanwhile, Christopher Metsos, the alleged moneyman in the spy ring, was arrested this week as he tried to board a flight. A judge granted him bail, with the agreement that he surrender his passport and report regularly to a police station.

"Within 24 hours of being bailed, Metsos simply disappeared," prosecutors said. "There is little need here for speculation as to what will happen if the defendants are permitted to walk out of the court pursuant to a release order; as Metsos did, they will flee."

Federal prosecutors said in a court filing in New York that they have years of wiretap recordings on four of the defendants—Vicky Pelaez, those who went by the names Richard and Cynthia Murphy, and Juan Lazaro.

Prosecutors said they have decrypted more than 100 messages exchanged between the Murphys and their handlers in Moscow for the SVR intelligence agency.

Prosecutors also alleged that Richard Murphy was told by handlers in 2008 that one way to collect intelligence would be to become active in political campaigning for the local Democratic and Republican parties in New Jersey, where he lived.

In the court filing, prosecutors allege that Mr. Lazaro confessed after he was arrested and advised of his right to refuse to answer questions.

Prosecutors claim that Mr. Lazaro said he wasn't born in Uruguay, as he had previously claimed, and that his real name wasn't Juan Lazaro. He refused to provide his real name. He also told investigators that his home in Yonkers, N.Y., was paid for by the "service," prosecutors allege.

Mr. Lazaro further said that his wife traveled to South America in 2000 and delivered a letter to the SVR on his behalf.

In a search of safe-deposit boxes



A courtroom sketch of spy suspects Tracy Lee Ann Foley, left, and her husband, Donald Heathfield, third from left,

associated with the Murphys, investigators found eight unmarked envelopes that each contained \$10,000 in apparently new \$100 bills. They said there was no indication the Murphys' children "have any inkling that their parents are, in truth and in fact, Russian secret agents."

Prosecutors describe the alleged agents, except for Ms. Pelaez, as "highly trained" by the SVR. They note that for the alleged Russian agents to be out of the reach of U.S. authorities, they wouldn't even need to leave the U.S. and could just seek refuge at the Russian consulate or Russia's U.N. mission in New York City.

In criminal complaints filed Monday, prosecutors alleged that Russian diplomats posted in the U.N. mission regularly interacted with the alleged agents, passing on money and getting information via computers linked through a sophisticated private network.

The SVR handlers referred to other Russian spies, using the code word "tech. people in NY," according to messages federal investigators intercepted, prosecutors allege.

Meanwhile, judges postponed bail hearings for five of the suspects to give their lawyers more time to prepare.

Donald Heathfield and his wife, Tracey Lee Ann Foley, of Cambridge, Mass., appeared in federal court in Boston on Thursday for a bail hearing, and a judge granted a delay until July 16. Mr. Heathfield's lawyer, Peter Krupp, said the evidence revealed so far against his client was "extremely thin."

In Alexandria, Va., a judge postponed until Friday the hearings of Mikhail Semenko, Michael Zottoli and Patricia Mills, all of Arlington,

Va.

Anna Chapman appeared in court Monday. Prosecutors still have to request her pretrial detention.

The Murphys, Mr. Lazaro and Ms. Pelaez were to go before a judge in New York later Thursday.

Cypriot authorities Thursday stepped up an island-wide manhunt Mr. Metsos after he failed to report Wednesday to local police, as required under the Cypriot court order.

He had been arrested Tuesday and released on bail, over the objections of U.S. authorities and Cypriot prosecutors, who argued that Mr. Metsos posed a risk of flight.

Police said they had increased surveillance at all entry and exit points in Cyprus and circulated a picture of the suspect to local media.

"We have some leads, and we hope to arrest him soon," Justice Minister Loucas Louca told reporters. Mr. Louca also said that the court order to release Mr. Metsos on bail "may have been a mistaken decision."

U.S. Justice Department spokesman Dean Boyd said: "We're disappointed that Christopher Metsos was released on bail following his arrest in Cyprus. As we had feared, having been given unnecessarily the chance to flee, Mr. Metsos did so."

Mr. Metsos, 54, is accused by U.S. authorities of being the paymaster for a network of Russian spies operating in the U.S.

He was arrested by Cypriot police acting on a warrant from the U.S. as he attempted to board a flight to Hungary. At the time, Mr. Metsos was traveling on a Canadian passport after having spent roughly two weeks in Cyprus, where, accord-

ing to the police, he was acting as a tourist.

He was then arraigned in a Cypriot court and was ordered to surrender his travel documents and remain in Cyprus pending extradition hearings scheduled for July 29. He was set free on bail of approximately €26,000, or about \$32,000, and ordered to report daily to the local police.

His flight, an embarrassment to the Cypriot government, has sparked concerns that Mr. Metsos might try to leave the island by slipping into the Turkish-occupied northern part of the Mediterranean island.

Cyprus has been divided since 1974, when Turkey occupied the north in response to an Athens-engineered coup aimed at uniting the Mediterranean island with Greece. The northern republic is recognized only by Turkey, which maintains troops on the Turkish Cypriot side, while the Greek Cypriot south enjoys international recognition.

The Turkish part of the island has no extradition treaties but does have regular air and ferry links with Turkey and several countries in the Middle East.

"He's probably either left the country or otherwise crossed into the occupied territories by now," said a Cypriot immigration official.

Greek Cypriot authorities have requested cooperation from their Turkish counterparts in the north, police officials said.

U.S. Ambassador to Cyprus Frank Urbancic raised the issue of Mr. Metsos's arrest with Greek Cypriot President Dimitris Christofias on Thursday, embassy officials said.

—The Associated Press
contributed to this article.

