Bigger pay packages for CEOs as U.S. recovers from recession

BUSINESS & FINANCE 21

How to sell on YouTube, without showing a video

THE JOURNAL REPORT: SMALL BUSINESS 9

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 202 EUROPE Monday, November 15, 2010

DOWJONES A News Corporation Company europe.WSJ.com

Suu Kyi vows to renew push for change

Reuters

A day after her release from more than seven years of house arrest, Myanmar pro-democracy icon Aung San Suu Kyi, greeting supporters in Yangon on Sunday, signaled she intends to keep pressing for change—a mission complicated by the military junta's tightened grip on power. **Article on page 13**

Ireland resists aid as worries over euro rise

Europe's debt crisis entered a decisive new phase as Ireland resisted pressure from the European Central Bank and national governments to seek a bailout amid growing concern that the currency bloc won't survive in its current form.

By Marcus Walker, Brian Blackstone and Neil Shah

Ireland fiercely denied that it was in bailout talks, and European officials publicly insisted Dublin was under no pressure to seek help. Meanwhile, Portugal's foreign minister openly speculated over the weekend that his country's debt troubles could ultimately trigger its expulsion from the euro zone. Portugal faces "a scenario of exit from the euro zone" if it fails to tackle its economic challenges, Foreign Minister Luis Amado told a Portuguese weekly.

Europe's most pressing concern remained Ireland, however, where officials were privately prodding Dublin to put national pride aside and act quickly on a bailout in the hope that doing so will preempt a repeat of the months-long ordeal earlier this year that pushed Greece to the brink of bankruptcy and nearly undid the euro. German and French officials insist that the decision to apply for a bailout is Ireland's alone, a sign that Europe's larger governments don't want to appear to be twisting the arm of a smaller member state.

Observers say Ireland is likely to fiercely resist pressure to ask for a bailout because the move could hurt its standing with international investors, embarrass the government at home, and open the way to external meddling in the country's financial affairs.

The standoff over Ireland comes as European finance officials prepare to debate possible action on the country at a series of meetings in Brussels that begin on Monday. If European governments fail to agree on a unified approach to the Irish crisis in the coming week, market pressure will likely resume.

After months of relative calm in the wake of the European Union's rescue of Greece and the establishment of a bailout fund, signs of deterioration in Ireland, Portugal and other periphery countries have reignited concerns that the EU will be unable to cope with the mounting debt levels in the euro zone's weakest members.

Reassurances from European leaders late last week that investors wouldn't be

Please turn to page 4

The Quirk

The only tech these geeks lack is a cart to haul their gadgets. Page 33

World Watch

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

Editorial & Opinion

The death of Russian journalists. Page 17

Fed's bond-buying plan ignites growing criticism

By Peter Wallsten And Sudeep Reddy

WASHINGTON—The Federal Reserve's latest move to boost the U.S. economy is coming under new fire from Republican politicians and economists, threatening to yank the central bank deeper into partisan politics and possibly into the 2012 presidential campaign.

A group of prominent Republican-leaning economists, coordinating with some of the party's lawmakers, is launching a campaign this week calling on Fed Chairman Ben Bernanke to drop his plan to buy $600 billion more in U.S. Treasury bonds.

"The planned asset purchases risk currency debasement and inflation, and we do not think they will achieve the Fed's objective of promoting employment," they say in an open letter to be published as a full-page ad this week.

The economists have been consulting several Republican lawmakers, including incoming House Budget Committee Chairman Paul Ryan of Wisconsin, and began discussions with potential GOP presidential candidates over the weekend, said a person involved.

The increasingly loud criticism of the Fed comes as some economic officials outside the U.S. also are criticizing the central bank's move to effectively print dollars, which has the side effect of pushing down the value of the currency. President Barack Obama last week defended the Fed. The move to buy more bonds, known as quantitative easing, "was designed to grow the economy," not to cheapen the dollar, he said.

The Fed, despite frequent criticism from both parties, has enjoyed considerable independence from politicians on monetary policy for the past three decades. Organizers of the new campaign predicted the Fed would increas-

Please turn to page 3

THE WALL STREET JOURNAL.
£1.50
Bahrain BD 1.50 - Egypt $1.75 (C/V)
Jordan JD 2 - Kuwait KD 1 - Oman OR 2
Qatar QR14 - Saudi Arabia SR 14
46

PAGE TWO

No haircut yet—but EU strugglers could soon reach for the hair shirts

[Agenda]

By Irwin Stelzer

Once again a German retreat caused a sigh of relief in Europe. German chancellor Angela Merkel had wearied of having her country the ultimate guarantor of the debts of the profligate periphery. So she announced that she would not get involved in permanent rescue schemes unless lenders take a haircut. She could not, she said, repeatedly ask voters to bear the costs of imprudent lending by investors "who have earned a lot of money from taking those risks." Sounds sensible to analysts who fear the moral hazard created by serial bailouts.

But sounds scary to private investors who lent to the troubled countries. They greeted the news by driving down the prices of Irish and other euro-zone bonds, and reigniting fears of sovereign defaults. So Ms. Merkel, climbed down, as her critics put it or, as she preferred, clarified her position. The hair on the heads of existing holders of euroland countries' debt would remain in place; the haircuts won't start until 2013.

Note this important message: Germany's tune is the one to which the markets dance. Yes, the European Financial Stability Facility, or EFSF, a creature of euroland governments, the European Central Bank and the International Monetary Fund, has close to €1 trillion ($1.36 trillion) potentially available to lend to strapped countries. But when it expires in 2013, Germany will dictate the replacement regimen.

Doubt that and consider this. The calming effect establishment of the EFSF had on markets melted away as quickly as had the price of periphery-country bonds

Agence France-Presse/Getty Images

Chancellor Angela Merkel in Karlsruhe Sunday for her party's annual convention.

when the German chancellor said that private investors would have to bear some pain before a country could call upon the EFSF. And when the German chancellor reversed course, and announced that the new tough-on-investors regimen will not come into effect until 2013, calm was restored or, more precisely, the level of panic declined.

Note this important message: Germany's tune is the one to which the markets dance.

So it's all right, then. Well, not exactly. For one thing, the problems of the periphery countries are getting worse. Eurostat, the EU's statistics gatherer, reports that growth in the 16-nation euro-zone declined in the third quarter to 0.4% from 1% in the second quarter. Germany, the EU locomotive that chalked up growth of 2.3% in the second quarter, grew only by 0.7% in the third. That general slowdown reduces markets for the products of the periphery countries, which are already in difficulty.

In the third quarter, the Greek economy actually declined by 1.1%, while Portugal's grew by 0.4%, and Spain's stalled completely. The shrinking of Greece's economy makes it likely that the inspectors now in Athens will report this week that Greece did not generate sufficient tax revenues to meet its deficit reduction targets. That will be grist for the mill of critics who are saying that the austerity program imposed on Greece by the IMF and the European Central Bank is the road to ruin, rather than to recovery.

More important is the fate of Spain. With a GDP approximately twice as large as the combined total of Greece, Portugal and Ireland, Spain matters. And the outlook is not good. The Spanish economy grew not at all in the third quarter. It's unemployment rate is now 20% and headed higher. Its banks have yet to recognize the losses incurred from property loans that have gone sour, or completed consolidation. Higher taxes and spending cuts will slow things even more next year.

Meanwhile, if the government survives the Dec. 7 vote on his budget, Brian Lenihan, the Irish finance minister who took Ireland's banks under the government's (i.e., the taxpayers') wing, will travel to Brussels before mid-2011, when Ireland will have to return to the bond market, to ask for a bailout from the ESFS. He would pay a price: a high interest rate, and accession to Eurocrats' demand that he raise Ireland's 12.5% corporate tax rate that his high-tax euro-land partners see as a form of unfair competition, but that is Ireland's best bet for returning to growth. If the Eurocracy turns usurer and insists that Ireland adopt the tax policies that have kept unemployment in the EU in double digits for decades, Mr. Lenihan might just go directly to the IMF and cut a better deal. IMF head Dominique Strauss-Kahn hints that Barkis is willin'.

Greece will fail to meet its deficit-reduction targets, and lay plans for a default that will include some grief for the private investors that had a moment of relief when Ms. Merkel's eased her demands for a haircut. Portugal, still unwilling to adopt a strict austerity program, will follow suit, as will Ireland and, eventually, perhaps but not certainly Spain, which is less indebted than Greece.

The Royal Bank of Scotland estimates that banks outside the troubled countries hold over €2 trillion of those countries' debt, so their balance sheets will shrink, and with it their ability to lend in their home countries. Not a pleasant prospect in the run-up to Christmas.

