



As some big names struggle, meet the World Cup's 11 stars

SPORTS 32

SocGen chief gives warning over impact of bank tax

BUSINESS & FINANCE 19

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 104

EUROPE

Wednesday, June 30, 2010

DOW JONES
A NEWS CORPORATION COMPANY

europe.WSJ.com

EU sharply expands stress tests

European governments intensified efforts to settle growing anxieties about the health of their banking systems as Spain announced it would inject new capital into its problem savings banks and officials from the European Union agreed to sharply expand the number of banks included in public stress tests.

By Christopher Bjork, Joe Ortiz and Stephen Fidler

In what could be a major step forward to clean up a sector reeling from the collapse of a decade-long housing boom, Spain's central bank Tuesday said €10.9 billion (\$13.4 billion) in public funds would support a "historic" consolidation of the country's savings banks.

Thirty-nine of 45 savings banks, or "cajas," are involved in mergers, the largest combining seven institutions to create Spain's third-largest bank by financial assets after Banco Santander SA and Banco Bilbao Vizcaya Argentaria SA.

The announcements come as market pressures have built up on European banks, especially those from Spain. European bank shares have been sliding since April as worries about the health of the region's banks have grown, while the cost to insure even Spain's strongest banks against default has risen in recent days.

The Bank of Spain said the

restructuring and the capital injection leave the country's financial system in "a solid and solvent position."

Nonetheless, considerable work remains to be done for Spain's banks. Lenders need to cut some 50,000 jobs and close as many as 9,000 branch offices to cut costs and adapt to an environment of much weaker demand for credit, according to an estimate by U.S. consultancy McKinsey & Co.

But the Spanish central bank was the first in Europe to announce earlier this month that it plans to publish stress tests of all the country's banks, pressuring other European countries to follow suit.

Meanwhile, European officials said that the number of banks being stress-tested as part of a European Union exercise will expand from just over 20 of the Continent's top banks to include an additional 60 to 120 banks. This means that the tests now will incorporate for the first time banks such as the larger German *landesbanken* and Spanish savings banks that aren't among the region's largest but whose possibly weak financial condition has created uncertainty in financial markets.

The tests, designed to see whether banks have enough financial strength to deal with serious economic shocks, will also be toughened to include an examination for the first time of whether banks can withstand the effects of a sov-

Please turn to page 3



Demonstrators beat a riot policeman as strikers rally in the center of Athens Tuesday. A nationwide strike called by unions paralyzed the Greek capital as the demonstrators took to the streets to protest government austerity measures and social-security overhauls.

Doubts over global recovery send shudders across markets

A poor reading of consumer confidence in the U.S. rounded out data points from Asia and Europe that had investors questioning the pace of the global economy's recovery and seeking safety in the dollar and U.S. government bonds.

Asian trading set the tone for the European session after Shanghai stocks ended at a 14-month low. The slide was due in part to the New York-based Conference Board correcting its leading economic indicator for China for April. The Conference Board said the index rose 0.3% in April, down from a previous reading of a 1.7% increase and a sharp move lower from March's 1.2% rise. The domestic part of Ag-

ricultural Bank of China's initial public offering was also priced lower than expected.

European stocks tumbled, nearing their lows for the year as fears grew that the global recovery is petering out. At the same time, investors braced for any fallout from the end of the European Central Bank's extraordinary bank-lending program.

The euro fell against the dollar, despite a sharp drop in U.S. consumer confidence, gold prices bounced back from the day's lows to end little changed and oil prices fell.

In Europe, the banking sector also took a beating as investors worried that the expiration of the ECB's one-year funding program on Thursday

might cause a liquidity shortfall in the financial system.

Investors rushed to the safety of the dollar and U.S. government bonds.

The benchmark 10-year Treasury yield dropped below 3% to the lowest level since April 2009, while the 30-year bond's yield fell below 4% to the weakest level since October 2009.

Another traditional safe haven, the Swiss franc, continued its recent rally as the euro sank below 1.32 Swiss francs, a psychological milestone.

- Market woes erode U.S. consumers' confidence 10
- Short-term worries augment long-term concerns 27

The Quirk



No glass ceiling for women beer tasters—the best job in the world. Page 33

World Watch

A comprehensive rundown of news from around the world. Pages 34-35

Editorial & Opinion

Steve Hanke: How to cut taxes and get Greece working again. Page 15

Putin criticizes FBI over alleged spy ring

Russian Prime Minister Vladimir Putin on Tuesday criticized the arrests of suspects in an alleged Russian spy ring, saying U.S. law-enforcement authorities "went out of control."

Mr. Putin voiced hope that the scandal would not harm relations between the two countries.

Russia's Foreign Ministry acknowledged that some of the suspects are Russian citizens. It called on U.S. authorities to give them access to lawyers and Russian consular officials, and to take into account the "positive character" of U.S.-Russian ties in treating the case.

The U.S. Federal Bureau of Investigation on Monday an-

nounced the arrests of 10 alleged deep-cover Russian agents, saying it had tracked them for years. They are accused of attempting to infiltrate U.S. policy-making circles while posing as ordinary citizens. An 11th person allegedly involved in the Russian spy ring was arrested Tuesday in Cyprus.

Russian officials called the arrests an unjustified throwback to the Cold War, but their restrained reaction appeared to be an attempt to limit the diplomatic fallout. "They haven't explained to us what this is about," Foreign Minister Sergei Lavrov told reporters during a visit to Israel. "I hope they will."

Full article on page 8

Bahrain BD 1.50 - Egypt \$1.75 (CV) Jordan JD 2 - Kuwait KD 1 - Oman OR 2 Qatar QR 4 - Saudi Arabia SR 14

THE WALL STREET JOURNAL. 2.6 9 779219 98693 1

PAGE TWO

Cyber terrorism is now a real threat

[Agenda]

BY PATIENCE WHEATCROFT



Quaint details such as letters written in invisible ink, rendezvous in parks and buried stashes of cash have made the alleged Russian spies now under arrest in the U.S. sound very old fashioned. Moscow chose to add to that impression, with the Foreign Ministry criticizing the U.S. action as being "in the spirit of Cold War-era spy stories."

But while the Cold War finished, the spying never stopped. According to the website of MI5, the U.K.'s security service, "The threat of espionage [spying] did not end with the collapse of Soviet communism in the early 1990s. Espionage against U.K. interests continues from many quarters." It estimates that at least 20 foreign intelligence services are operating against the country, with Russia and China of most concern. "The number of Russian intelligence officers in London has not fallen since Soviet times," it declares. And if Russia has retained that level of interest in the U.K., it is unlikely to have lessened the attention it pays to the U.S.

Whatever the alleged Russian agents were up to, there are suggestions that they had access to some relatively sophisticated technology. They may have spent years patiently embedding themselves and their assumed identities into comfortable suburban locations but the computers that they were using in the local coffee shops seem to have impressed the FBI investigators.