Sweden raises rates, frets over euro zone

By JOHAN ANDERBERG
AND KATIE MARTIN

Sweden's central bank raised its key interest rate Thursday for the first time in nearly a year, but the Swedish krona tumbled as the Riksbank gave a surprisingly gloomy assessment of the likely impact of economic stresses in the euro zone.

As economists had predicted, the Riksbank raised interest rates by a quarter of a percentage point to 0.5%, as the Swedish economy continues to recover from the global financial crisis.

"The Swedish economy is developing strongly following the severe downturn," the Riksbank said in a statement. "The repo rate now needs to be raised gradually." The rate had stayed untouched at 0.25% since July 2009, after being cut by 4.50 percentage points in response to the financial crisis at the end of 2008.

However, two of the six rate-setting monetary-policy committee members voted to stay on hold, and the central bank trimmed its future interest-rate path based on expectations for lower growth in the euro zone.

That has shaken previously confident expectations for a steady grind higher in Swedish interest rates, knocking the krona. The euro jumped by nearly 0.5% to 9.60 krona on the news.

"I was not surprised by the scale of the rate rise, but I was surprised to see the Riksbank being so explicit in its concern about the euro zone," said Daragh Maher, a currencies analyst at Crédit Agricole in London.

The krona has been a top pick among many profit-seeking currencies funds as the country's solid economic fundamentals point to steady growth and higher interest rates, in sharp contrast to long-running stresses in the euro zone and elsewhere.

"This may temper some of the speculative inflows, but whichever way you look at it, the Riksbank is now hiking well ahead of the European Central Bank, and the Swedish economy is likely to grow faster," Mr. Maher said. That points to further currency strength ahead. A shaky tone in global equities may also be contributing to the krona's burst of weakness, he added.

Euro boost

How many Swedish kronor one euro buys



Source: WSJ Market Data Group

Polish voters will pick president Sunday

By MARCIN SOBczyk

WARSAW—Polish voters will pick their new president on Sunday, choosing between two rival conservatives in a tight election brought forward several months by the death of President Lech Kaczynski.

Bronislaw Komorowski of the ruling center-right Civic Platform party is favored to win, according to opinion polls, with financial markets largely pricing in his victory.

His presidency is expected to re-

move the presidential veto threat, allowing the government to pursue declared austerity measures. The plans are part of an effort to cut Poland's high budget deficit to 3% of gross domestic product in 2012.

The largest of the former communist states to have joined the North Atlantic Treaty Organization in 1999 and the European Union in 2004, Poland has a constitutional system of checks and balances in which the president exercises the right of veto, makes key nomina-

tions and influences foreign and security policy.

Mr. Komorowski, who is the lower house speaker and acting president, is seen as more market-friendly than his fiscally expansive rival, Jaroslaw Kaczynski, the identical twin brother of Poland's late president, who died in April in an airplane crash in western Russia.

Both contenders in the presidential race are ethically conservative, but differ strongly on Poland's foreign policy and, to a lesser extent,

on the economy.

Mr. Komorowski is seen as more conciliatory toward Poland's neighbors Russia and Germany. He also backs the government's privatization agenda and plans to cut red tape.

According to three opinion polls published by GfK Polonia, SMG/KRS and Homo Homini pollsters after the first round of voting in June, Mr. Komorowski could win between 52% and 54% of the vote, with 41% to 42% going to Mr. Kaczynski.

EUROPE NEWS

Secret-tapes scandal delays L'Oréal trial

By CHRISTINA PASSARIELLO
AND DAVID GAUTHIER-VILLARS

PARIS—The trial of a man accused of exploiting Europe's richest woman, L'Oréal SA heiress Liliane Bettencourt, was postponed because of new evidence that has triggered criticism of a top cabinet minister.

Ms. Bettencourt's only child, Françoise Bettencourt-Meyers, filed the lawsuit three years ago against her 87-year-old mother's photographer friend, François-Marie Banier. The daughter says Mr. Banier, 63, exploited her mother's mental and physical weakness to get her to give him more than €1 billion (\$1.2 billion) of gifts, including Matisse and Picasso masterpieces and life-insurance policies.

The trial was due to start Thursday, but a judge in the Paris suburb of Nanterre, where the case is being tried, delayed the case to investigate the new material—21 hours of secret recordings made by Ms. Bettencourt's butler between May 2009 and May 2010 and made public last month.

"We are more than a few months away from knowing the truth," Ms.

Bettencourt-Meyers' lawyer, Olivier Metzner, said after the hearing.

The "Bettencourt affair," as it is known in France, has attracted wide attention because it focuses on the private life of an heiress listed by Forbes as Europe's wealthiest woman, and her political and social links.

The recordings are causing trouble for French President Nicolas Sarkozy because they hint at financial wrongdoing by Ms. Bettencourt, and ties between her and high-profile Labor Minister Eric Woerth. Conversations on the secret recordings between her and her financial adviser, Patrice de Maistre, allude to offshore accounts, fiscal fraud and political involvement—and they also discuss possible donations to Mr. Woerth.

Mr. Woerth, who is spearheading an overhaul of the retirement system in France, has denied any wrongdoing. He has said Ms. Bettencourt made donations within legal limits to Mr. Sarkozy's ruling UMP party, of which Mr. Woerth was treasurer at the time.

Any connections between Mr. Sarkozy and the wealthy are contro-



French photographer François-Marie Banier at Nanterre courthouse Thursday.

versial in France. The president's approval ratings are sagging as he introduces austerity measures and tries to raise the retirement age.

Ms. Bettencourt has refused to undergo court-ordered medical exams to establish her mental state, and through her lawyer has said she was happy to be generous with Mr. Banier.