ONLINE TODAY

Most read in Europe

1. EU Urges Early Irish Bailout
2. In the Grip of the New Monopolists
3. Living in the Lap of Luxury
4. Politicians Butt In at Bailed-Out GM
5. Time for Anti-Inflation Planning

Most emailed in Europe

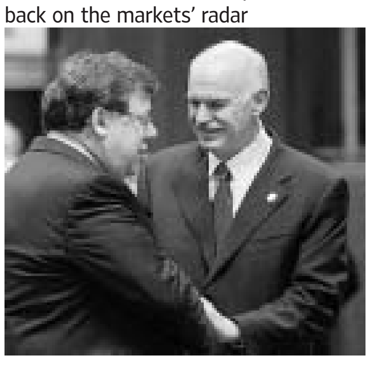
1. Opinion: Embarrassment in Seoul
2. EU Urges Early Irish Bailout
3. Aid Effort Spawns a Backlash in Haiti
4. Tel Aviv: Middle Eastern Promises
5. How to Play a Market Rally

The Source

blogs.wsj.com/source

'Ireland and Greece may be far physically but, financially, they're starting to look a lot closer.'

David Cottle on how European debt is back on the markets' radar



Continuing coverage

See analysis of the day's top news, including Heard on the Street columns, at **wsj.com/europeanalysis**

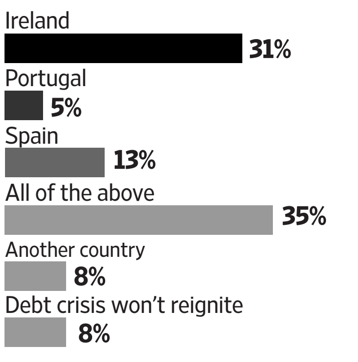
Question of the day

Q: Which Europe House of the Day is your favorite?

Vote online today at **wsj.com/polls**

Previous results

Q: Which country is most likely to reignite Europe's sovereign debt crisis?



What's News

■ **Goldman Sachs has hit** a delay in its efforts to win approval to pay back a $5 billion investment from Berkshire Hathaway because the Fed first wants to hammer out guidelines on bank dividend increases. **23**

■ **France's president named** new cabinet ministers in an attempt to unite his party before the general election scheduled for spring 2012. **6**

■ **A Portuguese minister** speculated that his country's economic frailties could lead to its expulsion from the euro zone. **5**

■ **Economists surveyed** by The Wall Street Journal don't expect the Fed to expand its purchases of U.S. Treasury bonds beyond its current plans. **8**

■ **U.S. investors have** long been reluctant to embrace dividend stocks, but Friday's jump in Intel's stock on a payout announcement is one of several signs of change. **24**

Inside

Amateur Internet private eyes enhance store security. **31**

Anheuser-Busch sues Major League Baseball in sponsorship row. **32**

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 29725 390; 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 Telestampa 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 Basınevi.

Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003.

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

NEWS

U.K. couple freed by Somali pirates

By Sarah Childress

A British couple kidnapped by Somali pirates more than a year ago were released early Sunday morning after a ransom was paid on their behalf, ending a long-running hostage negotiation amid a spate of ship seizures off the East African coast.

Paul and Rachel Chandler were taken hostage in October last year as they sailed their private yacht from the Seychelles, a tiny island nation in the Indian Ocean. The couple recently had retired and had been doing monthslong stints at sea.

"I am fine, and I am very happy to be free today," said a smiling Mr. Chandler, at a briefing Sunday in Mogadishu's hilltop presidential palace. "I appreciate everyone who participated in our release."

The British couple were moved in and out of various jungle hideouts in Somalia to avoid rescue attempts.

The couple looked thin and tired. Mrs. Chandler spoke little.

The Indian Ocean waters have become dangerous in the past two years. Somalia, a war-torn nation on the horn of Africa, is the seedbed for a flourishing piracy trade. Young men with few prospects set off in skiffs in search of cargo ships and other targets to hijack in exchange for ransoms, often paid by insurance companies. This time of year can be especially treacherous because the sea is calm, making it easier for pirate skiffs—often old rowboats with an outboard motor attached—to venture farther out into the ocean.

Foreign navies now patrol the Gulf of Aden, and sometimes along the southern Somali coast, and have managed to thwart some pirate attacks by firing on them.

But the problem persists, mainly because the pirate bases on land are out of the reach of navy firepower or the weak federal government. Pirates also employ mother ships, or larger boats that allow them to refuel and take on more supplies at sea so they can search farther and longer in the Indian Ocean. Several hundred people currently are being held by pirates, the majority of them crew members on cargo ships captured at sea.

In captivity, the British couple were moved in and out of various jungle hideouts in central Somalia to avoid possible rescue attempts.

Somali pirates who freed the couple spoke of the ransom received for the latest release. "We have received $740,000 to release the old couple who had been weakened in the recent months," a Somali pirate who called himself Abdullahi said in a phone interview from Hifey, a town where the couple had been held. "We considered it acceptable."

He said the pirates received the money from clan elders after a lengthy negotiation. According to a Somali government official familiar with the situation, the Somali community in the U.K. and the Somali government sent $400,000 several months ago to be kept by regional officials and clan elders in the area to contribute to the Chandlers' ransom payment. At the time, the pirates rejected the sum as too small.

Five days ago, the Somali government and community sent another $340,000, this official said. Once the pirates agreed to the sum, the process for the Chandlers' release began. The money was handed over early Sunday morning when the couple were freed. An official in the regional administration confirmed the Somali government official's account of the payment.

The couple was handed over in the city of Adado, a relatively safe area in central Somalia. The head of the regional administration there, Mohamed Aden Ticey, said in a phone interview that the couple was happy to have been freed. "We expressed sorrow for their captivity," he added.

European Pressphoto Agency

Paul Chandler, right, and his wife, Rachel, appearing with Somali Prime Minister Mohamed Abdullahi Mohamed in Mogadishu on Sunday following their release by pirates after more than a year in captivity.

U.S. Fed faces more heat

Continued from first page

ingly find itself in the political crosshairs. A tea party-infused Republican party is eager to heed voters' rejection of big government programs and some Fed critics.

At the same time, if the economy continues to disappoint as the November 2012 elections approach, the White House and Democrats in Congress may be pressing the Fed to do more to sustain the recovery. A couple of prominent Democratic congressmen, including the chairmen of its oversight committees, have endorsed the Fed move.

Signers of the letter attacking the Fed include Stanford University economists Michael Boskin, who was chairman of President George H. W. Bush's Council of Economic Advisers and John Taylor, a monetary-policy scholar who served in both Bush administrations.

Among other signatories are Charles Calomiris of Columbia; Kevin Hassett of the conservative American Enterprise Institute; Douglas Holtz-Eakin, a former Congressional Budget Office director and adviser to John McCain's presidential campaign; David Malpass, a former Bear Stearns economist and Reagan Treasury official who made an unsuccessful run for a U.S. Senate seat from New York, and William Kristol, editor of the Weekly Standard and an organizer of e21, a new conservative think tank seeking a more unified conservative view on economic policy.

A Fed spokeswoman said Sunday, "The Federal Reserve...will take all measures to keep inflation low and stable as well as promote growth in employment." She noted that the Fed "is prepared to make adjustments as necessary" to its bond-buying and "is confident that it has the tools to unwind these policies at the appropriate time."

"The chairman has also noted that the Federal Reserve does not believe it can solve the economy's problems on its own," she added. "That will take time and the combined efforts of many parties, including the central bank, Congress, the administration, regulators, and the private sector."

Until its new move to buy bonds, criticism of the Fed—which peaked during the unpopular bailout of Wall Street and the Senate fight over Mr. Bernanke's second term early this year—had ebbed.

But this past week, potential Republican presidential candidate Sarah Palin delivered a stinging speech on the Fed move and then, in a Facebook post, criticized Mr. Obama for defending it.

Last Tuesday, about 20 economists and others met at the University of Pennsylvania Club in New York to hash out a broader strategy. Mr. Ryan, who has gained notice for his plan to balance the federal budget through deep spending cuts, joined the group, as they discussed ways to lobby the Republicans' new House majority to unite behind what they describe as a "sound money policy."

"We talked about the importance of the right being outspoken and unified on this," said a participant. Mr. Ryan couldn't be reached.

Bob McTeer, a former president of the Federal Reserve Bank of Dallas and a supporter of the Fed's latest action, said the move was no different from normal monetary policy. "It is unfortunate that economists are overhyping this and trying to politicize it," he said.

Irish budget is center stage in debt drama

[The Outlook]

BY CHARLES FORELLE

The first act of Europe's sovereign-debt crisis had Greece scrambling to repair its finances before a giant bond redemption drained the state's coffers. Greece couldn't find a fix, and had to ask for a €110 billion ($151 billion) bailout from other euro-zone countries and the International Monetary Fund.

The curtain is up now on Act Two, in Ireland, and the plot is markedly different. A complex calculus will determine how it ends.

Not just for Ireland. Whether the Emerald Isle gets a bailout, and when and how it works, will speak volumes about how Europe's new sovereign-debt firewall would handle a crisis in a bigger place, like Spain. Failure to handle it right could spark new turmoil in world financial markets. In this act, many in Europe would rather Ireland take a bailout than risk seeing the market's sour sentiment poison the Iberian peninsula.

