Ministers resign, increasing the pressure on Berlusconi
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THE WALL STREET JOURNAL.

VOL. XXVIII NO. 203 | EUROPE | Tuesday, November 16, 2010

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EU officials exhort Ireland to request aid

By David Enrich
And Brian Blackstone

DUBLIN—Wrangling over whether Ireland needs an international bailout escalated Monday, with European officials amping up pressure on the country to accept a rescue and Irish officials digging in hard to resist.

"It's not just a question of national pride. It is very important that any sovereign nation retains control over key issues," Dick Roche, Ireland's minister for European Affairs, said on a national radio broadcast. "It would not be a good thing for us to go running to the IMF when it is clear that there is no need to so do."

Irish Prime Minister Brian Cowen on Monday repeated Ireland wasn't applying for emergency support. "We're engaged with our counterparts in relation to discussing with them how best to underpin banking and financial stability—it's in all our interest to do so," he said in an interview with Ireland's RTE television. But he added that "Ireland is making no application for the funding of the state because clearly we're prefunded right up to the middle of next year."

Hoping to prevent Ireland's woes from infecting other euro-zone countries such as Spain and Portugal, officials at the European Central Bank and elsewhere in Europe have been urging their Irish counterparts to seek financial aid from the International Monetary Fund and a European Union rescue fund.

Europe's financial markets remained cautious ahead of EU finance ministers' meetings in Brussels Tuesday and Wednesday. The yield on Ireland's benchmark 10-year bond, which moves inversely to its price, fell to 8.10% from 8.48% on Friday and 9.25% on Thursday. A key index of Irish financial shares soared 5% on hopes of a bailout.

But Portuguese and Spanish bonds saw limited gains, reflecting uncertainty about whether those countries will be thrust into the crisis next. Worries about Europe's debt crisis weighed on the euro, which dropped 0.5% to $1.3615.

Preliminary talks took place over the weekend about the mechanics of a potential bailout, but the Irish government officials say they have no intention of requesting help. The standoff is likely to dominate the finance ministers' talks, as officials scramble to defuse the latest threat in Europe's financial crisis.

An EU official said Ireland's problem isn't the government's own budget, which it is dealing with effectively, but banks that have grown huge compared with the size

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■ Greece and Germany grapple over debt 5

Facebook's new expression

Associated Press

Facebook unveiled a service for its 500 million members that melds email and other messages in a single inbox, stepping up its competition with services like Google's Gmail. 'This is not an email killer. This is a messaging system that includes email,' said CEO Mark Zuckerberg. **Article on page 23.**

The Quirk

The voracious lionfish creates an uproar, bringing out the hunters. Page 33

World Watch

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

Editorial & Opinion

Europe's unwanted investor protection will hurt the economy. Page 16

Caterpillar makes big bet on global mining growth

By James R. Hagerty
And Bob Tita

Placing a giant bet on a long-term boom in global demand for coal and minerals, **Caterpillar** Inc. agreed to buy **Bucyrus International** Inc., a maker of mining equipment, for $7.6 billion.

Demand from China, India, Brazil and other emerging markets will "push demand" over the next decade for coal, copper, iron ore and "everything that comes out of the ground," Doug Oberhelman, Caterpillar's chief executive, said during an interview Monday after announcing the company's largest acquisition to date. He cited the rapid growth of cities, as well as infrastructure needs in developing countries.

The deal would help Caterpillar and Bucyrus respond to growing competition from makers of mining equipment in China and elsewhere in the developing world, said Bucyrus CEO Tim Sullivan.

"The Chinese are not standing pat on any products," Mr. Sullivan said. "We're seeing them more and more in our markets."

The planned purchase, subject to regulatory approvals, would give Caterpillar, which is already the world's biggest maker of construction and mining equipment, a broader range of mining products than its rivals, Mr. Oberhelman said.

The acquisition would accelerate consolidation among global makers of mining equipment. In February, Bucyrus bought **Terex** Corp.'s mining-equipment division for $1.3 billion. Other big makers of mining equipment include **Komatsu** Ltd. of Japan, **Joy Global** Inc. of the U.S. and **Liebherr-International** AG of Switzerland.