But the secret recordings give a different impression. In them, the daughter of the founder of French cosmetics giant L'Oréal seems confused and frail. At various points in the recordings, Ms. Bettencourt doesn't recall having made Mr. Banier the sole beneficiary of her estate, excluding her stake in L'Oréal, which she already had given to her

daughter. Neither does she recall giving him a private tropical island in the Seychelles.

In court Thursday to plead for a delay to review the secret recordings, Mr. Banier's lawyer, Hervé Temime, said his client welcomed the trial. "Mr. Banier wants the truth, all the truth and nothing but the truth. Let's go!"

The links between Mr. Woerth and Ms. Bettencourt go beyond political donations, and several potential conflicts of interest have sparked outrage from the opposition Socialist Party. Mr. Woerth's wife, Florence, was one of Ms. Bettencourt's wealth managers until she quit last week after the publication of the recordings. Her boss, Mr. de Maistre, received one of France's highest honors, the Legion of Honor, from Mr. Woerth. Both Mr. Woerth and his wife deny any conflict of interest.

French lawmakers are debating whether to launch a parliamentary probe into Mr. Woerth's relationships with Ms. Bettencourt.

Mr. Sarkozy has publicly supported Mr. Woerth, saying he is "the incarnation of honesty."

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EUROPE NEWS

Flexible payroll tax may be Finland's greatest export

[Brussels Beat]

By STEPHEN FIDLER



Here's an idea to help solve one of the biggest problems for some members of the euro zone: Cut employer contributions to payroll taxes.

Countries across Southern Europe are not only suffering fiscal problems: they are suffering from poor competitiveness compared with euro-zone partners like Germany.

In the old days, they would have devalued to lower wage costs and stir exports and growth, but now they can't because they're locked into the euro. There is, though, another way to cut real wages, and that's to cut taxes on jobs.

One European country has gone a step further: a flexible payroll tax that can be cut when economic times are hard and increased during a boom.

The country is Finland, which recognized when it joined the euro in 1999 that it was surrendering the right to use exchange-rate adjustments to stabilize its economy when bad things happened.

Finland's economy had regularly suffered economic shocks, since it depended heavily on a single industry—forest products—that accounted for 50% of exports and 10% of gross domestic product.

Hence, the flexible payroll tax. When the country hit hard times, the idea was that payroll taxes would be cut, reducing the cost to employers of hiring workers and lowering the cost of labor at a stroke.

Employees wage packets would be unchanged but real wages would be lower, achieving an internal devaluation without using the exchange rate. When times got better, payroll taxes could be ratcheted up, the equivalent of a revaluation.

There's one big drawback to spreading the proposal to Southern Europe: Governments need money, and cutting taxes risks increasing already gaping budget deficits.

Finland didn't have this problem because it directed its payroll-tax revenues toward a buffer fund that allowed for tax adjustments without creating fiscal unbalances.

But would cutting payroll taxes—either temporarily or permanently—be practical for Southern Europe's uncompetitive economies?

Steve Hanke, a professor of applied economics at Johns Hopkins University, argued in an opinion page piece in The Wall Street Journal this week that Greece should abolish the employer contribution to its payroll tax. That would yield about a 22% reduction in the Greek labor costs, and the government could make up the revenues by getting rid of the many exemptions for its value-added tax.

If you assume that 50% of a devaluation would be passed through the economy in the form of increased inflation, Mr. Hanke says cutting the employers' contribution would be the equivalent of a 44% devaluation.

Whether so much inflation would be passed through is a question for debate. Nonetheless, the professor's argument could be used to suggest a similar course of action for other Southern European governments.

Employer social security contributions—the economic equivalent of a payroll tax—are about or above 20% of the total wage bill in most of the countries of Southern Europe.

According to 2009 data from the Organization for Economic Co-operation and Development, Italian employers pay 24.3% of wage costs in social security contributions. In Spain, they pay 23%, in Portugal 19.2%, and, in Greece, as Mr. Hanke says, 21.9%. France is Europe's champion, where 29.7% of employer wage bills are accounted for by social security. In the U.K., the figure is 9.6%, and in Ireland, 9.7%.

Switching the tax burden from payroll taxes to VAT also helps shift economies toward an export orientation, says Bert Brys, a tax economist with the OECD. VAT isn't levied on exports, but it is on all domestic consumption, including imports.

Jeffrey Owens, head of tax at the OECD, adds that if employers respond to lower wage costs by hiring more people, the impact on government revenues could be reduced.

Still, nobody thinks that the lost revenue from payroll taxes would all be made up in the short run by increasing employment.

There are other drawbacks too. If social security is directed into a separate fund, as it is in some countries, then other ways of funding, for example, an aging population will have to be found. Also, consumption taxes like VAT are regressive because poor people spend a greater proportion of their income than the rich.

The answer to that, says the OECD, is targeted help through the tax and benefits system for poorer people.

Back in Finland, officials say the actual impact of their flexible payroll tax hasn't been big and that other changes—including a flexible work force, well-funded companies and sound government finances—have cushioned the effect of last year's downturn. The economy contracted 7.8% last year but the budget deficit was just 2.2% of GDP and unemployment is below 10%.

"The idea was that changes in social security should not be procyclical but we didn't give this instrument too much importance," says Ilkka Kajaste, deputy director general at the Finnish finance ministry. "It was a political gesture demanded by the trade unions when we decided to join the euro."

But the instrument is still in place—and it could conceivably join forest products and mobile phones as one of Finland's more notable exports.

EUROPE NEWS

Spain sees immigrant exodus

Cheap labor that fueled boom years is being forced to return home as economy collapses

BY MATT MOFFETT
AND JONATHAN HOUSE

MADRID—Alexandra Gorosabel and her family came to Spain during the past decade's economic boom determined to escape the poverty of their home country of Ecuador. But the collapsing Spanish economy and tighter immigration restrictions have dashed their dreams.