Ireland's retort so far: Thanks, lads, but we don't need the money right now. From Prime Minister Brian Cowen on down, Irish officials insist the government is "fully funded" through mid-2011. Thus, they say, the country can go seven or eight months before cash runs so low that it would need a bailout. But can it?

The key factor: How quickly the deficit-running state burns through its cash pile, which was €22.4 billion at the end of October. (Ireland won't need to pay back a government bond until next November.) The cash could last eight months—but only if a lot of things go right.

First, Ireland needs to stem the rate of the government's general cash losses. In the same eight-month period a year ago—from November 2009 to June 2010—the government consumed €11 billion of cash.

In the coming year, Finance Minister Brian Lenihan will have to do a lot better. He has pledged to shrink the 2011 budget by €6 billion compared with earlier projections, with tax increases and spending cuts. Already, politicians are skittish at the prospect.

"If the budget fails, then you are into a very unstable situation," says John FitzGerald of Dublin's Economic and Social Research Institute, a think tank.

Second, the economy needs to heal. The government's budget projections assume that gross domestic product will grow 1.75% next year and unemployment will stay basically flat at around 13%.

If those estimates are too rosy, says Constantin Gurdgiev, a finance lecturer at Trinity College Dublin, the budget will be crimped by shrinking tax revenue and rising spending on automatic social-welfare programs.

Third, nervous debt markets have to cooperate. In September, Ireland called off short-term Treasury-bill auctions for the rest of the year. But €6 billion of bills will mature between January and April. Ireland needs to get back into the market to roll those over.

And then there are the banks. Ireland's nosebleed deficit—32% of GDP—is largely an accounting entry to note the more than €30 billion in capital injections that Ireland is making into banks this year. But Ireland didn't put that much cash into the banks. It offered IOUs.

Starting next year, it has to pay off those promissory notes with actual euros, to the tune of 10% of the notes' €31 billion face value each year.

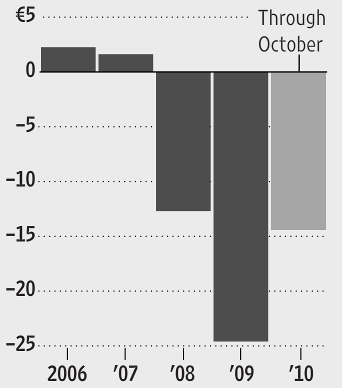
If Irish banks face a severe short-term funding crunch, the government may have to find a way to step in again. And this time, Mr. Gurdgiev says, "you can't do that with promissory notes."

The math is sobering. If Mr. Lenihan can't force the budget bill through, and Ireland spends and taxes at last year's levels, it will burn €11 billion by the end of June. An early-in-the-year demand on promissory notes could cost €3 billion. An inability to roll over Treasury bills would consume €6 billion. That's €20 billion, and depleting that much of a €22 billion cash pile would be cutting it far too close.

The needs of the banks and the vagaries of the debt market are hard to ascertain, but the budget is clearer—and it will be telling. This week and next, Europe will have its eyes on Ireland's parliament.

Burning cash

It ran surpluses in the boom years, but Ireland has more recently been chewing through cash. Exchequer cash surplus/deficit, in billions of euros:



Source: Irish Department of Finance

Irish Finance Minister Brian Lenihan, left, has pledged to shrink the 2011 budget by €6 billion.

Sinn Fein head eyes Irish seat

Associated Press

KILKENNY, Ireland—Sinn Fein leader Gerry Adams said Sunday he intends to quit his political posts in Northern Ireland and seek election to Parliament in the Republic of Ireland, a surprise gambit timed to capitalize on the economic crisis.

Mr. Adams told supporters in the border county of Louth he would seek to win one of the area's seats whenever Prime Minister Brian Cowen calls a general election. Mr. Adams said he would resign as the British Parliament and Northern Ireland Assembly member for Catholic west Belfast, his lifetime power base.

"I have asked people to make a stand. I believe that it is my duty at this critical time to step forward and do what I have asked of others," he told supporters beside a memorial to five IRA men who accidentally blew themselves up in 1957.

Mr. Cowen, who since 2008 has overseen Ireland's demise from Celtic Tiger to European deficit leader, has only a three-vote majority in Dail Eireann, Ireland's parliament. His Fianna Fail party expects to lose a Nov. 25 by-election to Sinn Fein, cutting its majority to two.

Three further by-elections loom, all expected to end in government losses and destroying Mr. Cowen's capacity to cling to power through the government's full term ending in 2012. Most analysts consider an election sometime in 2011 almost certain.

Belfast-born Mr. Adams, 62 years old, is an Irish Republican Army veteran and leader of Sinn Fein since 1983, when he won the British parliamentary seat for West Belfast for the first time. Mr. Adams and four other Sinn Fein figures who hold House of Commons posts refuse to take their seats in London, citing its requirement for an oath of allegiance to Queen Elizabeth II.

Mr. Adams, like hundreds of thousands of Northern Ireland's Catholics, holds Irish citizenship.

In the mid-1980s, Mr. Adams spurred his party to end its decades-old policy of boycotting elections in both parts of Ireland, and in recent years has built Sinn Fein into the major voice of the north's Catholic minority. He holds one of Sinn Fein's 27 seats in the 108-member Northern Ireland Assembly, but has taken a back seat there to Sinn Fein deputy leader Martin McGuinness, who helps lead the territory's coalition government alongside British Protestants.

Mr. Adams said he would resign his Assembly post immediately, but would stay as the West Belfast MP until the Irish election.

In the south, Sinn Fein long has been seen as a "foreign" IRA mouthpiece out of touch with the very different politics of the Republic of Ireland. Underscoring its fringe status, Sinn Fein currently holds just four seats in the 166-member Dail.

During the last Irish election in 2007, Mr. Adams was criticized for stumbling debate performances when he demonstrated little fluency on Irish government agencies and issues. But Irish politics appears poised for a dramatic turn to the left following Mr. Cowen's move to bail out five debt-crippled banks.

The bailout bill has steadily escalated to top €45 billion (about $63 billion) and is driving this year's deficit to 32% of gross domestic product, a postwar European record. Mr. Cowen has imposed three emergency budgets and is preparing his biggest yet in December, when the republic's 4.5 million citizens expect to be hit by a further €4.5 billion in cuts and €1.5 billion in tax hikes.

The two traditional conservative powers of Irish politics, Fianna Fail and Fine Gael, both are languishing in the polls while the left-of-center Labor Party is in front for the first time since the south won independence from Britain in 1922. Sinn Fein now could position itself as a potential coalition partner to Labour and other left-wing voices.

Ireland resists bailout

Continued from first page

forced to bear the pain of any bailout in the near term helped stabilize the region's bond markets and the euro on Friday, but policy makers remain concerned that allowing Ireland's problems to fester could renew the selloff.

The latest debate comes six months after EU governments established a €750 billion ($1.03 billion) rescue fund with the International Monetary Fund to rescue flagging members of the 16-nation euro currency area. In recent weeks, fresh doubts have emerged about whether the region's governments can act swiftly enough to head off a crisis in one country before its spreads to other indebted countries including Spain and Italy.

Until now, the crisis has been mainly limited to smaller countries such as Greece and Ireland with liabilities that are relatively manageable for the EU. If the crisis spread to Spain or Italy, however, the EU's ability to shoulder the economic burden of a bailout would be severely tested. A rescue effort for one of the bigger countries would face considerable political backlash in countries like Germany, where citizens are increasingly unwilling to pay debts of other euro members.

The ECB and other European policy makers are encouraging Ireland to accept a bailout to restore confidence in its solvency and stop the spread of financial-market turbulence to other euro members, officials said.

Many European officials believe that early action on Ireland would be better than waiting until markets force the country's hand, recalling that repeated delays in coming to Greece's aid this spring led to a near-collapse of investor confidence in the whole euro zone, officials say.

ECB officials are advising Dublin that tapping the EU's €500 billion emergency-loan facility could help Ireland to enact a credible budget and recapitalize its teetering banking system. Although the ECB would support Ireland's use of rescue loans, the central bank isn't trying to force Dublin's hand.

The ECB thinks that having IMF and EU oversight of Ireland's budget—a prerequisite for a bailout—would give added international credibility to Dublin's austerity measures to rein in a budget deficit expected to top 30% of gross domestic product this year.

Ireland's government remains reluctant to accept the loss of sovereignty and deepened austerity that a bailout would likely entail. .

—Santiago Perez and David Gauthier-Villars contributed to this article.

Portugal could see exit from euro, minister says

BY BRIAN BLACKSTONE

A Portuguese government minister openly speculated over the weekend that his country's economic frailties could lead to its expulsion from the euro zone, underscoring the growing fear in Europe that the continent's debt woes may force leaders to restructure the currency bloc.