"Our customers have told us they want fewer suppliers" of mining equipment, Mr. Oberhelman said, adding that

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PAGE TWO

For Europe's sake, take the money

[Agenda]

By Simon Nixon

Ireland's day of reckoning has arrived. When Brian Lenihan meets his fellow European Union finance ministers in Brussels Tuesday, he will find himself in the surreal position of being begged to accept a European Union bailout, despite the fact Ireland doesn't need to tap bond markets until the middle of next year and his government will next month deliver a budget which it believes will enable the country to bring its borrowing under control. But this crisis is now about the survival of the euro zone. Mr. Lenihan should take the money—and the rest of Europe must hope that does the trick.

For Mr. Lenihan this will be a bitter moment. For the past two years, he has done almost everything the markets could have expected to maintain investor support. But his government's decision in September 2008 to guarantee almost all the unsecured creditors in its banking system proved a single catastrophic misjudgment. The public finances have been overwhelmed by the sheer scale of the losses that have emerged from the banks.

With doubts now emerging about the state of bank mortgage loan books, wholesale funding has evaporated and deposits have been withdrawn, leaving the banks reliant on European Central Bank funding for their survival. The ECB is currently lending Irish banks €80 billion ($109 billion), equivalent to 80% of GDP. Bank of Ireland last week reported its loan to deposit ratio had risen from 145% to 160%, even as it deleveraged by shedding assets. The bank now has just €12 billion of ECB eligible collateral, half the level three months ago. For other Irish banks, the situation is likely to be even tighter.

Bloomberg

Pedestrians pass the 'Not To Worry' wig store in Dublin.

Factor in the ECB's recent Irish bond purchases and it is clear Ireland is already being bailed out to a far greater extent than euro-zone policymakers have been willing to acknowledge. As a monetary authority, the ECB can justify intervening in markets to provide markets with liquidity. But the ECB does not have a mandate to take credit risk, which is arguably what Ireland now presents. A bailout that exposes taxpayers to losses needs to be a fiscal operation, the preserve of democratically elected governments.

For Ireland's finance chief, Brian Lenihan, the meeting with EU ministers will be a bitter moment.

Recapitalizing the Irish banking system to much higher levels is a necessity. Despite all the doubts about the Irish economy, Bank of Ireland has a core Tier 1 ratio of just 8.2%. In contrast, National Bank of Greece, faced with similar funding pressures recently raised over €2.8 billion via a rights issue, taking its core Tier 1 ratio to 13.4%. Taking Irish bank capitalizations to similar levels might allow them to start funding themselves once again in private markets. But only the European Union can now provide Dublin with the funds. Even then, Ireland might struggle to access bond markets while the economic situation remains uncertain, suggesting a wider bailout is likely to be needed.

Not only does the European Union have the right to demand Ireland accept this bailout but Dublin has an obligation to accept: The longer it holds out, the greater the risk both of a further disastrous loss of confidence in the Irish financial system and that the crisis spreads to other euro-zone countries including Portugal, Spain and Italy.

For Portugal, it may already be too late; its 10-year bonds now yield more than four percentage points more than German bonds and only one percentage points less than Irish bonds. That may seem unfair on Portugal: Its budget deficit is far lower than Ireland's at just 7.3% of GDP and it has produced a tough budget forecast to bring the deficit down to 4.6% next year. Its banks are in reasonable shape and it has undertaken structural reforms to boost competitiveness. Unlike other peripheral European countries, its economy is growing, up an annualized 1.2% in the third quarter.

But recent comments by European leaders on the need for bondholders to share the burden of any future debt restructurings have unnerved investors, leaving them acutely sensitive to any doubts over the ability of euro-zone members to stabilize their debt. For Portugal, whose fiscal consolidation plans rely on much stronger growth than the country has achieved in the past, that it is a particular concern. Investors are naturally reluctant to buy debt they fear might be subject to a future haircut if this growth doesn't materialize.