Ms. Gorosabel's husband lost his gardening job this year and she could find only a few hours' work as a house cleaner, laboring illegally. So in June, the 35-year-old Ms. Gorosabel decided to return to Ecuador with her two children. "I'm wasting my youth here, for nothing," she said, adding that she expects her husband will soon follow.

Spain's sky-high unemployment and a backlash against foreign workers sparked by the downturn have put the brakes on what experts consider one of developed world's biggest immigration booms in modern times. Overall, immigrant arrivals have dwindled to a trickle, and there has been an outflow of workers from some major feeder countries such as Ecuador.

On Wednesday, Moody's Investors Service put Spain's triple-A credit rating on review for a possible downgrade. The move follows Fitch Ratings' downgrade of Spain from the coveted top rating. That one-notch cut added pressure to the euro and stocks. In April, Standard & Poor's cut Spain to double-A.

In Ecuador, remittances from workers in Spain have fallen by 20%, and the government has had to devise programs to help returnees find work and adapt psychologically to their homecoming. In a recent interview, Ecuadorean President Rafael Correa said new European immigration policies represented a "historic ingratitude," pointing out that Latin America opened its doors to Spanish refugees after the rise of Francisco Franco's dictatorship in the 1930s.

During the prosperous decade that ended in 2007, Spain maintained one of Europe's most accommodating immigration policies, as it sought laborers for surging construction and service industries. An amnesty for illegal immigrants, easy procedures for immigrants to bring over family members and aggressive foreign recruitment saw immigrants fill an estimated 40% of the six million jobs Spain created in 1997 to 2007, according to the Organization for Economic Cooperation and Development.



Christian Lopez, right, set up the Off Side recreational center in Sangolqui, Ecuador, after returning from Spain in 2008.

Over the past decade, Spain's foreign-born population has grown more than 500%, to just over 5.7 million, making up more than 12% of the population. Latin America is the largest regional source of immigrants, but Romania and Morocco are the top two individual sending countries, followed by Ecuador.

When Spain's construction-dependent economy cratered amid the global financial crisis, the government sharply curtailed foreign-worker recruitment programs and stiffened penalties on employers of illegal immigrants. Spain created a Voluntary Return Program, paying accumulated unemployment benefits as an incentive to get legal immigrants to go home.

Immigrants have borne the brunt of job losses and their unemployment rate has shot up to 30%, from 12% in 2007, compared with the 20% national average.

The number of Ecuadoreans living in Spain fell 26,357 in 2009, to 395,069, according to municipal registry rolls—considered the most reliable tally of immigrants in Spain. Overall, Spain's foreign-born population grew just 1% in 2009, compared with 17% in 2007, according to municipal data. Even in deep recessions, it is rare for a country to experience a decline in its foreign-born population, said Jonathan Chaffoff, OECD migration analyst.

Laura Tedesco, an Argentine political scientist who is a visiting professor at the Autonomous University of Madrid, says there is a limit to how many migrants will abandon Spain despite the hardship there.

"Many of these migrants are not coming from cities like Quito, but from the interior where there are no basic services at all," she says, adding that even if they find little work in Spain, many Latin American migrants will decide to stay there, for free health care and education.

Even though returning home is the last recourse, Lorena Escudero, head of Ecuador's National Secretariat for Migrants, notes that the number of returnees was up sharply last year from the U.S., as well as Spain. (Overall, an estimated 1.5 million to three million of Ecuador's total population of about 14 million works abroad.) In the past couple of years, Ecuador has rolled out several programs to assist returnees, including the Cucayo Fund, a program of financial grants and mentoring aimed at helping returnees set up businesses.

One grant recipient is Christian Lopez, who returned in mid-2008 after a decade in Spain working in construction and parcel delivery. He invested the grant money, along with the proceeds from the sale of an apartment, into the Off Side recreation center, featuring a restaur-

Inward turn

The annual growth of Spain's foreign-born population slowed dramatically last year in the face of a deep recession.



rant and football pitch. The weak Ecuadorean economy made the going tougher than expected at first. But with his mentor's help, Mr. Lopez fine-tuned his business plan, recently adding a football school.

Cucayo participants such as Claudia Landivar, who came back from Spain to start a cosmetics business, say the guidance from the mentor is as important as the grant money. "I knew nothing of book-keeping, until our mentor showed us," she says, adding that her business is going well. "I feel lucky I'm not in Spain today."

—Joan E. Solsman in New York contributed to this article.

Spanish bond sale allays concerns

BY EMESE BARTHA

The Spanish Treasury sold €3.5 billion (\$4.28 billion) of a five-year government bond Thursday, the maximum it planned to sell, proving that it is still able to finance itself via the market despite worries that emerged after a ratings warning by Moody's Investors Service.

In a separate auction, France sold just shy of €7.5 billion of three long-term bonds, the maximum it had planned to sell. A new 15-year bond accounted for the bulk of the sale. The bond, which will be France's new 15-year benchmark,

had been eagerly anticipated.

Spain's auction is "alleviating worries that the country would have a hard time funding itself," said Jan von Gerich, senior analyst at Nordea in Helsinki.

The auction came one day after Moody's warned Spain of a possible downgrade to its triple-A rating, a move that was described as unsurprising but nonetheless unfortunate for Spain's effort to sell its debt. Moody's also cited concerns over the impact of rising funding costs in the medium term.

The Spanish Treasury sold €3.5 billion of a 3% bond maturing in

April 2015, with the average yield rising to 3.657% from 3.532% at the previous auction of this bond on May 6. The bid-to-cover ratio of 1.7 was below the 2.35 seen in May, but that was due to the larger amount on offer.