In an interview with Portuguese weekly Expresso published Saturday, Foreign Affairs Minister Luís Amado said Portugal faces "a scenario of exit from the euro zone" if it fails to tackle its economic challenges.

"There has to be an effort by all political groups, by the institutions, to understand the gravity of the situation we're facing," he said.

Portugal is now the front line of the sovereign-debt crisis that already has claimed Greece and threatens Ireland, economists say. If economic weakness is sufficient to push an otherwise crisis-free country to the brink of default and rescue, then larger countries, such as Spain and Italy, could be threatened, analysts say.

"Portugal is different, and if markets are going to have a real go at Portugal now, then why not Italy?" says Jonathan Loynes, economist at Capital Economics.

Like Portugal, Italy has weak underlying growth dynamics, but it also has avoided a Greek-style crisis.

On the surface, Portugal is far from a crisis. Unlike the rest of Europe's periphery, Portugal managed modest gross domestic product growth of 1.2% last quarter, at an annualized rate, according to figures released Friday, in line with the euro-zone average. Greece shrank more than 4%, Spain posted no growth and Italy grew at a 0.7% pace.

But Portugal is finding that being best of the periphery is little comfort. Despite expanding solidly for three straight quarters, it is squarely in investors' sights as a likely candidate, just behind Ireland, to follow Greece into some sort of debt-rescue package.

Its 10-year government-bond yield is around 7%, 4.5 percentage points above the euro-zone benchmark, Germany, making it even harder for Lisbon to reduce a near double-digit deficit as a share of its economy.

"If you're the Portuguese, you might feel you're being unfairly treated here," says David Mackie, economist at J.P. Morgan Chase, a sentiment echoed by Portugal's finance minister during the early process of euro entry in the early 1990s.

"Portugal is being associated with Ireland and Greece, but it's neither," says Jorge Braga de Macedo, former finance minister of Portugal, repeating a common refrain in the euro zone's 10th-largest economy.

Many economists agree. Portugal lacks a crisis on the scale of Greece's fiscal and credibility implosion last year, brought on by years of mismanagement and shoddy statistics, or the ruinous price tag of Ireland's bank bailouts, a casualty of that country's burst property bubble.

Portugal's budget deficit was below the EU's 3% threshold as recently as 2008, and though it jumped to more than 9% last year, it is still well below those of Ireland and Greece. Its debt-to-GDP ratio isn't far above the euro-zone average, nor is its jobless rate. Portugal also has strong economic and cultural ties to two fast-growing emerging-market economies—Brazil and Angola—big potential sources for exports.

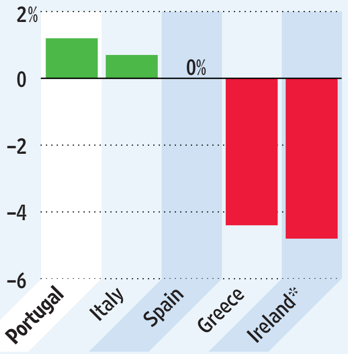
But the Portuguese economy has been in a rut for much of the past decade, growing on average just 1% since 2000, well below the euro-zone average, even while avoiding severe downturns.

Despite a weak economy, wages grew quickly, making Portugal's labor-intensive exports, such as textiles, vulnerable to competition from lower-cost producers in Eastern Europe and China.

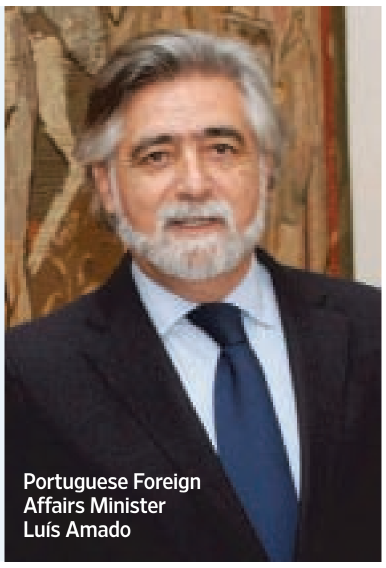
—David Roman and Jeffrey T. Lewis contributed to this article.

Desperate times?

Third-quarter 2010 GDP, change from prior quarter, annualized rate



*Ireland data for 2nd quarter
Source: J.P. Morgan Chase Photo: Reuters



Portuguese Foreign Affairs Minister Luís Amado

EUROPE NEWS

Berlusconi seeks to build support as pressure rises

By Stacy Meichtry

ROME—The political straits of Italian Prime Minister Silvio Berlusconi are narrowing as he seeks this week to muster support in Parliament ahead of two confidence votes that could bring down his government.

For months, Mr. Berlusconi has faced pressure to resign amid a storm of controversies, ranging from the collapse of an ancient gladiators' dormitory in Pompei, to a trash crisis in Naples, to scrutiny over why the premier pressed police in Milan to release a teenage woman from custody.

As Mr. Berlusconi has come under fire personally, his government is treading on thin ice. Earlier this year a member of his center-right coalition defected, taking more than 35 members of parliament with him and effectively stripping the administration of his majority in the lower house Chamber of Deputies.

Neither the prime minister nor rival Gianfranco Fini wants to be the one to pull the plug on the government. Such a move could prove unpopular with voters.

Last week, members of the center-left opposition presented a motion for a confidence vote in the lower house of Parliament—a move they hope will force Mr. Berlusconi to eventually step down. Over the weekend, Mr. Berlusconi said he would call his own confidence votes—one in the Chamber and one in the upper house Senate—in an attempt to garner the support he needs to see his term through to the end of its mandate.

"We will forge ahead with a government backed by the confidence of the senate and—I think—the lower house," Mr. Berlusconi said in a live conference call to members of his People of Freedom Party during a political rally on Sunday.

No confidence vote is due to happen until after lawmakers vote on amendments to Italy's three-year budget—and so far, no vote has been scheduled for the budget amendments.

Getty Images

Prime Minister Silvio Berlusconi

What lies ahead for Italy is a decisive—if possibly complex—standoff between Mr. Berlusconi and Gianfranco Fini, who used to be the premier's closest ally but who was expelled from Mr. Berluconi's party and formed a breakaway center-right party earlier this year.

Neither Mr. Berlusconi nor Mr. Fini wants to be the one to pull the plug on the current government. Such a move could prove unpopular with voters, destabilizing Italy's political system at a time when investors are scrutinizing sovereign debt across Europe's weaker economies.

Italy's public debt, which stands at €1.7 trillion ($2.3 trillion), or 115% of GDP, is one of the world's largest. On Thursday, the spread of 10-year Italian bonds over their German equivalent reached its widest levels in a decade before narrowing again. Amendments to Italy's three-year budget, which still needs final approval from Parliament, are just one of several crucial economic measures that have stalled as the political battle drags on.

Mr. Berlusconi has so far resisted Mr. Fini's calls for his resignation, demanding that Mr. Fini instead vote against him in Parliament. Mr. Fini, seeking a way to keep the pressure on without actually triggering the government's collapse, plans to pull his lieutenants—one minister and several undersecretaries—from Mr. Berlusconi's government as early as Monday.

By calling for the confidence votes himself, Mr. Berlusconi aims to end the impasse.

If the government loses a confidence vote in either the Senate or the lower house, the premier is traditionally expected to deliver his resignation to Giorgio Napolitano, Italy's president. Mr. Napolitano would then decide whether Italy should hold early elections. The president, however, could pursue other options, such as asking Parliament to reconvene and find a fresh majority that could form a new government—including, in this case, with Mr. Berlusconi as premier again.

Mr. Berlusconi's move on Sunday is an attempt at an alternative path that could allow him to hang onto power. Though Mr. Berlusconi's government no longer has a majority in the lower house, it can rely on a majority in the Senate, or upper house of parliament.

Speaking to his party members on Sunday, Mr. Berlusconi said that if his government were to lose a confidence vote in the Chamber of Deputies, but not the Senate, only lawmakers in the lower house should face early elections. Because Italy's electoral laws grant a winning coalition a wide majority of seats in the Chamber of Deputies, elections in the lower house would actually benefit Mr. Berlusconi. In any case, it's unlikely that Mr. Napolitano, the president, would opt for partial elections—and possibly another solution would have to be found.

Italo Bocchino, a lawmaker allied with Mr. Fini, dismissed the premier's proposal as a "subterfuge aimed at appeasing senators" who don't want to go to the polls.

Agence France-Presse/Getty Images

French President Nicolas Sarkozy, right, with Prime Minister François Fillon earlier this month.

Sarkozy shuffles cabinet, keeps Fillon as premier

By David Gauthier-Villars

PARIS—President Nicolas Sarkozy named new cabinet ministers over the weekend in an attempt to unite his center-right ruling party before France's next general election, scheduled for the spring of 2012, and make good on his pledge to re-energize the French economy.