A statement by the finance ministers of euro zone's leading economies last Friday saying that any new rules on burden-sharing would only apply to debt issued once a new crisis resolution mechanism is introduced, most likely after 2013, has only partially calmed the situation since it still leaves open the possibility that existing debt could be restructured once the current bailout facility expires in 2013. For Portugal, it may be that only a clear guarantee to honor all euro-zone government debt issued before the new mechanism is put in place in 2013 would now provide the markets with the necessary reassurance.

But that looks politically highly unlikely: Not only would it breach the euro zone's no bailout policy, but it would expose euro zone taxpayers to the risks in other vulnerable banking systems in far bigger economies than Ireland. Portugal may therefore have to follow Greece and Ireland into the European rescue fund. The fund is large enough to cope with these three countries, but Europe cannot afford the contagion to spread further. Fortunately, Spain still seems to have confidence of the markets, despite concerns earlier this year. But as Ireland has discovered, that can quickly change. All the more reason why euro-zone members must hope that Mr. Lenihan takes up their offer.

What's News

■ **GM will price shares** in its IPO just above the high end of the $26-to-$29 a share range it had forecast. A decision on the price won't be made public until Wednesday. 21

■ **Volkswagen moved** closer to creating and controlling what would be Europe's largest truck manufacturer as its Swedish brand Scania said it was exploring a merger with German rival MAN. 24

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'I want to believe they will decide to do what is appropriate together for Ireland and the euro.'

Portugal's finance minister says Ireland must consider the euro zone.

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NEWS

Study: daily drinks yield health benefits

By Jennifer Corbett Dooren

CHICAGO—Women who have an alcoholic drink or two a day in midlife turn out to be healthier overall in their old age, a new study found, while another report showed women who had a daily drink had a lower risk of stroke.

Previous research has pointed to health benefits such as lower risk of heart problems for both men and women with regular alcohol use.

But because of concerns about negative health effects associated with too much alcohol, the American Heart Association and other health groups recommend that women limit their alcohol intake to one drink a day and men stick with two. Health experts also don't recommend that non-alcohol drinkers take up drinking.

A drink is defined as a 140-milliliter glass of wine, a 340-milliliter beer, or 30 milliliters of hard alcohol. Drinking too much alcohol, besides causing liver problems, could lead to an elevated breast cancer risk in women, even with moderate alcohol consumption, some studies have suggested.

But new research presented at the American Heart Association's annual meeting suggests women might not have to stick as closely to the one-drink a day guideline or worry about the amount of wine in a typical goblet that usually exceeds 140 milliliters.

But doctors warn that the alcohol guidelines aren't cumulative, meaning that people can't safely save up to have many drinks on a weekend, for example, by not drinking alcohol during the week.

Women who reported having one or two drinks most days of the week had a 28% better chance of living to at least age 70, compared with nondrinkers.

The two studies, by researchers at Brigham and Women's Hospital and Harvard University in Boston, used data from the landmark Nurses' Health Study, which has been following about 84,000 women since 1976.

One study, by Qi Sun, a Harvard medical instructor, looked at nearly 14,000 women who had lived to age 70 in order to find women who "successfully survived" to that age. Dr. Sun said he found that 1,499 women lived to age 70 and were free of major diseases such as cancer and heart disease and had no physical impairments or memory problems.

As part of the Nurses' Health Study, detailed data on food and alcohol consumption were collected at regular intervals.

Dr. Sun said he looked at the levels of drinking reported by women who were 70 and older when they were in midlife, or about age 58. He found that women who reported having one or two drinks most days of the week had a 28% better chance of "successfully surviving" to at least age 70, compared with nondrinkers. As in other studies, Dr. Sun found women drinking most days of the week were more likely to be healthier than women who drank one or two days a week.

"You could argue this is a little more than the U.S. guidelines," Dr. Sun said.

However, Dr. Sun cautioned that alcohol plays a smaller role than diet and exercise and said women gain more health benefits from walking 30 minutes a day.

Other research looked at 73,450 women in the Nurses' Health Study who were free of heart disease and cancer when they entered the study.

The women were followed from 1984 to 2006 to examine associations between alcohol use and the risk of stroke.

Women who drank up to one drink a day had a 20% reduction in the risk of stroke compared with women who didn't drink at all.