Ahead of the auction, economists cited a number of supportive factors that could work in Spain's favor, arguing that the yield was high, particularly compared with those offered by other countries in the euro zone, and domestic demand was strong.

France sold a combined €7.452 billion of 2018, 2020 and 2026-

dated bonds. The latter one will be the new 15-year French benchmark. As was expected, the French Treasury Agency allocated the largest amount, €4.095 billion, to bids for the April 2026 bond.

France's combined sale was near the upper end of the €6.5 billion to €7.5 billion target range, which was set lower than usual due to improved tax revenue and good progress by the Treasury in raising funds, said Mr. Robin of Natixis.

Indeed, France canceled an auction of long-term bonds for August, saying it is "comfortable" with its borrowing program.

German banks dent hopes for transparent stress tests

BY GEOFFREY T. SMITH

FRANKFURT—Doubts over the ability of Europe to force its banks to come clean about their problems grew Thursday, after a German central banker admitted that regulators can't force banks to comply with demands for full transparency.

The admission came a day after a meeting between German banks and their regulators on planned stress tests to measure banks' exposure to bad debt.

Some of the banks had dug their heels in and insisted on their legal right not to publish confidential data that would show clearly whether a bank is properly capitalized or poses a threat to the financial system.

Such a right is enshrined in both German and European Union banking law, giving banks the ability to frustrate the ambitions of governments across the EU. European leaders declared last month that they would conduct and publish stress tests of systemically important banks in an effort to dispel fears over the health of European financial institutions, or at least to accelerate the process of finding weak spots and addressing them.

"The stress tests should be published, but only on the basis of agreement with the respective banks," Franz-Christoph Zeitler, head of the banking supervision department of the Deutsche Bundesbank, told reporters on the sidelines of a conference in Frankfurt.

The Committee of European Banking Supervisors is preparing to carry out stress tests on as many as 120 systemically relevant banks across the EU, "in close cooperation" with national bank regulators. The tests are designed to show whether banks would be able to deal with certain negative shocks to their loan and securities portfolios.

Mr. Zeitler was reluctant to give any greater detail on what exactly the regulators will test for. "The scenarios haven't yet been decided," he said. No one at CEBS was initially available to comment on when the committee would finally decide how to structure the tests. Nor was anyone immediately available to comment at the European Commission.

Mr. Zeitler's comments followed unconfirmed German media reports suggesting that the Bundesbank had agreed with some banks that the fully transparent, bank-by-bank publication of the test results could cause more harm than good by sparking an immediate panic among the affected banks' depositors and creditors.

Last month, Bundesbank President Axel Weber had hinted at a conference that the central bank favored the exhaustive publication of individual test results, including for the state-owned regional banks, or Landesbanken, that many suspect of hiding large unrealized losses on their bond holdings and real-estate loans.

"I'm disappointed that the Bundesbank appears to be making something of a retreat," said Manfred Jäger-Ambrozewicz, an economist with the IdW research institute in Cologne. "If the market knows that there are good and bad banks and only gets to see the average, it will punish the whole sector."

U.S. NEWS



Associated Press

President Obama, speaking at American University, made his first speech as president devoted to the immigration issue.

Obama presses his case for immigration overhaul

President cites a 'broken system,' challenges Republicans to sign on

By LAURA MECKLER

WASHINGTON—President Barack Obama laid out his case Thursday for an overhaul of immigration laws and challenged Republicans who once backed the idea to again come forward.

It was his first speech devoted to the issue since Mr. Obama became president and came as many advocates of an immigration overhaul, particularly in the Hispanic community, have become increasingly frustrated by a lack of action.

Mr. Obama, speaking at American University, acknowledged "a failure of those of us in Washington to fix a broken immigration system." He presented no new ideas or initiatives, and it remained uncertain how the measure could clear the Senate, where Republican support is essential but no Republicans are on board.

The broad framework of the legislation he favors has been clear for some time, and Mr. Obama again endorsed the underlying ideas. They include securing the U.S. border more effectively, providing a path to citizenship for those here illegally and creating a guest-worker program.

The only way this can pass, he said, is if Republicans sign on. "That is the political and mathematical reality," he said.

Mr. Obama singled out his 2008 presidential rival, Sen. John McCain (R., Ariz.), who co-sponsored immigration legislation in 2006 and 2007 but has walked away from that stance in the course of battling a primary-election challenge from the right.

"Now, under the pressures of partisanship and election-year politics, many of the 11 [Republicans] who have voted for reform in past have backed away," the president said.

The result, he said, has been efforts like those in Arizona, where lawmakers made it a state crime to be in the county illegally and police are required to check the immigration status of those they encounter in routine work. The Justice Department is expected to file suit seeking to block that law, but no announcement to that effect was made on Thursday.

Angie Kelley of the Center for American Progress, a think tank with close ties to the Obama administration, said she hoped the speech would jump start the immigration debate in Congress.

"It's been on the back burner, and it gets declared dead all the time, so I think he gave it a pulse. But whether it can get up and run to the finish line, I'm not sure," she said after the speech.

In pushing for legislation, the president may also make political gains in advance of the November elections. If Hispanic voters who care about this issue are frustrated with the White House, they may be even more angry with Republicans who block action in Congress.

The one Senate Republican who was working on the issue, Sen. Lindsey Graham of South Carolina, pulled out after Democrats signaled they planned to consider immigration ahead of energy, an issue Mr. Graham was also working on.

Energy has become the more urgent matter for the Senate as Congress works to respond to the Gulf oil spill. Senate aides say it will be a challenge to pass a comprehensive energy bill this year, given the short calendar ahead of the fall elections, and next to impossible to consider immigration.