Mr. Sarkozy kept loyal conservative François Fillon as prime minister and promoted heavyweights from his Union pour un Mouvement Populaire party to fill top positions in the new government.

Christine Lagarde, a rare fluent English speaker among French ministers, kept her brief as finance minister. She is expected to have a busy agenda as France takes on the presidency of the Group of 20 industrial and developing nations from South Korea—a stint during which Mr. Sarkozy hopes to help ease tensions on currency markets.

The president, who earlier this month signed into law a controversial bill aimed at reducing the state's welfare bill by increasing the retirement age, has said he would continue pushing an economic overhaul "right up to the very last minute" of his mandate.

But faced with low approval ratings—between a quarter and a third of French adults approve of his policies, according to recent opinion polls—Mr. Sarkozy needs to breathe new life into his presidency, analysts say.

Mr. Sarkozy was elected in 2007 on the promise that he would strengthen France's economy and halve unemployment by diminishing the role of state. Over the past three years, he has cut taxes, authorized more exemptions to the country's 35-hour work week and slashed thousands of civil-servant jobs.

In 2009, however, as the recession struck, he changed course, pursuing a strategy that one of his ministers has dubbed "austerimus"—a mix of austerity measures aimed at reducing the country's fast-widening budget deficit and growing stimulus packages to buoy the economy.

When parliament was discussing the pension overhaul, French labor unions organized large demonstrations, disrupting transport and gasoline supply for two weeks in late October and early November. Mr. Sarkozy didn't back down, and the law passed under which the standard retirement age will gradually increase to 62 years, from the current level of 60.

Political analysts say Mr. Sarkozy's intransigence could eventually become an asset. One of the president's priorities in 2011 could be to overhaul France's tax system with a view to lowering fiscal pressure on companies and improving their competitiveness, according to aides to Mr. Sarkozy.

The reliance on UMP barons, such as former Prime Minister Alain Juppé—who was appointed defense minister on Sunday—marks a shift from the political recipe that Mr. Sarkozy had used so far to pick cabinet members.

Previous governments meshed together conservatives and centrists with politicians from rival camps. Bernard Kouchner, a former Socialist and Mr. Sarkozy's foreign minister for the past three years, had become a symbol of this strategy aimed at bridging France's traditional right-left political divide.

Mr. Kouchner's eviction from the new cabinet—and his replacement by former Justice Minister Michèle Alliot-Marie—is a sign the president is now focused on regrouping his own base to prepare for the 2012 vote, in which Mr. Sarkozy is widely expected to run for re-election.

One loyal UMP minister was sidelined, however. Departing Labor Minister Eric Woerth, whose name was cited in a preliminary judicial probe into illicit political financing, wasn't reappointed to the new cabinet. Mr. Woerth, who was questioned by police but isn't under formal investigation in the case, has denied any wrongdoing, saying he only collected campaign financing in legal ways.

Greek Socialists extend lead

By Nick Skrekas
And Alkman Granitsas

ATHENS—Greece's ruling Socialists appear to have extended their slim lead in a majority of regional races and the country's two largest municipalities amid very tight races, as record numbers of Greeks stayed away from the polling booths in Sunday's second runoff round of local elections.

With 11 of 13 regions and about 221 municipalities up for grabs, the ruling Socialist party's popularity and legitimacy with voters is again being tested.

With about 20% of the vote counted, ruling Socialist candidates were ahead in eight of Greece's 13 electoral regions, according to the country's Interior Ministry and their assigned research logistics firm Singular Logic.

However, the outcomes of four regional elections were so close that predictions were on the border of statistical errors and were liable to change. In the key region of Attica, where half the Greek population lives, the Socialist candidate was extending his lead over his main conservative rival to 52.6%. In the second-largest region of Central Macedonia the conservative candidate was, as expected, likely to post a comfortable win. Meanwhile, in Athens, a traditional bastion for the conservatives, there was an accelerating swing to the Socialist candidate, who had a lead of 51.6%.

The elections come amid widespread voter discontent and are seen as a referendum on the Socialist government's austerity program.

Oil patches sprout across nation

By Daniel Gilbert

Paul Bordovsky, left, and John Braudaway talk last week by the well on Mr. Bordovsky's 642-acre ranch.

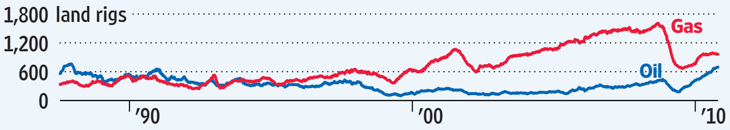
U.S. oil production gets a second wind

The same drilling technologies that drove a boom in gas drilling are being deployed to extract oil from shale formations. As the gas market falters, onshore oil exploration is rising.

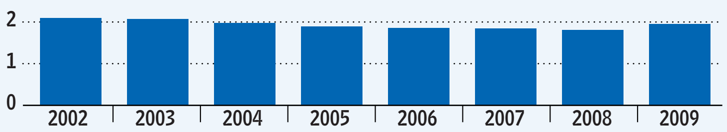
States with significant onshore rig activity in shale formations, ranked by increase from October 2009 to October 2010

TEXAS	NORTH DAKOTA	COLORADO	LOUISIANA	NEW MEXICO
SHALES				
Barnett Eagle Ford Haynesville Permian	Bakken	Niobrara	Haynesville	Permian
711 RIGS 300 INCREASE	138 83	69 39	131 24	68 20

Balance between oil and gas rigs



U.S. annual field production of crude oil, in billions of barrels



Sources: U.S. Energy Information Administration; Baker Hughes Photo: Daniel Gilbert/The Wall Street Journal

KARNES CITY, Texas—A surge in oil drilling is transforming this rural south Texas community—and with it, American energy production.

Drawn by high oil prices and new technologies that make it possible to extract oil from the dense rock that lies beneath much of the region, major energy players are raining cash on the county and its residents.

A similar wave is beginning to visit parts of North Dakota, Colorado and west Texas. The surge in onshore oil exploration is helping reverse the decades-long decline of domestic oil production, which increased slightly in 2009 for the first time in more than 20 years.

For much of this decade, energy companies pioneered new drilling technologies that allowed them to recover natural gas from a subterranean rock called shale. By drilling down and then out laterally, companies were able to exploit greater areas of the shale. And by injecting doses of water, sand and chemicals into the ground, they could crack open the gas-bearing rocks, allowing gas to flow to the surface.

The twin processes unlocked such vast gas deposits that it has led to a glut, depressing the price of natural gas by 21% in the last year.

Victims of their own success, energy companies began eyeing the more attractive price of oil, which, at $84.88 a barrel after Friday's price drop, is still up more than 11% in the past year. Now they are deploying the same drilling technology to shale formations containing oil.

The shale boom won't begin to end American dependence on imported oil, but industry experts say it is driving a significant and potentially enduring shift in the way oil is produced domestically.

"It's a game-changer for U.S. oil production," said Bill Durbin, head of global markets research at Wood Mackenzie. "The U.S. has always been perceived to be a very mature oil province with relatively little prospect for growth. Now we're seeing the declines in production being arrested by the increase in unconventional oil."

Nationally, the balance between oil and gas exploration onshore has tilted heavily toward oil. The number of oil-seeking rigs has nearly tripled since June 2009, and now makes up 42% of all rigs in use, a prevalence not seen since 1997, according to data compiled by oilfield-services company Baker Hughes Inc.

Among states, Texas has seen the greatest increase of rigs in the past year, adding 300, a 73% increase. North Dakota added 83 rigs in the last year, Oklahoma gained 71, and Colorado picked up 30. Analysts at IHS Cambridge Energy Research Associates have identified 20 significant shale prospects across North America. Industry executives and analysts say the growth is likely to continue, at least as long as oil prices remain over $70 a barrel.

"It allows us, during a time when natural-gas prices are somewhat suppressed, to focus our efforts on areas where we can bring in a lot of crude oil," said Floyd Wilson, chief executive of **Petrohawk Energy** Corp., which has been drilling for oil in south Texas.

Karnes County lies at the heart of the Eagle Ford Shale, a thick layer of dense, oil-and-gas-bearing rock that sits between 5,000 and 11,500 feet beneath the surface. The formation stretches across more than nine counties, but Karnes, population 15,000, has the most rigs drilling for oil: 13 in October, according to RigData, a company that publishes land rig counts.

In town, where the predominant livelihood has been farming and ranching, the rigs' presence is unmistakable. "Oil & Gas Boom!" reads a flyer advertising an estate-planning session, taped to the door of the county courthouse in Karnes City. The message is apparently intended for people like Paul Bordovsky, a retired druggist who netted a sum "well into the six figures" after a well on his 642-acre ranch produced nearly 34,000 barrels of oil in its first 40 days before it was temporarily capped.

The courthouse itself teems with scores of industry hands researching land titles. Their arrival—along with rig workers—is swelling demand for lodging. Telia Diaz, the enterprising owner of the "New Wave" hair salon in town, converted an empty lot into an RV Park three months ago.