There was no impact on stroke risk among women who drank larger amounts—such as two or three drinks daily—except among women who were also on hormone replacement therapy. Women on HRT who also had two drinks a day had an increased stroke risk compared with women who didn't drink.

Associated Press

A new study shows women may benefit from more than one drink a day.

Resignations push Berlusconi

By Stacy Meichtry

ROME—Top Italian officials tendered letters of resignation to Prime Minister Silvio Berlusconi on Monday, stepping up pressure on the premier to pull the plug on his embattled government.

By offering to resign, Andrea Ronchi, minister of European policy; Adolfo Urso, deputy minister of industry; and two undersecretaries threw their support behind Gianfranco Fini, who leads a group of conservative lawmakers who have broken away from Mr. Berlusconi.

A government official said Mr. Berlusconi was expected to accept the resignations by default, given that he hadn't publicly rejected them.

If Mr. Berlusconi accepts the resignations, which were confirmed by the officials' spokesmen, he will face the challenge of finding successors in an increasingly hostile political landscape. Mr. Berlusconi recently named a new industry minister after several months of searching—a delay that stirred widespread condemnation from business leaders and unions.

Agence France-Presse/Getty Images

From left, Antonio Buonfiglio, Adolfo Urso, Roberto Menia and Andrea Ronchi tendered their resignations on Monday.

The departures will also deepen a political feud between Mr. Berlusconi and his former ally that has paralyzed Italy's political system for months. Mr. Fini has repeatedly called on the prime minister to step down and allow Italy's president, Giorgio Napolitano, to decide whether to form a new government or dissolve Parliament—a step that paves the way for early elections. Mr. Berlusconi, however, has steadfastly refused to resign, demanding that Mr. Fini bring down his government in a confidence vote in Parliament.

If the government falls, Mr. Berlusconi could retain power by persuading Mr. Napolitano to let him form a new government. He also would also make a formidable candidate for premier if early elections are called, because his support among voters remains strong.

A confidence vote is expected to take place after Parliament approves amendments to Italy's three-year budget. The vote on the amendments hasn't been scheduled, but the budget is due by the end of the year. On Tuesday, Mr. Napolitano will meet with Mr. Fini, who is also speaker of the lower house, and his Senate counterpart to "examine the next deadlines of parliamentary activity," the president's office said.

Both Mr. Berlusconi and Mr. Fini have refused to budge, because neither wants to get blamed by voters for triggering a government crisis at a time of economic uncertainty. Analysts, however, warn the paralysis itself is the biggest risk to Italy's slow-growing economy.

"Our main concern is that the complex political situation will lead to a stalemate...leading to a failure to engineer policies aimed to boost productivity," said Deutsche Bank analyst Marco Stringa.

Mr. Berlusconi's allies seized on Monday's resignations, painting the moves as an act of political treachery by Mr. Fini. "The betrayal has begun," Labor Minister Maurizio Sacconi told reporters.

Mr. Fini and his allies helped Mr. Berlusconi found his People of Freedom party nearly three years ago. This summer, however, the party expelled Mr. Fini for criticizing the premier's governing style. Mr. Fini has now set up his own political party, Future and Freedom for Italy, which has enough lawmakers to deprive the government of a majority in the lower house of Parliament but weaker support in the upper house, the Senate. Mr. Fini has also begun courting other centrist parties for support in Parliament.

In recent weeks, Mr. Fini has ratcheted up criticism of Mr. Berlusconi as the premier grapples with controversies ranging from scrutiny over his party-going lifestyle to the breakdown of trash collection in and around Naples.

—Giada Zampano contributed to this article.

Euro-zone export rise swings data to surplus

By Ilona Billington

LONDON—The euro zone's balance in trade in goods with the rest of the world swung into surplus in September and was much larger than expected, data from the European Union's statistics agency showed Monday.

The 16 countries that use the euro had a combined surplus in their trade in goods of €2.9 billion ($3.97 billion), compared with a deficit of €5 billion in August and a €1.4 billion surplus in September 2009. The surplus was wider than expected, as economists surveyed had forecast a €600 million surplus.