Fast-evolving technology is affecting both the spying game and potential terrorist tactics. Cyber terrorism is now perceived as a real threat. The U.K. parliament's Intelligence and Security Committee, in its 2009/10 annual report, cited



Vladimir Lenin in front of KGB headquarters in Moscow.

evidence it had received from the Chief of the Secret Intelligence Service, otherwise known as MI6. He had said that "The whole question of cyber security is shooting up everybody's agendas" and that it is "a major new challenge to the intelligence community."

The fear is that modern nations are so dependent on technology that widespread

Fast-evolving technology is affecting both the spying game and potential terrorist tactics.

interference with systems could wreak havoc. Remember the dire warnings that preceded the dawning of the new millennium? Scare-mongers assured us that computers would be unable to cope with the change of digit involved in passing from the 1990s into the year 2000. Unless the "millennium bug" was fixed, they claimed, elevators would freeze, cash machines would refuse to pay up and, in the most extreme scenarios, there would be "blood on the streets."

In the event, the warnings, some of which emanated from people keen to expensively rectify the bug, proved unfounded. However, deliberate concerted

attacks on a nation's technology could engender chaos. In the words of the MI6 director-general: "At the moment my understanding is that there will be considerable impact if a state, be it Russia or China, and probably those are the most likely, decided to do serious damage to us one way or another."

There are already believed to have been state-sponsored cyber attacks. In 2007, during a diplomatic row between Estonia and Russia, Estonia found many of its government, banking and media Web-sites disrupted. Russia denied any involvement although Estonia insisted that it could trace some of the million or more computers it estimated were used in the attack to addresses in Russia.

More recently, Dennis Blair, the U.S. director of national intelligence, told the Senate Intelligence committee that "Malicious cyber activity is occurring on an unprecedented scale with extraordinary sophistication."

He added that: "Sensitive information is stolen daily from both government and private-sector networks, undermining confidence in our information systems and in the very information these systems were intended to convey."

Mr. Blair was talking as Google had accused the Chinese authorities of hacking into its

computers amid the escalating dispute over Chinese users being denied unfettered access to the service. However, his remarks indicated that his fears were of a much graver threat. Some see the potential for damage to be inflicted by attacking a country's technology infrastructure as so great that they have dubbed it a "cyber Pearl Harbor".

There are other, less apocalyptic, motives behind much of the cyber-espionage that is currently taking place. Certain countries are keen to gather up any commercial and scientific information that they can reach and are doing so through the use of battalions of smart hackers. Companies keen to protect themselves against such spying have to be constantly vigilant about Internet security, but that may prove no match for the sophisticated spies.

Security experts are clear that potential aggressors are now amassing detailed information with which they could launch a cyber-terrorism attack. Since last year, the U.K. has a Cyber Security Strategy but it will struggle to beat those that have a cyber terrorism strategy.

Attack of nerves

Not a single one of the stocks that comprise the FTSE 100 Index managed to move upwards Tuesday. Gloom enveloped the markets as a key indicator of U.S. consumer confidence slumped and revised figures showed Chinese growth to be slower than previously believed. Monday's Bank of International Settlements report, accusing banks of harboring extensive unacknowledged losses also contributed to the sombre mood, as did fears about those banks' ability to refinance when the European Central Bank closes its current facility.

The mood is justified. Deficits have to be cut, whatever Greek strikers may believe. The process though will be painful and prolonged. Exuberance would be truly irrational.

What's News

■ **Greece expects to meet or exceed its deficit targets this year, the finance minister said, but he acknowledged the country faces a struggle to convince investors and a restive public about the government's overhaul plans. Thousands protested against the austerity measures. 4**

■ **Société Générale's CEO said bank taxes proposed by some European nations could hurt their economies while growth is still fragile. 19**

■ **GM pitched itself to potential investors, outlining a global strategy hinged on new cars and growth in developing countries. 19**

■ **Emerson Electric raised its offer to \$1.5 billion to buy Chloride after the U.K. firm rebuffed an earlier bid and backed a deal from ABB. 21**

■ **Romania's currency sank to a new low against the euro after the government said the economy would shrink more than expected in 2010. 8**

Inside



It's so difficult for firms to put a name to a new drug. 31



FIFA to 'reopen the file' on football video technology. 32

ONLINE TODAY

Most read in Europe



1. ECB Walks a Fine Line Siphoning Off Its Liquidity
2. U.S. Charges 11 in Russia Case
3. Iranian Diplomat in U.S. Opens Window on Tehran
4. Weaker Euro Set to Spur Irish Turnaround
5. Stars Take Interest in Brands

europe.WSJ.com

FREE daily access for every reader
First time users please register at:
wsj.com/accesstoday
Once registered, redeem future daily codes at:
wsj.com/accessrenew
Today's code is: **EUROPE-A37-859**

Reader comment

europe.wsj.com

"When will they be certain about something instead of the usual 'We are confident...'"

Reader **Carlos Vieira** on "ECB Walks a Fine Line Siphoning Off Its Liquidity"



Continuing coverage



Follow the latest as German lawmakers elect a new federal president today at europe.wsj.com

Question of the day

Q: Do you think a European team will make it to the World Cup final?

Vote online and discuss with other readers at wsj.com/dailyquestion

Previous results

Q: Do you think instant replay should be more widely used in sports?

Yes, in all sports

54%

Yes, in more sports

37%

No

9%

THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Commodity Quay, East Smithfield,
London, E1W 1AZ

SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 20 3426 1234. Calling time from 8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com.
Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones International. Frankfurt: 49 69 9714280; London: 44 203 426 1111; Paris: 331 40 17 17 01. Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG WIL. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telesampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basinevi.

Registered as a newspaper at the Post Office. Trademarks appearing herein are used under license from Dow Jones & Co. ©2010 Dow Jones & Company. All rights reserved. Editeur responsable: Patience Wheatcroft M-17936-2003.

Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

NEWS

Film of Obama's childhood to open

Indonesian filmmaker says the movie is a fictionalized account of the U.S. president's early years spent in Jakarta

BY DEAN NAPOLITANO

JAKARTA, Indonesia—A new fictionalized film based on President Barack Obama's childhood years in Indonesia is scheduled to open here on Wednesday night at a red-carpet premiere.

"Little Obama" is the creation of Damien Dematra, an Indonesian writer and artist who has worked on the project since November when he was struck with the idea of writing about the time a young Obama lived in Jakarta with his mother and stepfather in the late 1960s and early '70s. He rushed production in order to coincide with Mr. Obama's now-postponed trip to Indonesia this month.

The film is based on Mr. Dematra's novel, published in March, "Obama Anak Menteng," and focuses on the president's childhood friendships in Indonesia. The title translates as "Obama, Menteng kid," a nod to the district in Jakarta where the president resided. Mr. Dematra also wrote the screenplay and co-directed the film.

The novel and the film are fictionalized accounts of the president's time in Jakarta and are based on Mr. Dematra's interviews with people he describes as childhood friends and neighbors of Mr. Obama. "I went to his former house," he says. "I found people who knew him."

Many Indonesians share a deep pride about a man who spent part of his formative years in the country and went on to become U.S. president.

But some have questioned his commitment to his former home after he canceled scheduled trips to Indonesia twice this year in order to attend to domestic matters—healthcare legislation and the Gulf oil spill.