The fossil fuels contained within the shale in Karnes County were not unknown. In 1966, John Braudaway was working as a roughneck trying to kill an out-of-control well spewing oil and gas. It was, he thought, a sign of a productive well. But Mr. Braudaway, now 70 years old, remembers being told, "That's the Eagle Ford. It will only last a week or so and quit producing." New technologies have changed that.

In 2006, Mark Papa, chief executive of Houston-based **EOG Resources**, steered the company toward expanding its acreage in shale formations with large oil deposits. The industry dogma at the time, Mr. Papa said in an interview, was that oil would not flow out of the shale like gas, because the molecules are bigger. "We said, 'We think that's incorrect, but let's let the industry continue to believe that,' " Mr. Papa said. The rest of the industry wasn't far behind. More than 10 companies are now drilling for oil in the Eagle Ford, including companies like EOG and **Chesapeake Energy** Corp. that used to focus almost exclusively on natural gas, and industry giants like **ConocoPhillips** and **BP** PLC. Indian conglomerate **Reliance Industries** Ltd. recently bought a $1.3 billion stake in the field.

Shale formations like the Eagle Ford are attractive even to big companies because they are faster and cheaper to drill than deep-water fields, and have less regulation, said David Demshur, chief executive of Houston-based **Core Laboratories**.

To be sure, natural-gas drilling in shale formations has drawn opposition from some environmental groups, who fear the process will pollute the air and contaminate drinking-water supplies—and that backlash could extend to shale-oil drilling. If regulators crack down on drilling operations, it could drive up costs for companies.

But in south Texas, there has been little opposition, and the unexpected rise in economic activity has been welcomed. Mr. Bordovsky, for one, couldn't be happier with ConocoPhillips, the company that drilled the well on his ranch. "They've been very, very super-good to me."

Agence France-Presse/Getty Images

U.S. President Barack Obama, left, and his Russian counterpart Dmitry Medvedev shake hands during a meeting in Yokohama, Japan on Sunday.

Obama seeks his trade groove

By Jonathan Weisman

YOKOHAMA, Japan—After a 10-day trip through India, Indonesia, South Korea and Japan, President Barack Obama came home Sunday to a new political reality in Washington, where Republicans are assuming power in the House and Democrats are straining to find their footing.

But while he was away, Mr. Obama started trying out a new role: salesman-in-chief for American business

The trip was a mixed success for Mr. Obama. The U.S. was unable to persuade other countries to take measures it maintains are necessary to end currency wars and promote sustainable growth. He didn't complete a long-stalled trade deal with South Korea, under pressure from trade antagonists back home. And other nations slammed the U.S. Federal Reserve's decision last week to pump $600 billion into the economy, saying Washington was intentionally cheapening the dollar to boost exports.

So, on Saturday morning, the U.S. president stopped by a chief executives' forum here ahead of the Asia-Pacific Economic Cooperation summit to extol the rise of Asia as an economic power center and make clear the U.S. was here to compete.

"Undoubtedly, this rapid growth will lead to a healthy competition for the jobs and industries of the future, and as president of the United States, I make no apologies for doing whatever I can to bring those jobs and industries to America," Mr. Obama told the gathering of business leaders and politicians, his eyes puffy with exhaustion.

The trip's lasting impact may have been the pivot he took toward business, speaking in the cadences of a true believer, a tone at odds with the first two years of his administration.

At every stop, Mr. Obama spoke of the millions of U.S. jobs that could be created by the opening of markets overseas, and he pressed leaders throughout the Pacific Rim to buy American. The Obama administration is increasingly betting on a revival of U.S. exports to revive a moribund job market. For a U.S. president with a decidedly prickly relationship with business, the changing economic emphasis has meant a fresh tone toward the private sector—and a closer partnership with business leaders whom he counted as foes just weeks ago during the campaign.

"He's done a pretty sharp turn," said Charles Freeman, an East Asian expert at the Center for Strategic and International Studies, a Washington think tank. "I think the reemphasis on business comes from the election. They realize they can't shut business out anymore, or they're going to take you down."

Heading into his third year in office, Mr. Obama must produce results on trade, not just rhetoric, said Daniel Price, a former aide to President George W. Bush on international economics, now with the law firm Sidley Austin. That is doubly true, since he came up short on the Korea trade deal, he said.

"The failure to conclude that agreement will raise questions in the minds of our trading partners about whether the administration's views have really changed or whether the rhetoric of the earlier stops was just that," Mr. Price said.

White House officials say Mr. Obama's faith in "free and fair" trade is not new, but White House deputy communications director Jen Psaki agreed the Asia trip marked his longest, sustained focus on the issues of trade, export promotion and global competitiveness.

"From our perspective, making America more competitive, partnering with the private sector, isn't a Democratic or Republican issue," she said.

The U.S. Chamber of Commerce President worked with the White House to secure a South Korea trade deal. And although negotiations fell short, pressed by business Mr. Obama said he wanted a deal done within weeks.

"The chamber is ready to pull out all the stops to explain the benefits of this agreement to the American people and help move the pact through Congress," said Chamber President Tom Donohue, whose organization has clashed fiercely with the president and contributed millions of dollars to help defeat Democrats. "The sooner we get this deal done, the sooner it will start creating new American jobs."

In India, the White House enlisted the chief executives of PepsiCo Inc., McGraw-Hill Cos., Boeing Co. and Honeywell International Inc. to help secure export deals, and to vouch for the sincerity of the U.S. president's efforts. Mr. Obama took credit for helping to secure $10 billion in U.S. export agreements.

In Yokohama, the U.S. president took the time to drop by two business forums in one day. At a meeting he called of the so-called Trans-Pacific Partnership, a multilateral free trade agreement that aims to integrate the economies of the Asia-Pacific region, he pressed APEC members to get serious on a free-trade pact for the region, an idea which has been stalled since 2006.

Ms. Psaki said that focus would not end Monday. The White House's export council, led by Boeing CEO Jim McNerney, will meet next month. A South Korean delegation will be in Washington in coming weeks, probably after Thanksgiving, to try to nail down the U.S.-Korea trade agreement.

C. Fred Bergsten, head of the Peterson Institute for International Economics in Washington, said the tough tone Mr. Obama has adopted to boost U.S. exporters is a double-edged sword. If he follows through with trade agreements and concessions from China to raise the value of the Chinese currency, he will have made a real difference.

But if he provokes a currency war, not just with China but with other trading partners like Brazil that want a cheaper currency to boost exports, his rhetoric will have backfired.

White House rejects fixed tax cut for rich

By Tennille Tracy

Senior White House adviser David Axelrod said Sunday the president wouldn't support a permanent extension of tax cuts for wealthy Americans but declined to say whether the White House would support a temporary extension.

Mr. Axelrod also reaffirmed President Barack Obama's commitment to securing an extension of tax cuts for the middle class, saying this group of Americans has "taken a terrible beating."

After several days in which U.S. lawmakers have attempted to gauge the White House's willingness to compromise on tax-cut extensions, Mr. Axelrod said on NBC's "Meet The Press" that there would be "no bend" on the president's opposition to permanent cuts for couples making more than $250,000 a year and individuals making more than $200,000.

Mr. Axelrod declined to say, however, whether Mr. Obama would be willing to consider a temporary extension for Americans in those wage brackets. "He's eager to sit down and talk about where we go from here, but the important thing is that we get something done in the next few weeks," Mr. Axelrod said in a separate appearance on Fox News Sunday.

The Bush-era tax cuts are scheduled to expire at the end of the year. That sets up a possible showdown between Democrats and Republicans as they return to Congress this week for a lame-duck session after the midterm elections in which Republicans regained a House majority and saw their Senate ranks grow.

Republicans are seeking extensions of tax cuts for all Americans, arguing that a tax increase for the wealthy would hurt the economy and ensnare a lot of small-business owners.

"I hope we can get a permanent extension," Sen. Jim DeMint (R., S.C.) said during an appearance on Fox News Sunday. "But if the president wants to compromise on a two- or three-year extension, what's important here...is that businesses know what their tax rates are going to be over the next few years."

The debate over the tax cuts adopted under President George W. Bush is taking place at a time when policy makers and lawmakers are scrutinizing government spending and revenue levels amid rising amounts of debt.

Economists don't see Fed buying more bonds

By Phil Izzo

Economists surveyed by The Wall Street Journal don't expect the Federal Reserve to expand its purchases of U.S. Treasury bonds beyond its current plans—even though the forecasters see sluggish growth for the next couple of quarters with unemployment remaining near 9% through the end of 2011.

The 49 respondents to the monthly economic forecasting survey—not all of whom answered every question—see the U.S. economy expanding at a 2.4% seasonally adjusted annual rate in the current quarter with only slightly faster growth of about 2.6% in the first half of next year, barely enough to bring down unemployment.