Exports from the euro zone grew 22% to €137.1 billion, from €112.2 billion a year earlier, while imports increased at a similar pace to €134.1 billion in September, from €110.8 billion in September 2009. Both exports and imports in September were higher than the levels reported in August, the Eurostat data showed.

The total trade balance for the euro zone for the first nine months of the year was a deficit of €600 million, compared with the €10.9 billion surplus reported over the same period in 2009.

Energy imports were almost five times as large as exports in the first eight months of the year.

Trade in manufactured goods—which include chemicals and machinery—totaled a surplus of €167.4 billion between January and August, which is the most up-to-date cumulative total Eurostat reports. While that was up from the €142.9 billion surplus in the year-earlier period, it compared with a deficit of €179.9 billion in the trade of primary products, which include food and energy products.

The deficit for the primary-products sector was largely due to a deficit of €165.6 billion in trade in energy products, which was also wider than the €142.9 billion deficit reported over the year-earlier period, Eurostat data show.

The breakdown of the energy trade balance shows that imports of energy—the euro zone imports much of its oil and natural gas—were almost five times as large as exports in the first eight months of the year.

Among the largest euro-zone economies, Germany reported a trade surplus of €96.7 billion between January and August, wider than the €86.4 billion surplus reported over the same period a year earlier. France recorded a trade deficit of €40.1 billion in the first eight months of the year compared with a €33.9 billion deficit between January and August 2009. Among the peripheral member states, Greece's trade deficit stood at €15.6 billion, narrower than the €19.1 billion deficit reported over the same period a year earlier, and Ireland's trade surplus widened to €27.8 billion, from €26 billion in 2009.

Weber: Basel III won't kill growth

By Nina Koeppen

FRANKFURT—New international capital standards "won't significantly hamper" economic growth, a key member of the European Central Bank's governing council said Monday, rebuffing talk that new Basel III rules on bank lending will lead to a credit crunch.

"It's crucial that the decisions of the G-20 summit are now being quickly translated into national law," Axel Weber said. Although new capital rules will make financial institutions "significantly more robust," a default of a single institution can't be ruled out, he said.

"There may be a smaller number of players in future as some will exit because they cannot fulfill the new regulatory requirements," cautioned Mr. Weber, who is also the president of Germany's Bundesbank.

Speaking at the start of Euro Finance Week, a meeting of top bankers and policy makers, Mr. Weber said questions remain over the definition of "systemically important" financial institutions, but warned against "overemphasizing" the issue.

"I am sure we will find a solution by the end of next year," Mr. Weber said.

Germany's deputy finance minister, Jörg Asmussen, speaking at the same event, was more explicit. Mr. Asmussen said policy makers "must not lose sight" of nonbank financial intermediaries, such as complex insurance firms or hedge funds, when assessing systemic risks to the economy and the financial system.

"We need a common, integrated approach," Mr. Asmussen said.

Mr. Weber endorsed an agreement by the Group of 20 industrial and emerging economies reached this weekend calling for big global banks to hold bigger capital cushions to protect against losses. But he said policy makers should also consider the use of "bail-in instruments," which would require bondholders to convert their debt into equity before any government rescue takes place.

Meanwhile, at the same event, top executives from several major European banks warned against over-regulating financial markets, which bankers fear could make Germany and other countries less attractive as financial centers.

The comments underpin bankers' continuing concerns about how new financial regulation, such as rules to boost bank capital and reduce risks, will affect banks. "What banking structure does Germany want to have to play a role in the global financial industry?" Josef Ackermann, chief executive of **Deutsche Bank** AG, asked at the conference.

Bloomberg News

Axel Weber of ECB governing council

Regulators must decide if they want a German banking market made up chiefly of major financial institutions like Deutsche Bank and **Commerzbank** AG, or instead a merely local market dominated by savings banks and state-controlled lenders, Mr. Ackermann said.

Mr. Ackermann said he sees "little readiness" from regulators to address the consequences of over-regulation. German banks are already faced with new rules governing pay, trading activities, depositor insurance and other requirements that pressure their earnings, he said.