Mr. Obama told Indonesian President Susilo Bambang Yudhoyono over the weekend that he still plans to visit Indonesia, without setting a new date.

Mr. Dematra already has pub-



Co-director Jhon De Rantau, left, talks to Hasan Faruq Ali during shooting of "Little Obama." The movie about the U.S. president opens in Indonesia this week.

lished a second book about the president's years in Jakarta, titled "Obama Dari Asisi," or "Obama from Asisi," about his school days, and a third novel is planned.

"After eight months, I think I really know his childhood."

The film stars 14-year-old Hasan Faruq Ali, an American who has lived in Indonesia with his family for about 10 years. Like the president, he is the son of a white mother and a black father. Since filming began, he's been under the glare of media attention. "My whole

life changed overnight," he says.

The film, which was made on a budget of \$1 million, won't get its first public screening until Wednesday, but trailers for the movie on YouTube have gotten a few thousand hits.

It isn't clear if "Little Obama" will get a U.S. release, but the film's producer, Raam Punjabi, says he is in talks with a U.S. distributor, which he declines to name.

Mr. Dematra says the novel stems from interviews and from his imagination, and is generally fic-

tional in its storytelling. Mr. Dematra explained how he went to Mr. Obama's former school and sat in his classroom as a way to gain inspiration. "I needed to use my imagination to connect the dots."

One scene in the novel that won't be seen in the movie shows young Barack Obama, or "Barry," as he was known, following his friends into a mosque where they were praying; he begins to imitate them in an attempt to fit in.

Mr. Dematra said he was concerned that the scene would be

taken out of context because of claims by opponents of Mr. Obama in the U.S. that he is a Muslim. He says there is a similar scene in his second novel in which Barry prays at a Catholic church.

In the days leading up to the premiere, Mr. Dematra explained his dream of what he hopes would happen if the president sees the movie.

"I hope he will ask for a reunion with his friends and neighbors," he says. "All these people are telling me that they want him to come as a friend, not as a president."

EU to expand number of banks for stress tests

Continued from first page
 reign debt default in the euro zone. That is a sensitive question because European governments have repeatedly insisted default by a euro-zone government is impossible.

The results of the tests, which should be completed by the middle of July, are likely to be published across the European Union in the second half of next month, officials said. The results will be published bank-by-bank and the parameters of the tests spelled out. When EU-wide stress tests were conducted last year, they covered just 22 banks and only aggregate outcomes were disclosed.

The tests will be completed by mid-July and the results released together in the second half of the month, officials said. The wider net means that the major banks from most EU countries that weren't included last time, such as Ireland, will now be included.

The decision to publish stress-test results was taken by EU leaders at a summit on June 17, but they

didn't agree on exactly which banks should be included in the EU-wide tests and what would be released. The decision to widen the net was taken by at a meeting in Brussels Friday that included officials from the European Central Bank, the European Commission, the Council of European Banking Supervisors and representatives of EU governments.

Chantal Hughes, spokeswoman for EU internal markets commissioner Michel Barnier, said Mr. Barnier had backed the broader, tougher, more transparent stress tests believing them to be "more rigorous and credible."

German banks are the most exposed of any in Europe to bad loans, according to a study published this week by PricewaterhouseCoopers. About €213 billion in nonperforming loans were sitting on the balance sheets of Germany's banks in 2009, a 50% increase over 2008, according to the study. German banks are among the largest holders of both commercial and private-sector loans issued in vulnerable countries such

as Greece and Spain. Some are also exposed to the U.S. and Eastern Europe.

To assuage market concerns over the banks, Germany's government has vowed a vigorous examination of the sector, signalling it stands ready to provide more capital if necessary. "Given the current uncertainty in financial markets, more transparency can restore trust," German Chancellor Angela Merkel said in an interview with The Wall Street Journal last week. "But building trust will only work if every country also shows how it will handle the results, for example by recapitalizing its banks if necessary."

Last year's EU stress tests were criticized for lacking transparency but also for not adequately reflecting the different state of each EU economy. Efstathia Bouli, spokeswoman for the CEBS, said the lessons from last year's exercise would be taken into account in conducting this year's tests.

Last year's U.S. bank stress tests are credited with helping to turn the

corner of the financial crisis. European officials said it is essential now that there are arrangements in place to strengthen the capital base of those banks that fail the tests.

In Spain, Jesus Martinez, a credit analyst at Standard & Poor's in Madrid, said, "We may see more consolidation among Spanish lenders, also among the savings banks, but there's not that much room."

What looks certain is that the bigger banks, Santander and BBVA, have the clout to use the volatility to build up market shares at the expense of smaller institutions which, since Santander started an aggressive war for deposits earlier this year and won €30 billion of deposits, are having to offer similarly higher rates just to retain customers with consequent negative affects on margins and profits.

Key will be what happens in the wider Spanish economy that remains overly reliant on a sputtering construction sector. "Longer term, the restructuring of the real Spanish economy has greater challenges,

said Astrid Schilo, an economist at HSBC in London.

Standard & Poor's expects Spain's gross domestic product to grow by an average of 0.7% over the next six years, hardly a stellar performance compared with growth rates of above or around 3% per year before the crisis. Meanwhile, loan losses from the real-estate sector continue to pile up. S&P recently warned of a potential new wave of insolvencies among real-estate developers, leading to higher credit losses on lending to the sector.

The latest big casualty, **Sacresa SA**, filed for protection from creditors in a Barcelona court Monday, defaulting on €1.8 billion in debt. Spain has a housing glut of about one million unsold homes, according to estimates from the Housing Ministry. Home sales have fallen dramatically since the start of the economic downturn a couple of years ago, after one of the world's biggest housing bubbles burst.

—Matthew Karnitschnig contributed to this article.

EUROPE NEWS

Greece says austerity plan is on track

Country will meet or surpass deficit targets this year, finance minister says; two unions strike to protest austerity

By ALKMAN GRANITSAS
AND NICK SKREKAS

ATHENS—Greece expects to meet or even exceed its deficit targets this year, the country's finance minister said Tuesday, but he acknowledged that it faces a struggle to convince investors and a restive public about the government's overhaul plans.

In an interview in his Athens office, Finance Minister George Papaconstantinou held to Greece's tough austerity plan, while several thousand demonstrators marched through downtown Athens to protest the government's austerity measures and pension and labor overhauls.

The protests, held as part of a nationwide general strike called by Greece's two major unions, were mostly peaceful. Minor clashes broke out when left-wing youths hurled objects at police and set garbage cans on fire. At least one policeman was injured when hit by a rock thrown by a protester. Riot police responded with tear gas.

In contrast with more-violent protests in early May, when three people died in the gasoline bombing of a bank branch, police said the level of violence was restrained.

The Greek government is implementing a three-year austerity and reform program that includes harsh steps to cut pension benefits and workers' rights. Greece is taking the measures in exchange for a €110 billion (\$135.65 billion) bailout package agreed to last month with the European Union and the International Monetary Fund.