For the second half, they expect growth to accelerate to a bit over 3%. Gross domestic product, the value of all goods and services produced in the U.S., grew 2% at a seasonally adjusted annual rate in the third quarter.

The Fed has said it planned to buy about $900 billion in bonds through June 2011—around $300 billion reinvesting proceeds of maturing mortgages in the Fed portfolio and another $600 billion over the next eight months to try to revive the economy.

The survey found economists, on average, expect the Fed to buy $909 billion in total, suggesting they don't expect yet another round of "quantitative easing."

"Improvement in the economy and criticism will limit the program," said Jim O'Sullivan of MF Global. The Fed has said it would review its bond-buying plans as the economic recovery evolves.

The Fed plan, while praised by some as a way to avoid falling inflation and rising unemployment, has come under fire from inside and outside the central bank. Critics warn the Fed could create more inflation than it wants or trigger a strengthening of emerging-market currencies against the dollar that threaten those countries' growth.

Of the economists surveyed, 29 said they would have voted against the asset purchases were they members of the Federal Open Market Committee, the Fed's policy-setting panel; 16 said they would have backed the move.

"The FOMC needs to deftly navigate around building waves of inflation in turbulent political seas when QE2 returns to port," said Stuart Hoffman of PNC Financial Services, referring to the Fed's latest round of quantitative easing.

The economic impact of the Fed's moves is likely to be modest, the forecasters said. They estimate growth in GDP will rise by 0.2 percentage points in 2011 because of the Fed's bond buying and the unemployment rate will fall by less than 0.1 percentage point.

They expect unemployment, now at 9.6%, to be 8.9% at the end of 2011.

Although the economists expect slow growth and continued high unemployment, they put the odds of renewed recession in the next 12 months at 16%, the lowest level since the May survey.

How to sell on YouTube, without showing a video

By making comments, companies can engage potential customers in conversation

By Dennis Nishi

For **Shelley Davis**, the secret to promoting a business on YouTube isn't making videos. It's talking to customers.

Two years ago, Ms. Davis decided to set up a YouTube account to show videos about her hair-care company, **Kinky-Curly Hair Products** LLC. While poking around the site, she found that lots of African-American women had posted video blogs, or vlogs, about choosing natural hair over braids, perms or dreadlocks.

This was right up Ms. Davis's alley, so she jumped into the comments sections of the vlogs, offering advice and answering questions about her products. The result: a surge of support.

Vloggers have posted more than 5,100 videos showing them trying out Kinky-Curly products, and Ms. Davis says the attention has helped boost sales by 40% and push her seven-year-old company into profitability, as well as land its products in Target department stores and Whole Foods Market.

"YouTube has had the greatest influence on my company," says the 39-year-old Ms. Davis, who runs Kinky-Curly out of her Los Angeles apartment. "When dozens of different vloggers with their own unique hair types actually video themselves applying the product in the shower in one continuous take, it's hard to dispute how it ends up looking," she says.

Beyond sales pitches

Lots of small companies around the world make an effort to engage with customers on Twitter or Facebook. But a growing number of them are also finding success by joining conversations on YouTube. Instead of just uploading commercials, they're reaching out to the site's communities and cultivating relationships with vloggers.

In the best cases, the vloggers turn into ambassadors who make videos about the products and talk them up in forums. Sometimes things go even further; Ms. Davis, for instance, recently hired a few vloggers to help her YouTube efforts and do in-store demos.

But getting to that point takes some work. Community members want nothing to do with forum members who clearly are only promoting their own interests.

Moreover, missteps by a company can lead to heated arguments, which can quickly dominate YouTube discussions and spread to other forums. So, companies must establish a history of being helpful in discussions, says Kieran Healy, an associate professor of sociology at Duke University.

On a knife-edge

Consider **Benchmade Knife** Co. Company reps won't start conversations on YouTube but will contribute to them, answering questions posted about their knives, commenting on vlog reviews and discussing anything else that has to do with the company.

It's a big job for the five-person staff, since there are currently 3,980 YouTube videos by vloggers that review Benchmade knives. New comments are made around the clock by a world-wide audience, so employees often post replies from home after hours.

The company, based in Oregon City, Ore., says the effort has brought significant sales increases, while giving vloggers a sense that Benchmade is listening to what they have to say.

"Being accessible promotes brand loyalty, and that really shows on forums," according to Rob Morrison, Benchmade's director of marketing.

Benchmade also offers vloggers loaner knives for review, as well as discounts and glimpses into future product offerings.

"It's cheaper and more convincing if a vlogger reviews a knife," says Mr. Morrison. "To produce the same number of intricate 10- to 20-minute videos that [knife vlogger] Nutnfancy does for each product we make would be impossible to afford."

Better than an ad

Woodman Labs Inc.'s GoPro, which makes a digital video camera for recording action sports, learned the hard way about the importance of the softer sell in discussions.

Initially, the Half Moon Bay, Calif., company tried to promote its camera, the Hero, on a mountain-bike forum, but the efforts ended up annoying some members, who would turn around and point out perceived shortcomings of the camera.

"We have learned that listening is as important as talking," says Rick Loughery, who leads the social-media efforts at GoPro.

GoPro's more laid-back approach on YouTube has brought strong results. Vloggers have produced 7,500 videos about the Hero, and more than 15% of GoPro's total traffic and sales now comes from social media.

Listening to vloggers has also helped GoPro find new niches. For instance, the company learned through vlogs that people were mounting Hero cameras onto remote-controlled cars, boats, planes and helicopters—so GoPro created a kit designed specifically for those hobbyists.

"We would have never thought of that, but we're all for it," says Mr. Loughery, who's studying up on the hobby so he'll be able to knowledgeably communicate with the community.

Mr. Nishi is a writer in Los Angeles. He can be reached at **reports@wsj.com.**

Skip the Pitch—and Chat Instead

Companies can win friends by joining in conversations about their YouTube videos or others that mention their products. Below are comments by company reps for a hair-care firm and a knife company.

Dear contact: Send cash

For one Irish start-up, the secret to financing was a mass appeal on LinkedIn

By Elizabeth Garone

When Frank Hannigan needed to raise a first round of financing for his software start-up earlier this year, he didn't want to waste time with endless calls and meetings with potential investors.

"Every day you spend selling equity in your business is a day you are not selling the output of your business," he says.

His solution? A note to 700 of his contacts on the business-networking site LinkedIn.

The message, which he hashed out with company founder Ger Harnett, was simple. **Goshido**, an Irish outfit that makes project-management software delivered over the Internet, was looking for 10 investors to invest €25,000 (about $35,000) apiece. In return, they would each get a 2% share in the company.

Within a couple of days of sending the note through LinkedIn's email service, Mr. Hannigan had 200-plus responses that ranged from requests for meetings or conference calls to lists of questions and quite a few messages that said, "No thanks, but I'll pass it on."

It's who you know

Software engineer Dave Concannon, of Berkeley, Calif., was one of the people who got Mr. Hannigan's note.

"At first, I wondered if it was legitimate, since I had never seen anything like it before," says Mr. Concannon, who knew Mr. Hannigan through previous consulting jobs. "Once I realized it was real, it seemed like a good idea."

Mr. Concannon thought the company targeted an underserved niche in the project-management field and had a good team in place. What sealed the deal, though, was a perusal of Mr. Hannigan's other LinkedIn contacts. "He's connected to a high level of company owners, v.p.-level executives and entrepreneurs," Mr. Concannon says. "If it was good enough for them, I wasn't going to pass it up."

Ron Immink of Dublin, chief executive of a consulting firm and founder of SmallBusinessCan.com, an online portal for small companies, was also won over by Mr. Hannigan's approach. Not only did he decide to invest, but he also plans on doing his next round of funding through LinkedIn.

"It has a transparency to it," Mr Immink says. "You can see who the promoters are connected to, and start-ups are all about people and team."

The final tally? Eight days after the note went out, all 10 of the investor spots were filled.

"I was completely blown away by the response," says Mr. Hannigan. The company raised the roughly $350,000 it needed, and Enterprise Ireland, a government agency dedicated to fostering emerging companies, matched the funds.

Matthew Cowan, co-founder and managing director of Bridgescale Partners, a venture-capital firm in Menlo Park, Calif., says that he isn't at all surprised by a small company taking this type of novel approach for its seed round of funding.

"It's very telling of what's possible today. There is tremendous efficiency in applying social networking to a business context," Mr. Cowan says. "It would have taken them six months [to do the same thing] in the old world."

But Mr. Cowan isn't ready to embrace this approach just yet. "The accessibility of start-up investment opportunities through social networking may be a great temptation for many," he says, "but it may well mask the attendant risks, and many will lose 100% of their capital, because however you find them, start-ups are still risky bets."

Ms. Garone is a writer in Alameda, Calif. She can be reached at **reports@wsj.com**.

The best country to start a business...

...and other facts you probably didn't know about entrepreneurship around the world

By Jeff May

What's the best place in the world to start a business? Denmark.