The last time Mr. Obama was on the American University campus was for a rally during the 2008 campaign, in which he received the endorsement of the late Sen. Edward Kennedy (D, Mass.) before a cheering crowd of 6,000 in the basketball arena. This time, the event was held in an atrium of the School of International Service with about 250 invited, subdued guests. He wasn't interrupted for applause a single time.

No-fly list challenged

By KEITH JOHNSON

WASHINGTON—The American Civil Liberties Union challenged the constitutionality of the "no-fly" list used by the U.S. government to keep suspected terrorists off of commercial airplanes, arguing in a federal lawsuit that the no-fly list amounts to a "fundamental deprivation of rights." The suit names attorney general Eric Holder, Federal Bureau of Investigation head Robert Mueller, and director of the Terrorist

Screening Center Timothy Healy as defendants. It contends that the no-fly list violates due-process rights guaranteed under the constitution because individuals on the list have no opportunity to "confront or rebut the basis for their inclusion." The suit was filed on behalf of 10 individuals, including seven American citizens, who have recently been denied boarding on flights to or from the U.S. Six of the plaintiffs are currently stuck overseas and cannot return to the U.S.

Tea-party call to cut spending gains traction

Capital Journal

By GERALD F. SEIB



Grover Norquist, the veteran crusader for tax cuts, has seen a lot of groups passionate about a particular cause take a seat at the Republican Party's table over the years. There are the gun owners and the Christian conservatives, the business lobby, the defense hawks and the anti-abortion activists.

But this year, thanks to the tea-party movement, Mr. Norquist has seen a new seat pulled up: the cut-spending seat.

That is to say, there is now an activist group within the Republican orbit interested, first and foremost, in demanding that government spending be cut. Oh sure, there have always been people at the GOP table who said they were for cutting spending, but it wasn't their A-1, top priority.

That's how federal spending was able to rise 36%, while the federal budget moved from surplus to deficit, between 2001 and 2007, when President George W. Bush and his Republican Party were in full control.

But the last year has brought a change, one already having real political impact. There's now a large swath of voters who say that cutting spending is at the top of their list of concerns. Indeed, in a Wall Street Journal/NBC News poll this month, support for spending cuts was the single attribute most likely to make voters enthusiastic about a candidate for Congress this fall.

There's little doubt that this sentiment is, at least in some measure, a result of the tea-party movement, which sprang up largely as a visceral reaction to spending. "That's what got this whole thing started way back in early 2009, when the stimulus bill came out," says Judson Phillips, a Tennessee attorney and leader of the Tea Party Nation, an organization of activists. "People just realized that we can't afford this, and we can't spend our way into prosperity."

There followed opposition to the health-care overhaul, and now the tea-party movement has splintered among activists with a mishmash of other causes. "I don't know that this movement right now has a unifying theme," Mr. Phillips says. But spending, he says, was "the trigger."

While the tea-party movement isn't formally affiliated with the Republican party, many of its adherents have found common cause with the GOP, and Republican leaders are eagerly embracing them. And that means embracing, and bending to, the call to cut spending.

Ross Perot sounded a similar call back in the 1990s, and got a lot of traction, but his message wasn't precisely the same. The Perot mantra was that deficits were the problem, which is subtly different from focusing on spending. So while Mr. Perot



Tea Party members protest in May

certainly called for cutting spending on many programs, he also advocated a 50-cent-a-gallon gasoline tax and higher taxes on Social Security benefits—positions that would likely get him run out of a tea-party rally.

Mr. Perot took 19% of the vote in the 1992 presidential campaign with his attack-deficits message. Since then, it hasn't been clear that calls for cutting government spending, while useful for campaign sound bites, would actually win votes in an election. For everybody who wants a government program cut, after all, there's somebody else who loves the program and is just as likely to punish the cutter at the ballot box.

That's what Mr. Norquist thinks is changing. "If I'm a congressman or I'm a candidate, I have seen people talk about spending the way they used to talk about taxes or abortion or guns," he says. "Clearly this is a vote-moving issue."

And while the message has resonance for Republicans, Democrats aren't deaf to it either. Congress has balked in recent weeks at extending unemployment benefits, for example, and at sending emergency aid to cash-strapped states about to lay off teachers and cops.

Some Democrats as well as Republicans shied away from spending the money, and that simply wouldn't have happened in the past. Among other things, that means spending-cut fever is getting in the way of sending more fiscal stimulus from Washington out across the country, fueling a debate about whether this period of faltering recovery from recession is really the right time for Washington to get into belt-tightening.

There's also a big political gap between talking about cutting spending and actually doing it. What will other groups around that Republican table say when cutting spending means slicing deep into the defense budget, or cutting the budget of the Export-Import Bank, which supports business sales abroad?

And will all the tea-party crusaders really go along if cutting spending translates into reducing their Medicare and Social Security benefits? In short, the cut-spending movement has begun, but its exact path isn't yet clear.

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U.S. NEWS

A secret of extreme longevity emerges

By ROBERT LEE HOTZ

By analyzing the DNA of the world's oldest people, Boston University scientists said Thursday they have discovered a genetic signature of longevity. They expect soon to offer a free test that could let people learn whether they have it in themselves to live to a very old age.

The researchers, who studied more than 1,000 people over the age of 100, identified a set of 150 unique genetic markers that, taken together, are linked to extreme longevity. They acknowledged that they didn't yet know all of the actual genes involved, nor their function in extending old age.

"This is an extremely complex trait that involves many processes," said lead researcher Paola Sebastiani, a biostatistician at BU's School of Public Health. Even so, "we can compute your specific predisposition to exceptional longevity."

The researchers said they have no plans themselves to patent the technique or profit from it. Instead, they expect to make a test kit available on the Internet later this month to foster longevity research.