Under the terms of its deal, Greece must cut its budget deficit to 8.1% of gross domestic product this



Finance Minister Papaconstantinou, seen in Athens earlier this month, says Greece will be 'turning the corner' in the fall.

year, down from a record 13.6% of GDP last year, and bring the gap below an EU-mandated 3% ceiling by 2014.

In the first five months of this year, Greece's deficit was down 39% from the same period a year earlier, suggesting the country's deficit-cutting measures are on track. According to government data, spending in the first five months of the year is down more than 10%—well above target—while tax revenue is up

about 8%, slightly behind forecasts.

Mr. Papaconstantinou pledged that Greece's Socialist government, elected in a landslide victory in October, wouldn't back down from its overhaul agenda in the face of widespread public discontent.

"I am not worried about disruptive protests. Even though there will be protests, they are less than in other countries where fewer measures have been taken," he said.

Mr. Papaconstantinou also re-

jected concerns that Greece may eventually have to restructure its debt.

Greek officials are aiming to resume issuing Treasury bills next month to rollover existing short term debt for the first time since the euro-zone country was rescued from insolvency by the EU and the IMF in early May.

Mr. Papaconstantinou played down the step, saying that the government would withhold issuing

longer-term government bonds until next year at the earliest.

"I don't see the T-bill auction as a huge test because it's not really a proper return to the market...I am not worried about its success," Mr. Papaconstantinou said.

In the past few weeks, the spread between the interest rate of 10-year Greek government bonds and that of their benchmark German counterparts—a measure of credit risk—has been inching up.

On Tuesday, the spread was hovering at around eight percentage points, reflecting continued worries that Greece may still default on, or else seek to restructure, its massive public-sector debt. Greek public-sector debt is seen to reach almost 125% of GDP this year, more than double the EU's 60% limit.

Mr. Papaconstantinou said he expects that market perceptions will change as government austerity targets are met.

"I don't share the view that autumn is going to be one of discontent for Greece, even if it will be difficult, because we will be turning the corner and the most difficult period will be over," Mr. Papaconstantinou said.

But the move to reform Greece's pension and labor laws is seen as a major test for the ruling Socialist Party, which is facing discontent in its own ranks and resistance from unions. The reforms, which will be voted on in parliament over the next two weeks, include measures to raise retirement ages, cut pension benefits, lower minimum wages and make it easier for employers to lay off workers. Greece's two major umbrella unions have vowed to hold another general strike when parliament votes on the measures.

ECB's bond buys outstrip its bank deposits

By BRIAN BLACKSTONE

FRANKFURT—The European Central Bank's effort to convince markets that it isn't printing money with its bond-buying program suffered a setback Tuesday, when the bank failed to take in as much money from Europe's banking system as it spent on bond purchases.

When the ECB began the program in May, it pledged to "sterilize" its purchases of Greek and other debt in Europe's troubled periphery by accepting an equal amount in in-

Tuesday's shortfall is a setback for ECB officials struggling to regain the confidence of investors and the public after a number of policy reversals this year.

terest-bearing deposits from banks, so that the total overall money supply would remain unchanged. The ECB's aim was to defuse concerns, particularly in Germany, that bond-buying could stoke inflation.

But this week, the ECB received bids for just €31.8 billion (\$39.21 billion) in one-week deposits, despite offering up to 1% in interest. It

needed to attract €55 billion to reach the amount it has spent in the first seven weeks of its bond-buying program.

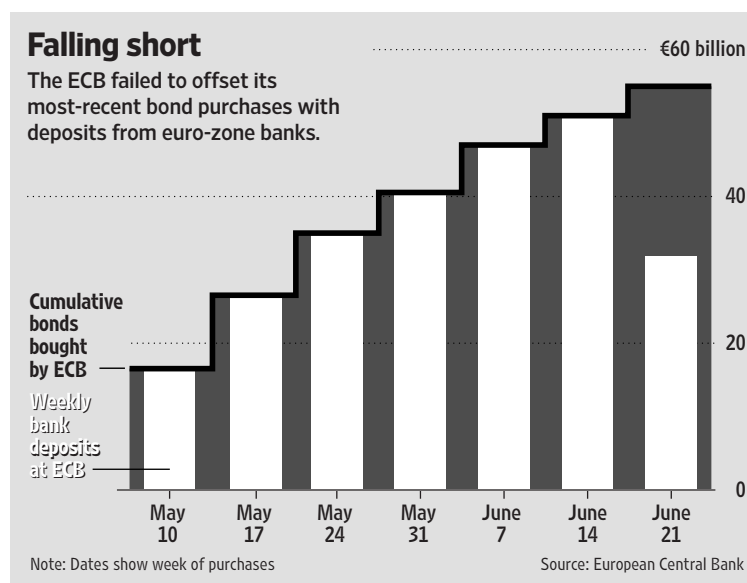
The failure to attract as much cash as the ECB has spent buying Greek and other bonds isn't surprising, analysts say, given heightened financial-market volatility at the end of the second quarter. Commercial banks are scrambling to pay the ECB back €442 billion in one-year loans that come due on Thursday.

In addition, Greek government bonds formally fall out of index-tracking investment funds by Wednesday in the wake of their recent downgrade to junk status. Both factors have weighed on financial markets in Europe this week. The euro fell against the dollar for a second consecutive session Tuesday, dogged by concerns over the ECB loan expiration as well as a decline in U.S. stocks.

Given how firmly the ECB has emphasized that it would remove one euro from circulation for every euro it uses to buy government bonds, Tuesday's shortfall is a setback for officials struggling to regain the confidence of investors and the public after a series of policy reversals earlier this year.

An ECB spokesman declined to comment.

The ECB drains funds from the banking system by offering banks



the chance to deposit cash with the central bank at a rate often higher than they can secure from other banks.

Some ECB watchers say they view the draining operations as mainly a political gesture toward German sensibilities that has little real impact on inflation.

ECB officials have repeatedly cited their weekly tallies of these bank deposits as proof that they aren't printing money to purchase the government debt of Greece and

other nations.

"We will withdraw all the additional liquidity that we supply," Mr. Trichet told the German weekly *Der Spiegel* last month.

"It's a dramatic failure of communications," says Marco Annunziata, chief economist at lender **UniCredit**, referring to the ECB's initial pledge to offset its bond purchases with deposits from banks. "It was basically an accounting fiction driven by the desire to give a simple message to German voters to tell

them 'Don't worry, we are not financing deficits of weaker countries,'" Mr. Annunziata says.

Though ECB officials played up the symbolic importance of the weekly operations, they are a small fraction of the hundreds of billions of euros that can change hands in the ECB's regular lending programs. The ECB loaned banks €163.9 billion for one week on Tuesday, up about €11 billion from the previous week. Banks are stocking up on ECB loans, and hoarding cash, ahead of the one-year loan repayment Thursday.

Some analysts appeared puzzled that ECB officials would make such a firm commitment on absorbing the amount they spend on bonds, when it is ultimately the banks that decide whether to use the one-week facility.

"The ECB is completely dependent on the cooperation of the banks," said Klaus Baader, an economist with *Société Générale* in London. "If the banks don't cooperate, there's nothing they can do."