Mr. Ackermann, who has become a prominent voice for the interests of the banking industry in the wake of the financial crisis, warned that banks must avoid creating a "race to the top" to raise capital to meet new regulation. Such a race would reduce lending and could curb broader economic growth, he said.

The financial system also still needs a means for winding down systemically relevant banks in the event of future crises, so that their problems don't spread to the rest of the industry, Mr. Ackermann added.

Martin Blessing, CEO of Commerzbank, warned that the new Basel III capital rules for banks and Solvency II regulations for insurance companies should be coordinated to prevent competitive distortions between banks and insurers.

Alfredo Saenz Abad, CEO of Spain's **Banco Santander** SA, said the new capital rules will "imply more and better capital" and will allow the banking sector to gradually comply with the new requirements. However, he added, "We hope [new regulation like liquidity rules] that will emerge will not have a negative impact on the...role banks play in economies."

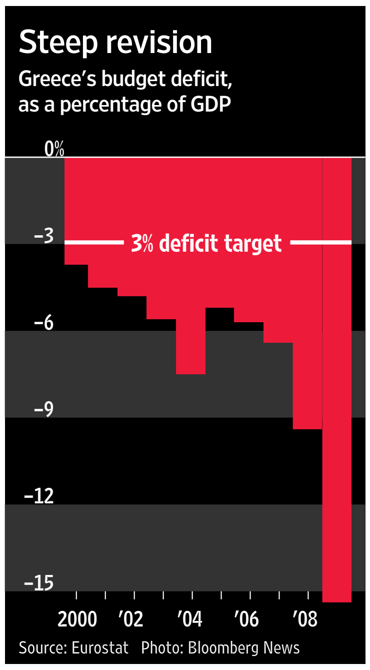
—William Launder and Ulrike Dauer contributed to this article.

EURO-ZONE CRISIS

Greece, Germany grapple over debt

By Charles Forelle

Greek Prime Minister George Papandreou



Source: Eurostat Photo: Bloomberg News

Greece's prime minister lashed out Monday at Germany—its chief euro-zone benefactor—for tough talk on government-debt defaults, making clear the widening strains inside the 16-member euro zone as the currency bloc wrestles with a teeming sovereign-debt crisis.

Addressing reporters in Paris, George Papandreou said the Germans' view—long-held, but recently reiterated—that private bondholders could suffer losses as part of a future bailout was intensifying government-debt woes.

The German position "created a spiral of higher interest rates for countries that seemed to be in a difficult position, such as Ireland or Portugal," Mr. Papandreou said. He added that the spiral could "break backs" and "force economies toward bankruptcy."

The sharp words reflect the severe difficulties the euro zone faces as it tries to shepherd its weaker members through an unstable period in which their access to borrowing from private markets is sharply curtailed.

Many in Europe—particularly in Germany—are wary of simply replacing that market financing with a blank check from other euro-zone taxpayers, hence the German insistence on finding others to take some of the losses. German leaders also believe that the tough-love approach will, in the long term, give countries the incentive to live within their means.

"Our task is to anchor a new culture of stability in Europe," German Chancellor Angela Merkel said in remarks for a party congress Monday.

A spokeswoman for Ms. Merkel said the chancellor's call for investors to bear a share of the burden in case of a euro-zone default in sovereign debt was made in reference to European Union discussions about new strategies for financial-crisis management that wouldn't be implemented before 2013.

At the same time, the very fact that some countries are facing borrowing difficulties is spreading the problem to others and weakening the euro. That makes a speedy solution imperative.

Ireland, the country most acutely in crisis, is facing pressure to accept a bailout in order to stem the contagion, and a Portuguese minister speculated over the weekend that his country may be forced to leave the euro zone.

In a bit of odd timing, Mr. Papandreou's remarks came as his own country released revised government-finance figures that made it more likely Greece would be unable to get out from under the crush of its own debt pile.

Greece said Monday it would miss a target to reduce its government deficit to 8.1% of gross domestic product this year, which was set after Greece took a €110 billion ($150 billion) bailout from euro-zone countries and the International Monetary Fund. (Germany put up €22 billion of that total.) As recently as last month, Greece said it would beat its target and report a deficit of 7.8%.