"This is a major breakthrough," said Nir Barzilai, director of the Institute for Aging Research at the Albert Einstein College of Medicine in New York, who studies the genetics of longevity but was not involved in the project. "It shows you that 150 markers [among millions] are all you need to distinguish between people who live to 100 and people who don't."

Scientists have long sought to crack the genetic code of healthy aging. On average, people in developed countries today can expect to live between 80 and 85 years, largely as a result of improvements in diet and public health. But the oldest of the old—the "well-elderly"—live two to three decades longer, often free of the mental and physical ailments of age.

The oldest person alive today is 116 years old, according to the Los Angeles Gerontology Group. The oldest person on record lived to be 122 years old.

No one knows the complete prescription for a healthy long life. But genes that help control cellular responses to famine, drought and other survival stresses may play a



Rosa Rein turned 112 in 2009.

key role in staving off the diseases and chronic ailments of aging, research suggests.

While a healthy lifestyle is paramount, such genetic factors appear to become more important the longer we live. Indeed, a variation in a single key gene called FOXO3A can triple the chances a person may live past 100, researchers at the Pacific

Health Research Institute in Hawaii recently reported.

In research published online Thursday by the journal *Science*, Dr. Sebastiani, BU geriatrician Thomas Perls and their colleagues studied variations in the biochemical code of DNA drawn from members of the New England Centenarian Study, considered the world's largest comprehensive study of these long-lived people and their families.

The scientists compared the genetic makeup of these centenarians with people who lived more average life spans. The genetic markers they found are scattered across the entire three billion DNA characters of the human genome and touch on at least 70 known genes. Depending on personal habits, diet, injuries, accidents and other factors, these genes boost an individual's chances of survival in the lottery of life, the scientists reported.

The information allowed the BU researchers to identify those predisposed to exceptional longevity with 77% accuracy in controlled tests, they reported.

"Now, we are going to have to find out what all these genes are,

what they do, and if there is a way we can affect them," said geriatrics expert Bradley Willcox, who was not involved in the *Science* paper. He is a principal investigator of the Hawaii Lifespan study and the Okinawa Centenarian Study, which involve analysis of thousands of aging men.

In the meantime, the test will be available through a public website maintained by the New England Centenarian Study. To take the test, however, people will have to provide their own complete genome, and that can cost thousands of dollars from gene-sequencing companies.

The scientists warned that their test might reveal more than some people would like to know. Genetic testing often reveals tantalizing but incomplete information about our risk for disease, and it's difficult to know how to act in response. Clues about our life span, for example, could affect decisions about insurance coverage or long-term medical treatments.

"I don't think people are ready for this from a social point of view," said BU's Dr. Perls. "But I don't think that will stop companies from trying to market this," he added.

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WORLD NEWS

Kirchners climb in Argentine polls

Economy, nationalism lift president and her husband ahead of 2011 vote; better reception for World Cup

BY MATT MOFFETT

BUENOS AIRES—President Cristina Kirchner and her husband and predecessor, Nestor, are enjoying a political resurgence ahead of next year's presidential election, after more than two years in which Argentines had grown increasingly disenchanted with them.

The Peronist power couple is benefiting from a brisk economic recovery, a surge of nationalism triggered by a bicentennial celebration and the country's strong early showing in the World Cup, as well as missteps by the deeply divided opposition.

A June poll by the Management & Fit consultancy put Mrs. Kirchner's job-approval rating at 31.5%, up nearly nine points since September, a significant swing in a fragmented political environment.

The implications of the recovery are sparking fierce debate in Argentina, where the leftist Kirchners are polarizing figures and a fractious group of pollsters often accuse each other of conflicts of interest. But as Mr. Kirchner lays the groundwork for a run in the October 2011 presidential election, his chances of victory may be approaching 50%, says Rice University political scientist Mark Jones. Mr. Jones says he might have put the probability at around 10% a year ago.

The change in the national mood, which Mr. Kirchner recently characterized as an "outbreak of good vibrations," is still tenuous. While the Argentine economy is set to grow at about 7% this year after the global recession of 2009, annual inflation stands at around 25%, one of the highest rates in the world. There were concerns about the workaholic 60-year-old Mr. Kirchner's health, even before he underwent emergency surgery to remove a blockage from an artery in his neck in February. Meanwhile, a loss by the national soccer team to Germany in Saturday's quarterfinal match would damp the nation's mood.

To win Argentines' affection, the government has amassed a multibillion-dollar budgetary war chest to use for patronage and public spending, funds it has wrested by nationalizing private pension funds and taking control of central bank funds, among other sources.

During the World Cup, the government has been distributing thousands of digital converter boxes in the barrios to allow viewers to see higher-quality images of the games. The government has started doling out a highly popular \$45-a-month subsidy for children of poorer families, and is gearing up programs to facilitate credit for housing and auto purchases, as well as distribute laptops to kids.

Alejandro Bonvecchi, a political scientist at Torcuato Di Tella University, says he still doesn't think any of it will be enough to help Mr. Kirchner, who was widely written off a year ago, after the legislative ticket he headed was outpolled by a dissident Peronist group in midterm elections. "People are not stupid," says Mr. Bonvecchi. "They will take the [converters] and vote for the other guys."

But the other guys—the opposition candidates—are being ground down by withering attacks by the Kirchners and their own missteps.

One leading presidential aspirant, Vice President Julio Cobos, has lost some luster, partly due to his contradictory position of being both a member of the government and a top opposition figure who broke with Mrs. Kirchner after serving as her running mate. Another opposition leader, Buenos Aires Mayor Mauricio Macri, has been charged in a wiretapping case, which he says has been trumped up for political reasons. Congress, where the opposition won a narrow majority last year, has at times been unable to muster a quorum of legislators in attendance to consider bills.