Many analysts expect the ECB to drain an amount equal to its bond purchases next week, once the mammoth one-year loan repayment is made. If there is a repeat of Tuesday's shortfall, "then it will be something they take notice of," says Sean Maloney, interest-rate strategist at **Nomura International**.

—Geoffrey T. Smith
contributed to this article.



NASDAQ® welcomes **TESLA**

The car company that abandoned oil selects NASDAQ. Tesla builds highway-capable, zero-emission electric vehicles. No hybrids. No hydrogen. No hype. Designed to perform and engineered for efficiency, Tesla vehicles prove EVs can be built without compromise. So when it came to listing on an exchange, it's no surprise they didn't compromise either. They turned to NASDAQ for the innovative, proprietary technology that helps companies like Tesla dream it and do it.

NASDAQ. Dream it. Do it.™

Neither The NASDAQ OMX Group, Inc. nor any of its affiliates (collectively "NASDAQ OMX") makes any recommendation to buy or sell any security or any representation about the financial condition of any company. Investors should undertake their own due diligence and carefully evaluate companies before investing. ©2010. The NASDAQ OMX Group, Inc. All Rights Reserved.

TSLA
NASDAQ
LISTED

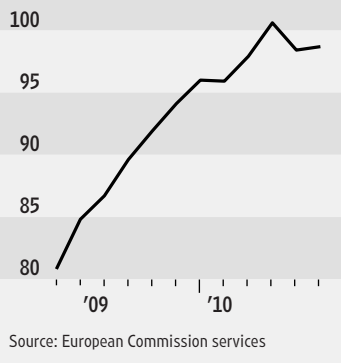
EUROPE NEWS



Agence France-Presse/Getty Images

Holding up

Euro zone's economic sentiment indicator



A woman walks by a store window displaying advertisements for summer sales in Madrid last week. The sales officially kick off Thursday.

Euro-zone consumer confidence grows, but U.K. feels a downturn

BY PAUL HANNON
AND ILONA BILLINGTON

LONDON—The fiscal crisis that threatens the euro zone didn't dent the confidence of consumers and most businesses during June, boosting hopes that the currency area's economic recovery will continue.

In a monthly survey published Tuesday, the European Commission's overall Economic Sentiment Indicator, or ESI, rose to 98.7 from 98.4, surprising economists, who had forecast a decline to 98.

The ESI, a combined measure of business and consumer confidence, had risen steadily from the record lows of early 2009 until a sharp slip in May, when euro-zone governments said they would provide €110 billion (\$135.01 billion) in loans to

Greece, and agreed to set up a €440 billion fund to help other governments should their costs of borrowing through the bond markets become prohibitive.

There were further signs of stress in Spain, although those eased toward the end of June.

Despite those moves, there were further signs of stress during June in Spain, although those eased toward the end of the month after the government said it would publish the results of stress tests on the nation's banks.

"It is mildly encouraging that euro-zone economic sentiment has not taken a further serious hit from the region's sovereign debt problems and tightening fiscal policy in June," said Howard Archer, an economist at IHS Global Insight. "Nevertheless, sentiment appears fragile and significant downside risks remain to already pretty muted euro-zone economic recovery."

Consumer confidence rebounded somewhat from the sharp falls recorded in May, when the implications of euro-zone efforts to bail out the Greek government began to sink in.

The headline measure of consumer sentiment rose to minus 17 from minus 18 in May, driven by a slightly more upbeat assessment of the outlook for the economy over

the coming 12 months, and a reduced fear of becoming unemployed.

In the U.K., however, consumer confidence fell in June to the lowest level since August last year, the European Commission data showed. The U.K. consumer sentiment index declined to minus 11 in June from May's minus 10, while the broader economic-sentiment index also fell in June to 99.4 from 102.4 in May.

Economic sentiment in Greece and Spain strengthened after big declines in May, led by the services sector in both nations. In Portugal, economic sentiment continued to weaken.

Economic sentiment strengthened in Germany as a result of a strong pickup in export orders for manufacturers, while it fell sharply in France.

Economist urges German policy changes

BY ROMAN KESSLER

FRANKFURT—Germany has to make major structural changes if it wants to expand its economy, said the head of the government's panel of independent economic advisers.

The needed shift means government policy has to go beyond simple tax cuts or a stimulus plan, said Wolfgang Franz, who also runs the ZEW economic research institute.

Germany's major trading partners have complained that big trade surpluses indicate Europe's largest economy is benefiting from a global recovery without contributing demand of its own.

Germany's exports have surged 10.3% in the first quarter from the same period last year, outpacing imports, which rose 5.6%. Meanwhile, private consumption fell by 1.2%.

Chancellor Angela Merkel has rejected calls to stimulate demand at home, putting emphasis instead on budget consolidation to ward off a new debt crisis and additional weakening in the euro.

The European Union's eastern expansion also has depleted Germany's industrial landscape, with companies moving into neighboring countries with less red-tape, and lower wages and taxes.

As a solution, Mr. Franz said that

Germany needs to do more to encourage domestic investment and that recent corporate-tax reform, which put an end to tax breaks for the relocation of operations abroad, and moderate wage increases were steps in the right direction.

"A higher domestic investment ratio is imperative," Mr. Franz said. Roughly five times as much German money is invested abroad than in the country, according to data on foreign direct investment from the United Nations.

But to turn around years of export-focused growth, Germany would have to do a lot more.

Mr. Franz and his team of government advisers have pushed for the government to invest heavily in education and innovation while keeping down health-care costs.

They also find flaws in Germany's corporate-tax system and labor market. The panel also argued in a report that employment practices should be made more flexible to help young people get better access to jobs.

"To further Germany's attractiveness for investments," cost-neutral tax cuts for companies and "active measures to promote structural change" on the job market are needed, the report said.

Change "may come at the ex-

Bullish on exports

Germany's trade balance, in billions of euros



pense of the export surplus, but other sectors would benefit," he added. But government can't steer the economy alone, Mr. Franz said, and market powers must be allowed to act freely.

Incentives for domestic demand come a little late for Germany's ailing retail sector.

Wal-Mart Stores Inc. gave up on the German consumer when it boarded up its stores in 2007. And major German-owned retailers,

some of them household names, have gone bust or consolidated.

With no new legislation to spur the domestic economy now in the pipeline, change in Germany is unlikely to come soon.

Mr. Franz also pushed back against Paul Krugman, a Nobel Prize laureate, who said Germany isn't doing enough to avert stagnation in the euro zone.

"I highly appreciate Mr. Krugman's scientific achievements. He deservedly received the Nobel Prize, but naturally not for his recent economic policy advice," Mr. Franz said. "I am rejecting the tone of some of his lecturing, which reminds me of a dressing down in school."

The U.S., Mr. Franz said, has its own problems, including high debt and budget deficits, as well as high unemployment.

The German government's council of economic advisers predicted that economic activity in the country could increase by around 1.6% this year, which Mr. Franz said is a good estimate.

"Surely, those predicting 2% growth are more optimistic, but don't count your chickens before they hatch," Mr. Franz said, pointing to a recent drop of ZEW economic confidence.