Instead, it now says the deficit is likely to be 9.4% this year, and that government debt would total 144% of GDP at the end of 2010. Citigroup economist Giada Giani said Greece's debt could reach 165% of GDP in 2013. At the time of the bailout, Greece agreed that its 2010 debt would be 133%, rising to 150% in 2013.

The bigger debt burden will increase Greece's annual interest tab. "A significantly higher debt profile inevitably makes the fiscal situation in Greece even more unsustainable than before," Ms. Giani wrote in a research note.

The revisions are in part the fruit of an effort to revamp Greece's poor record of making economic estimates and compiling government statistics. The 2009 deficit—also adjusted Monday to 15.4% of GDP from 13.6%—has been revised a half-dozen times. Greece now says it has finally seen the end of statistical revisions.

Greece is straining to bring in enough cash to close its budget gap sufficiently. Data from the Greek finance ministry show revenue is up just 3.7% in the first 10 months of 2010 from the year-earlier period. The deal Greece signed in May as part of its bailout calls for full-year 2010 revenue to be up 13.7%.

—Alkman Granitsas, Amelie Baubeau, William Horobin and David Crawford contributed to this article.

Ireland urged to seek rescue

Continued from first page

of the economy. But he said Ireland couldn't be pushed into calling for help if officials felt the country doesn't need it, and its banks could still turn for support to the ECB.

Some officials hinted on Monday that a possible compromise could involve sending bailout money to Ireland with instructions that it be used to help recapitalize the faltering banks. That might allow Irish government officials to claim that the banks—and not the government—need the aid.

European Commission President José Manuel Barroso said Monday evening that Ireland hadn't requested aid but that the EU has the means to help solve problems inside or outside the euro zone. "There are instruments to deal with the problems as they come up," he said.

Ireland's borrowing costs have soared to high levels, and the country's cash-strapped banks, facing liquidity problems, rely on the ECB to finance their daily operations.

Irish officials say that after pumping tens of billions of euros of taxpayer capital into their banking industry, they have stabilized the sector. And though Irish bond yields have soared, the government says it has enough cash to fund itself through the middle of next year.

But several officials on Monday publicly turned up the heat on Dublin, hoping that stability in Ireland will calm jitters ricocheting toward their shores. Another potential plus: If Ireland becomes the second country to accept bailout funds, after Greece this spring, it could wipe away some of the stigma associated with tapping the facility, making it easier for other countries to use it.

In an interview, Portuguese Finance Minister Fernando Teixeira dos Santos said that doubts about Ireland's ability to repay its sovereign debts have caused a "contagion" effect for Portugal.

"I would not want to lecture the Irish government on that," Mr. Teixeira dos Santos said. "I want to believe they will decide to do what is most appropriate together for Ireland and the euro."

Spain's central bank governor Miguel Ángel Fernández Ordóñez said, "It is up to Ireland to make the right decision—I hope it makes it."

The ECB said Monday it had increased its purchase of government bonds under a controversial six-month-old program aimed at preventing another Greek-style contagion from rippling through markets.

—Neil Shah, Nicholas Winning, Stephen Fidler, Flemming Emil Hansen and Jonathan House contributed to this article.

Small countries, big borrowers

Ireland is a tiny share of euro-zone GDP, but its banks are the biggest users of ECB loans

	Pct. of funding	Pct. of GDP
Ireland	24.3%	1.7%
Greece	17.3	2.6
Spain	13.5	11.5
Portugal	7.5	1.8

Sources: European Commission, Royal Bank of Scotland

EUROPE NEWS

Turks eye control of NATO shield

By Marc Champion

ISTANBUL—Turkey will demand the command post in a North Atlantic Treaty Organization missile shield if it is to host the proposed system's radar, Prime Minister Recep Tayyip Erdogan said Monday.

Sharpening his country's position ahead of a summit of NATO alliance leaders later this week in Lisbon, Mr. Erdogan said Turkey's other top concerns include where the system's radar sensors would be deployed and where debris from intercepted missiles would fall.