What country has the biggest share of women who launch new businesses? Peru.

Where does it take an average of 694 days to clear government red tape and get a company off the ground? Suriname. By contrast, where can you start a company fastest in Europe? Belgium, in just four days.

The answers to these and other questions provide a fascinating snapshot of entrepreneurship around the globe. The numbers, drawn from a host of recent surveys, show a world that's brimming with start-up activity, as people from Ireland to Eritrea try to navigate a terrible economy by striking out on their own. But the surveys also show that many countries could do a lot more to accommodate entrepreneurs.

Governments in the developing world, for instance, often impose high costs and numerous procedures on people who are trying to get a company off the ground. In Zimbabwe, entrepreneurs will have to fork over about 500% of the country's average per-capita income in government fees. Compare that with 0.7% in the U.S. In Equatorial Guinea, owners have to slog through 20 procedures to get their venture going, versus just one in Canada and New Zealand and three in Belgium.

Still, lots of countries are making progress. In a World Bank study of red tape, Samoa was singled out for making the most strides in reforming its practices. It went from one of the toughest places in the world to start a company last year—131st out of 183—to No. 20 this year.

What's more, some emerging-markets powerhouses like China, Russia, Brazil and India, as well as nations like Chile and the Czech Republic, are due for big improvements, says Zoltan Acs, a U.S. Small Business Administration economist and co-author of the agency's study of entrepreneurial performance around the world. China, for instance, ranks as just the 40th best place in the world to start a company. Yet China and its up-and-coming peers score high on forward-looking measures like expectations for job creation—so they're likely to catch up fast with more-advanced economies.

The surveys shed light on some other interesting corners of entrepreneurship:

■ **VENTURE-CAPITAL FUNDING:** Israel backs its early-stage companies with the most venture capital, when you look at the amount invested as a percentage of gross domestic product. Slovenia shells out the least.

■ **PARTICIPATION BY GENDER:** In most places, men are more likely to launch businesses than women. The exceptions: Japan, where 5.22% of the country's women own a small early-stage business versus 3.47% of men, and Peru, where women edge out men 26.06% to 25.74%. In Brazil, it's a dead heat.

■ **TYPES OF BUSINESSES:** Affluent economies are more likely to launch service firms that cater to the business sector. In Denmark, for instance, B-to-B companies make up 42% of start-ups. Poorer countries tend to churn out a high percentage of consumer-oriented businesses. Consider Guatemala and the Dominican Republic, where more than 74% of start-ups focus on consumers.

Mr. May is a writer in Mount Tabor, N.J. He can be reached at **reports@wsj.com**.

The Best Spots to Start Out

Which nations provide the most favorable environment for entrepreneurs? Rankings by a U.S. agency weigh a host of factors, including the kind of businesses created and attitudes toward entrepreneurs.

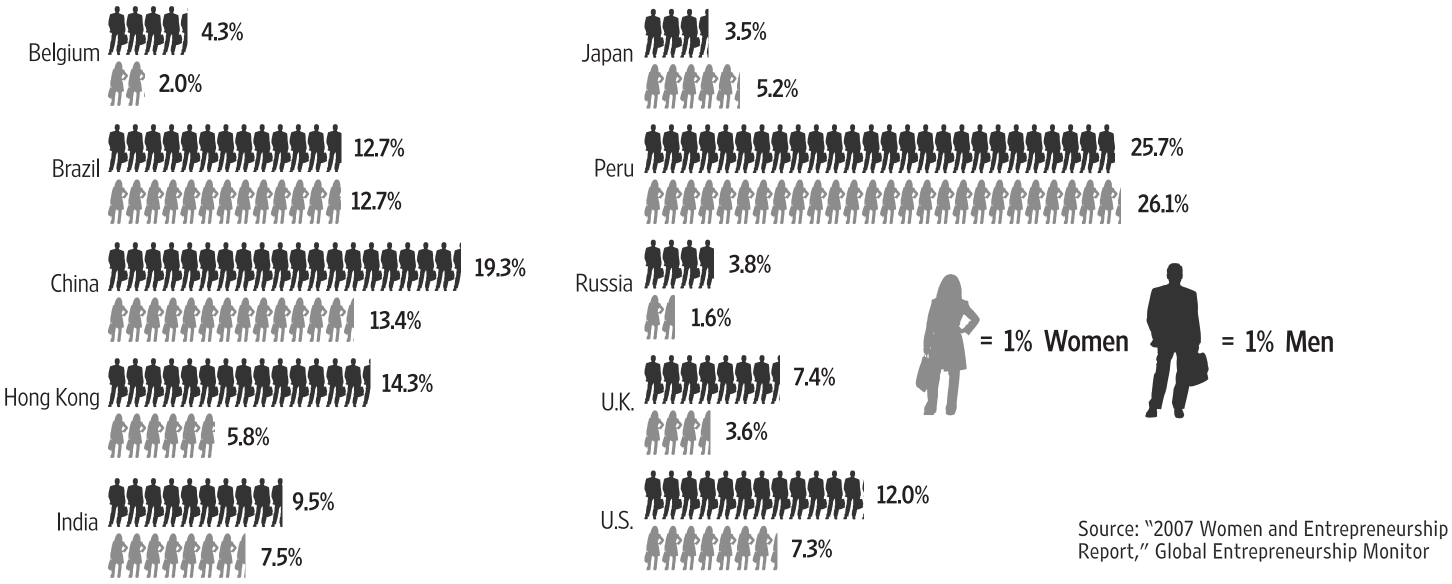
Rank	Country
1	Denmark
2	Canada
3	U.S.
4	Sweden
5	New Zealand
6	Ireland
7	Switzerland
8	Norway
9	Iceland
10	Netherlands
11	Australia
12	Belgium
13	Finland
14	U.K.
15	Singapore
16	Germany
17	Puerto Rico
18	France
19	Slovenia
20	S. Korea
21	Israel
22	Austria
23	Hong Kong
24	United Arab Emirates
25	Czech Republic
26	Chile
27	Italy
28	Spain
29	Japan
30	Saudi Arabia
31	Malaysia
32	Latvia
33	Portugal
34	Greece
35	Uruguay
36	Argentina
37	Poland
38	Croatia
39	Peru
40	China

Note: Countries with identical scores were assigned different ranks after adjusting for their stage of economic growth.

Source: U.S. Small Business Administration's Office of Advocacy

The Gender Breakdown

What countries have the biggest chunk of female entrepreneurs? The numbers below show the percentage of men and women involved in an early-stage company, in a sampling of countries. In general, women trail behind men in starting companies, but they tend to launch the most in poor and middle-income countries—largely out of necessity.



Source: "2007 Women and Entrepreneurship Report," Global Entrepreneurship Monitor

A Measure of Red Tape

A ranking of how easy it is to start a business based on the procedures, time, costs and capital requirements that governments impose—along with a sampling of how some countries stack up in individual categories

Overall Rankings

Easiest

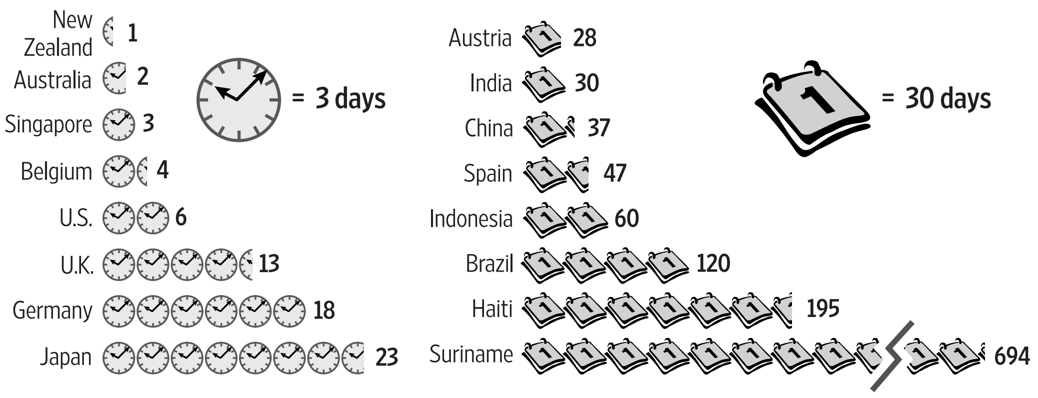
Rank	Country
1	Singapore
2	New Zealand
3	Hong Kong
4	U.S.
5	U.K.
6	Denmark
7	Ireland
8	Canada
9	Australia
10	Norway

Hardest

Rank	Country
174	Niger
175	Eritrea
176	Burundi
177	Venezuela
178	Chad
179	Congo, Rep.
180	São Tomé and Principe
181	Guinea-Bissau
182	Congo, Dem. Rep.
183	Central African Republic

Source: "Doing Business 2010," the World Bank

Time (Days)



Number of Procedures