Plan to raise sales tax shows small cracks in coalition

BY AINSLEY THOMSON

LONDON—The U.K.'s planned increase in the value-added tax rate has produced the clearest fissure yet between the Liberal Democrats and the Conservative Party that make up the nation's new ruling coalition.

On Monday night, two Liberal Democrat lawmakers, Bob Russell and Mike Hancock, voted against a rise in VAT to 20% from 17.5%, part of the coalition's emergency austerity budget. Mr. Russell and three other Liberal Democrat members of Parliament—Andrew George, Mark Williams and Roger Williams—also signed an amendment calling for an investigation into the effect of the tax increase on businesses, charities and families.

The Lib Dems, the junior partner in the coalition formed after the May 6 election, are bearing the brunt of the backlash against the sales-tax increase and a range of other austerity measures in the coalition's budget. The latest polls show support for the Liberal Democrats has fallen sharply since last Tuesday's budget. The Liberal Democrats had themselves attacked the Conservatives over plans for a VAT "bombshell" during the election campaign.

Mr. George, Liberal Democrat lawmaker for St. Ives and the Isles of Scilly, said his call for an investigation into the VAT increase was intended to encourage open debate. "My proposal is not tantamount to an earthquake along the fault line of the coalition," he said, adding that he will continue to press the government to justify the tax rise.

"An alternative to the VAT hike would be a higher levy on the bankers and further efforts to close tax loopholes exploited by the wealthy," Mr. George said.

A ComRes poll for the Independent newspaper on Monday showed that support for the Liberal Democrats has fallen five percentage points to 18%, while the Conservatives' support has increased four percentage points to 40%.

Those results echoed the ICM poll for the Sunday Telegraph over the weekend, which showing support for the Liberal Democrats falling five points to 16%—an 18-month low—while the Conservatives rose two points to 41%.

The opposition Labour Party has been quick to exploit the Liberal Democrats' divisions.

"The public has been in a honeymoon period with the government, but there are already significant signs that Liberal Democrat voters aren't happy with the budget," said Patrick Dunleavy, a professor of political science at the London School of Economics.

He added that the government's parliamentary majority is so large that it can survive untouched until 84 Conservative lawmakers abstain, or 41 Liberal Democrats vote with the opposition, a situation he says "should never happen".

Andrew Hawkins, chairman of polling firm ComRes, says the current tensions within the Liberal Democrats could have a positive effect on the coalition, by showing that it is capable of withstanding the stresses that are inevitable when two parties work together.

SAATCHI & SAATCHI

TODAY'S INNOVATIONS ARE THE BASIS FOR TOMORROW'S SUSTAINABILITY.



OUR FUTURE IS BUILT ON THE BOLD, RESPONSIBLE CHOICES WE MAKE TODAY.

We believe that sustainability has to be achieved day by day, constantly balancing today's needs with tomorrow's. Which is why we invest in all energy sources, researching and using the most advanced technologies. We believe in using gas and coal, in an environmentally compatible way, to meet today's immediate energy needs. At the same time, we're investing in renewable sources to make them more competitive and efficient. For example, Archimede, the world's most advanced solar thermodynamic power generating project. The fact is, we can only ensure sustainability tomorrow by making bold, responsible choices today.



enel.com

EUROPE NEWS

Putin criticizes U.S. over spy case

Russian hopes arrests of suspected deep-cover agents won't derail Obama's reset of relations after years of strain

BY RICHARD BOUDREAU

MOSCOW—Russian Prime Minister Vladimir Putin on Tuesday criticized the arrests of suspects in an alleged Russian spy ring, saying U.S. law-enforcement authorities “went out of control.” He voiced hope that the scandal would not harm relations between the two countries.

Russia's Foreign Ministry acknowledged that some of the suspects were Russian citizens. It called on U.S. authorities to give them access to lawyers and Russian consular officials, and to take into account the “positive character” of U.S.-Russian ties in treating the case.

The U.S. Federal Bureau of Investigation on Monday announced the arrests of 10 alleged deep-cover Russian agents, saying it had tracked them for years. They are accused of attempting to infiltrate U.S. policy-making circles while posing as ordinary citizens.

An 11th person allegedly involved in the Russian spy ring was arrested Tuesday in Cyprus.

Russian officials called the arrests an unjustified throwback to the Cold War, but their restrained reaction appeared to be an attempt to limit the diplomatic fallout.

“They haven't explained to us what this is about,” Foreign Minister Sergei Lavrov told reporters during a visit to Israel. “I hope they will.”

The arrests Sunday came three days after President Barack Obama met at the White House with his Russian counterpart, Dmitry Medvedev, calling him a “solid and reliable partner,” and a year after the Obama administration launched what it called a “reset” of U.S.-Russia relations after years of strain.

Many Russian officials and analysts said they presumed that hawkish elements within the U.S. government had engineered and timed the arrests to embarrass President Obama and undermine the reset.

Mr. Putin echoed that concern during a meeting at his residence outside Moscow with former U.S. President Bill Clinton.

“I hope that all the positive gains that have been achieved in our relationship will not be damaged by the recent event,” Mr. Putin said.

U.S. officials view the arrests as one of the biggest disruptions of a foreign intelligence operation in years. But in an age when data on the U.S. are readily available on search engines such as Google, the spy operation seems to have yielded little of value, given some of the elaborate methods deployed.

Several of the alleged agents were paired as couples. They had



A court drawing, above, shows seated Russian spy suspects during an appearance at federal court in New York on Monday. Below right, media park in front of the home of suspects Richard and Cynthia Murphy in Montclair, N.J.

children and lived the typical lives of American suburbanites in such low-key locations such as Rosslyn and Arlington, Va., and Yonkers, N.Y., according to the FBI affidavits. Some reported making contacts with government officials and with an unnamed financier who funded both major U.S. political parties.

Among those arrested was Vicky Pelaez, a writer for the Spanish-language newspaper *El Diario* in New York. According to a professional biography for Ms. Pelaez, she was born in Peru. How she allegedly came to be involved with a Russian spy ring was unclear.

In Yonkers on Tuesday, her son, Waldo Mariscal, called the allegations against his mother and stepfather “preposterous.” He said they never had any ties to Russia and had never visited the country.

The FBI affidavit said she traveled to an unnamed South American country to pick up cash for fellow agents in Yonkers sent by Russian intelligence handlers and to pass on

messages. In one 2002 trip, Ms. Pelaez brought back \$80,000 stuffed in her luggage—eight bags each containing \$10,000, according to the FBI. An attorney for Ms. Pelaez couldn't be reached.

Five of the suspects appeared in federal court in New York late Monday, two married couples and a single woman.

Robert Baum, a lawyer for one suspect, Anna Chapman, argued to U.S. Magistrate Judge Ronald Ellis that the government had not proved that his client committed a crime in communicating with a Russian government official via computer and accepting a fake passport from an undercover FBI agent posing as a Russian agent.

Mr. Baum said his client, a 28-year-old divorced Russian national who has lived full-time in the U.S. since last year, took the passport to a New York City police precinct instead of passing it along to someone else, as she was told to do, showing her innocence.