Federico Aurelio, an analyst at the Aresco public-opinion firm, says, "There were high expectations for the opposition, which weren't fulfilled." Meanwhile, he says, the improved public image of the government is "a very real phenomenon," fueled by a surging economy that looks even better these days in comparison with troubled Europe.

In 2003, Mr. Kirchner, then a little-known Patagonian governor, won the presidency, largely because some bigger names in the Peronist party were hesitant to seek the job after a horrendous economic collapse in 2001-02. Under Mr. Kirchner, the economy enjoyed a strong



President Kirchner and her husband, Nestor, attend a parade in May celebrating Argentina's independence.

recovery, aided by booming Chinese demand for Argentine soybeans.

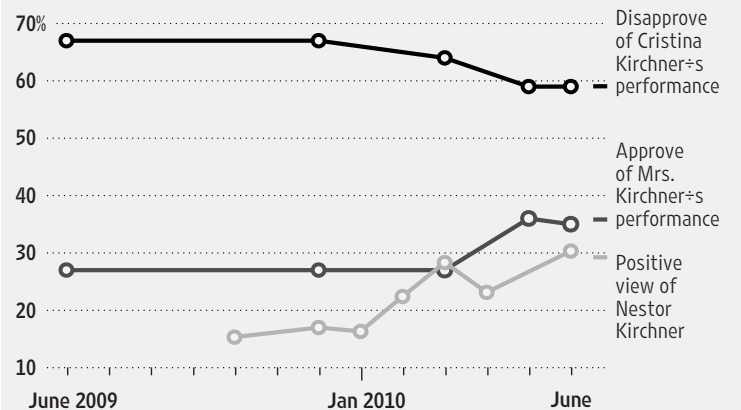
But Mr. Kirchner's combativeness was already wearing thin with Argentines by the time he engineered the presidential candidacy of his wife, a longtime legislator, who was elected in 2007. Just a few months after she came into office, Mrs. Kirchner became embroiled in a bruising battle with farmers over an export-tax increase, which coupled with the global recession, sapped much of her support.

For Mr. Kirchner to win next year, analysts say he would have to score a knockout in the first round of balloting, and avoid a runoff, in which the opposition would close ranks around a single candidate and almost surely defeat him. To win in the first round, he would need either 45% of the vote, or 40% with a 10-point margin of victory.

Mariel Fornoni, an analyst from Management & Fit, says the Kirchners have a die-hard support of 25% of the electorate and die-hard opposition of 50% of voters. She says Mr. Kirchner's chances rest with the re-

Growing popularity

Several Argentine polls show an upturn in support for President Cristina Kirchner and her husband Nestor over the past year.



Sources: Graciela Romer & Asociados (Cristina Kirchner); Management & Fit Consultora (Nestor)

maining 25% of Argentines, many of whom have been disappointed by the opposition.

Among political operators in the pragmatic, patronage-driven Peronist system, Mr. Kirchner's

comeback could be a kind of self-fulfilling prophecy, says Rice's Mr. Jones, because as he rises in the polls, "the people sitting on the fence are going to turn to the Kirchner camp."

Aquino graft probe raises economic fears

BY PATRICK BARTA
AND CRIS LARANO

A decision by Philippine President Benigno Aquino III to launch high-profile investigations into alleged corruption during his predecessor's administration may help burnish his antigraft credentials, but it could also complicate his efforts to push much-needed economic and investment reforms, analysts warned.

Swept into office in May largely on a promise to clean up Philippine politics, Mr. Aquino said Tuesday that one of his first acts will be to create a Truth Commission to probe the corruption he and his backers say flourished under former President Gloria Macapagal Arroyo.

Mr. Aquino has suggested the commission will focus on cases in-

volving Ms. Arroyo and her allies, many of whom retain powerful positions in the Philippine government and judiciary. Those include claims of fraud in Ms. Arroyo's 2004 presidential-election victory and a case in which her husband allegedly received kickbacks in the award of a \$330 million broadband contract to a Chinese company.

The Arroyos have denied charges of wrongdoing and Ms. Arroyo ultimately canceled the broadband deal.

Details of the anticorruption effort aren't yet known. Mr. Aquino this week appointed former Supreme Court Chief Justice Hilario Davide to head the commission, but has said it may take at least a month before the new president and Mr. Davide decide on the parameters of the investigation.

Critics of the latest effort, in-



President Benigno Aquino III

cluding economists and political analysts, question whether the complaints merit more time and money.

Ms. Arroyo is a member of Con-

gress and still commands respect in some circles, including many foreign investors who credit her with stabilizing the Philippine economy over the past decade. Those critics say they prefer Manila focused on fiscal reforms to help lift the economy.

Presidential spokesman Edwin Lacierda said in a news conference Thursday that it was necessary to reopen cases because it wasn't possible to conduct fully independent investigations when the previous government was in power.

"We need to have closure to move on," he said, adding that President Aquino will "make sure it will not be a witch hunt."

Manila said it is focused on economic issues. But Mr. Aquino and many rank-and-file Filipinos also seek answers to the lingering allegations of fraud and graft.

Attempts to reach Ms. Arroyo on Thursday weren't successful. In an interview on local television Wednesday, her eldest son, Juan Miguel, said the family welcomed the creation of the commission and expressed confidence his family will be exonerated.

On Thursday, Ms. Arroyo filed a petition seeking amendments to economic and political provisions of the country's constitution—a move some believe is aimed at turning the Philippines into a parliamentary democracy, so she can make an unlikely bid for prime minister. She has said a parliamentary democracy would be more responsive to voters' needs than the current presidential-style system.

—Josephine Cuneta and Rhea Sandique-Carlos contributed to this article.