Getty Images

But Assistant U.S. Attorney Michael Farbiarz said Ms. Chapman's repeated interactions with the alleged Russian official, captured on video, and her dialogue with the undercover FBI agent showed she was a trained agent who took direction from Russia.

She went to different locations at least 10 times on Wednesdays to connect with a Russian official by computer via a closed wireless network, he said.

—Evan Perez in Washington and Greg White in Moscow contributed to this article.

Leu hits new low as contraction is forecast

BY JOE PARKINSON

The Romanian currency, the leu, sank to a new low against the euro after the government said the economy would contract more than expected in 2010 and nervous investors mulled the possibility of prolonged political instability.

The leu fell to 4.39 against the euro in mid-afternoon trading Tuesday as Treasury Chief Sebastian Vladescu said the government was downgrading this year's economic

forecast to a 1% or 2% contraction, following plans to raise a sales tax and cut public-sector wages.

Subsequent comments from the finance minister, expressing confidence that government moves to plug the budget deficit would see the International Monetary Fund officials release the second tranche of its €20 billion (\$24.54 billion) bailout when they meet Friday, wasn't enough to stem the leu's falls.

“The recent events have served as a wake-up call for investors to

the size of the adjustment that's necessary in Romania,” said Neil Shearing, an economist at Capital Economics.

Romania's centrist coalition government said Saturday it will raise the value-added tax five percentage points to 24% as an alternative to a planned pension cut that Romania's highest court rejected Friday.

The government has expressed confidence that its tax increase will be enough to satisfy IMF demands and get the second part of the bail-

out package, which helped pay state wages last year, when the economy shrank 7.1%. The cash is pivotal for the struggling Romanian economy, which is mired in its worst recession in 60 years.

Failure to secure the funding would likely push the cost of Romania's borrowing higher, denting investor confidence that the former communist economy can close its budget gap.

Short-term volatility in the currency is negative for Romanian mar-

kets as investors judge it to be a risk for their holdings.

“It drags everything else down with it,” said Luis Costa, director of strategy for Central and Eastern Europe at Citigroup in London.

Few investors are prepared to buy the currency at its low point, even though the IMF is unlikely to step away from Romania entirely, Mr. Costa said.

“The market psychology is negative,” he said. “Everybody wants to focus on the negative.”

U.S. NEWS

U.S. commander backs Afghan withdrawal plan

Petraeus, in confirmation hearing, attempts to smooth tensions

BY PETER SPIEGEL

WASHINGTON—Gen. David Petraeus, nominated to be the new military commander in Afghanistan, faced blistering Republican criticism of the Obama administration's decision to begin withdrawing troops from Afghanistan next July, but insisted he supported the timeline because it lent "greater urgency" to the campaign.

Testifying at his Senate confirmation hearing, Gen. Petraeus acknowledged that neither he nor any other senior military officer had recommended beginning the withdrawal in July 2011. But he said he agreed with the policy and insisted there were no divisions within the administration over the timeline.

At the same time, Gen. Petraeus said his decision to support the conditions-based withdrawal was based on projections made in December and that he would not shy from recommending another course next year if his military assessment changed.

"Not only did I say that I supported it, I said that I agreed with it," Gen. Petraeus said.

The pace of the anticipated drawdown is quickly becoming the most contentious partisan issue over the

war, with senior congressional Democrats, including House Speaker Nancy Pelosi of California, indicating they expect a significant drawdown of forces, even though the administration has been publicly insisting any withdrawal will be based on conditions on the ground.

Despite the partisan rancor, the Senate Armed Services Committee quickly approved Gen. Petraeus's nomination, as was widely expected, by a voice vote just hours after the hearing ended. His confirmation by the full Senate is expected in a matter of days, and he could be in Kabul before the week is out.

Gen. Petraeus's predecessor, Gen. Stanley McChrystal, was relieved of command after publicly airing tensions between senior members of President Barack Obama's war team in an interview with Rolling Stone magazine.

In what appeared to be an attempt to smooth over those tensions, Gen. Petraeus vowed to work closely with other members of the administration, including Karl Eikenberry, the U.S. ambassador to Kabul with whom Gen. McChrystal had a strained relationship.

Gen. Petraeus also went out of his way to state that Vice President Joe Biden—who Gen. McChrystal's

team belittled in the Rolling Stone interview and who is known to be a leading skeptic of a manpower-intensive counterinsurgency strategy—had personally assured him that he backed the current war plan just hours after he was nominated by Mr. Obama.

"The vice president grabbed me and said, 'You should know that I am 100% supportive of this policy,'" Gen. Petraeus said of a White House meeting the two attended last week.

Despite the show of unity, however, Senate Republicans expressed deep skepticism of the White House's management of the war effort, particularly of what they described as mixed messages over how fast a drawdown would begin next July.

Sens. John McCain (R., Ariz.) and Lindsey Graham (R., S.C.), two of the war's biggest supporters in the Senate, harshly criticized the July deadline, saying it has sowed confusion in Afghanistan and Pakistan, where officials are struggling to win over the local populations.

During the three-hour hearing, Gen. Petraeus also said he would review the rules of engagement implemented by his predecessor, which some soldiers on the front lines have criticized as overly restrictive.



U.S. Gen. David testifies in his confirmation hearing Tuesday in Washington.

Gen. McChrystal ordered troops under his command to assiduously avoid civilian casualties, one of the most persistent complaints of the Afghan government of President Hamid Karzai, and limited the situations where allied troops were able to go after attacking insurgents.

Gen. Petraeus said there was unlikely to be a significant change in the rules, but added he would make sure they were being implemented properly, an indication that he believed some junior commanders were being overzealous in preventing their soldiers from fighting back.

Nominee defends stance on military

BY NAFTALI BENDAVID

WASHINGTON—Supreme Court nominee Elena Kagan Tuesday vigorously defended her position on military recruiting while she was dean at Harvard Law School, saying she is a strong supporter of the military and never barred its officers from recruiting on campus.

Ms. Kagan's strong opposition to the military's ban on gays serving openly and her support for restrictions on military recruiting at Harvard have been a major line of Republican criticism. That continued in the first day of questioning during her confirmation hearing.

"I'm confident that the military had access to our students and students had access to our military throughout my deanship, and that's incredibly important," Ms. Kagan said. "I respect and indeed I revere the military," she added.

Ms. Kagan, who currently serves as solicitor general, adopted a matter-of-fact tone throughout the proceeding, sticking to her positions under sometimes hard-hitting questions. She occasionally joked with the senators, especially about a 1995 article in which she said Supreme Court confirmation hearings had become "vapid."

Ms. Kagan said she attempted to strike a balance by allowing the armed forces to recruit through a campus veterans' organization rather than the school's Office of Career Services.

"On the one hand, we wanted to make absolutely sure our students



Supreme Court nominee Elena Kagan

had access to the military at all times, but we did have a very longstanding, going back to the 1970s, antidiscrimination policy," she said.

Sen. Jeff Sessions (R., Ala.), the Senate Judiciary Committee's top Republican, was harshly critical, saying Ms. Kagan had given the military the "runaround" and done all she could to deprive recruiters of equal access to students.

Mr. Sessions also said she had acted "without legal authority."

Central to the debate is the Solomon Amendment, a law prohibiting federal funding to schools that deny access to military recruiters. Ms. Kagan said that in allowing the veterans' group to handle recruiting, the school was complying with the measure. Mr. Sessions said that approach flouted the law.

WE'RE BIG IN SWEDEN.

At Chicago Booth, we believe that our faculty has the passion, intellect, and talent to change the world. And the world seems to concur, given our two Nobel Laureates, two winners of the Fischer Black Prize, our Bernácer Prize winner, and our MacArthur Foundation Genius Award recipient. More proof that Chicago Booth is more than a business school. It's a business force.

CHICAGO BOOTH

The University of Chicago Booth School of Business

CHICAGO LONDON SINGAPORE CHICAGOBOOTH.EDU/BUSINESSFORCE

U.S. NEWS

Libraries expand e-book offerings, out-of-print works

Novel idea raises concerns about copyright

By GEOFFREY A. FOWLER

SAN FRANCISCO—Libraries are expanding e-book offerings with out-of-print editions, part of a broader effort to expand borrowing privileges in the Internet Age that could challenge traditional ideas about copyright.

Starting Tuesday, a group of libraries led by the Internet Archive, a nonprofit digital library, are joining forces to create a one-stop website for checking out e-books, including access to more than a million scanned public domain books and a catalog of thousands of contemporary e-book titles available at many public libraries.

And in a first, participants including the Boston Public Library and the Marine Biological Laboratory will also contribute scans of a few hundred older books that are still in copyright, but no longer sold commercially. That part of the project could raise eyebrows, because copyright law is unclear in the digital books arena. Google Inc., which is working on its own book scanning efforts, has been mired in a legal brouhaha with authors and publishers over its digital books project.

To read the books, borrowers around the world can download and read them for free on computers or e-reading gadgets. Software renders the books inaccessible once the loan period ends. Two-thirds of American libraries offered e-book loans in 2009, according to a survey by the American Library Association. But those were mostly contemporary imprints from the last couple of years—say, the latest Stephen King novel.

The Internet Archive project, dubbed Openlibrary.org, goes a step further by opening up some access to the sorts of books that may have otherwise gathered dust on library shelves—mainly those published in the past 90 years, but of less popular interest.

Many libraries have built out their digital libraries by buying copies of new e-books from companies like Overdrive Inc. Openlibrary.org plans to catalog 70,000 of the books offered by Overdrive, and provide links to check them out from local libraries.

"We know that our users are starting their search for information online," said Thomas Blake, the digital projects manager at the Boston



Julia Fung scans in book pages one by one at the Internet Archive, a nonprofit digital library, in San Francisco on Monday.

Public Library, which is contributing some in-copyright genealogical titles to the new effort. "Instead of sitting back and waiting for the people to come back into the library, we want to meet our users where they're living."

The Internet Archive's scanning effort hopes to extend digital libraries far beyond the sorts of contemporary e-books sold by Overdrive. The San Francisco-based library has been digitizing older books using 20 scanning centers around the world. Until now, those scans were mostly used to extend access to public do-

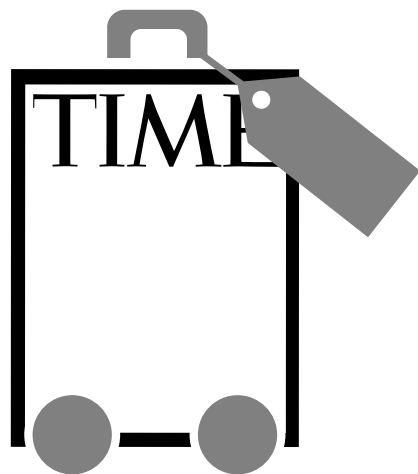
main works, or to give digital access to in-copyright books to the visually impaired.

"We're trying to build an integrated digital lending library of anything that is available anywhere, where you can go and find not just information about books, but also find the books themselves and borrow them," said Brewster Kahle, the founder and digital librarian of the Internet Archive.

With its latest project, the organization is making inroads into the idea of loaning in-copyright books to the masses. Only one person at a

time will be allowed to check out a digital copy of an in-copyright book for two weeks. While on loan, the physical copy of the book won't be loaned, due to copyright restrictions.

The effort could face legal challenges from authors or publishers. Paul Aiken, the executive director of the Authors Guild—which challenged Google's scanning efforts—said "it is not clear what the legal basis of distributing these authors' work would be." He added: "The authors' copyright doesn't diminish when a work is out of print."



Global Adviser

A weekly feature for wherever business takes you

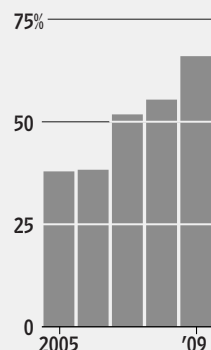
The world is a big place, so let TIME do the legwork. Every week, *Global Adviser* brings you the very best that the world has to offer—the most interesting places, the finest foods, coolest gadgets, latest styles and the very best leisure activities. *Global Adviser* from TIME—bringing the world closer to you

TIME. See the world differently.

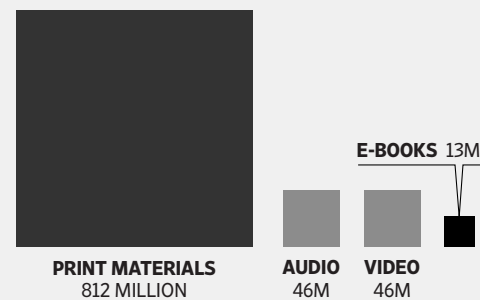
www.time.com/travel

Off the shelf | Library lending services

U.S. libraries offering e-book loan services



Number of public-library materials nationwide



Note: Library materials data as of 2007 (last available)
Sources: American Library Association (e-book loan services);
Institute of Museum and Library Services (materials)

Consumer confidence tumbled sharply in June

By MICHAEL CASEY
AND NATHAN BECKER

U.S. consumer confidence dropped sharply in June, as concerns over the sustainability of economic recovery and the outlook for jobs brought one closely watched indicator's three-month streak of consecutive gains to an end.

Separately, U.S. home prices rose in April from a month earlier, according to the S&P Case-Shiller home-price indexes, boosted by the expiration of the federal first-time home-buyer tax credit. They had fallen for six straight months before the most-recent increase.

The Conference Board, a private research group, said its index of consumer confidence for June dropped to 52.9 compared with the 62.7 seen in May, a figure that was revised down from a previously re-

ported 63.3. The current month's reading was far below economists' expectations for 62.5, according to a survey conducted by Dow Jones Newswires.

The present situation index, a gauge of consumers' assessment of current economic conditions, fell to 25.5 from a 29.8 the prior month. May's result was previously reported as 30.2.

"Increasing uncertainty and apprehension about the future state of the economy and labor market, no doubt a result of the recent slowdown in job growth, are the primary reasons for the sharp reversal in confidence," said Lynn Franco, director of the Conference Board Consumer Research Center.

The Case-Shiller 10-city index climbed 0.7% compared with March, while the 20-city index advanced 0.8%.