"Especially if this is to be placed on our soil, [command] definitely should be given to us—otherwise it is not possible to accept," Mr. Erdogan told journalists at Istanbul's Ataturk airport on Monday, according to Anadolu Ajansi, Turkey's state-funded news agency.

Turkey has been in negotiations with the U.S. over the missile shield for weeks. Diplomats don't expect Ankara ultimately to block NATO from building the shield, but its position has the potential to put it into conflict with Washington at the Portugal summit, although it was unclear on Monday how much of Mr. Erdogan's agenda Turkey would push there. The U.S. proposed and would build the missile shield, which would start with existing technology and upgrade in stages. By 2020, according the U.S. plan, it would protect Europe and the U.S. from ballistic missile threats from the region.

The NATO shield has put Turkey's government in a difficult position. U.S. policies in the region are unpopular in Turkey. Conservative newspapers have worried that hosting the radar could make Turkey a potential first-strike target for anyone planning to launch an attack.

Turkish leaders also are working hard to avoid being put in a position of having to choose publicly between support for NATO and Iran, an important neighbor and energy supplier that Ankara has been trying to court. On Monday, Mr. Erdogan reiterated Turkey's top-line condition for its support, namely that an agreement at the summit shouldn't mention Iran as the threat against which the shield is being built.

"Negotiations between the allies are still going on and the Turks are obviously playing hardball," said a NATO official who declined to be named. But he added that most of what Mr. Erdogan referred to Monday—such as where and in whose hands the system's command and control would be placed—were issues likely to be negotiated only after the summit. That is especially true if, as the allies hope, Moscow also agrees to cooperate with the shield, an involvement that would itself require extensive negotiation, the official said.

"The allies are likely to focus more on issues of principle at the summit," including whether to name Iran in the threat assessment—something the U.S. and several other allies want—and whether the system would cover the entire Turkish territory, the NATO official said.

Turkey would also expect the headquarters of the missile shield to be located in Turkey, possibly at NATO's base in Izmir, in Western Turkey, according to a senior aide to Mr. Erdogan.

"Of course it is very, very important where [the radar sensors] would be deployed," Mr. Erdogan said. "Where the [missile debris] would scatter and how is very important. And at what altitude is important...This will be discussed at the Lisbon summit. If we reach an agreement, that's great. If not, there's nothing more to say."

The prime minister's aide clarified that Turkish officials want to ensure that debris from any missile interceptions wouldn't fall on Turkish soil.

The NATO summit, which runs Friday and Saturday in the Portuguese capital, is also expected to adopt a new strategic concept for the alliance, covering the next 10 years.

Although a NATO project, the defense shield is being proposed by Washington and would be built by the U.S. NATO members would pay an estimated $270 million to integrate the system.

Belgium strives to clean up after heavy floods

Reuters

Belgium's Crown Prince Philippe visits a flooded area near Brussels on Monday. Belgian authorities have called in the army to assist with emergency evacuations after severe flooding killed two people in the southwestern Hainaut province.

Effort to map human proteins marks halfway point

By Sten Stovall

Scientists in Sweden Monday marked the halfway point of a groundbreaking effort to map each individual protein in the human body for eventual use in detecting disease and creating new treatments for health problems such as cancer, cardiovascular and neurological disorders.

When the mapping of all genes in humans was completed in 2001, it showed that humans have only around 20,000 of the so-called heredity units, with each gene coding for a protein.

Proteins, in turn, are vital entities in human cells and are involved in nearly all body functions both in healthy and diseased individuals. Proteins are the targets for virtually all pharmaceutical drugs and for most diagnostics.

There are thus only some 20,000 proteins also created by the human body. Most these have never been characterized.

Human Protein Atlas project, mostly funded by the Wallenberg Foundation and launched in 2003 to find and define all the proteins in humans, has now analyzed 10,000 genes and their proteins.

The results of the project promise to be hugely valuable for the pharmaceuticals industry.

The results promise to be hugely valuable for the pharmaceuticals industry, which is struggling to discover new innovative products amid looming "patent cliffs" for many so-called blockbuster drugs that generate $1 billion or more in annual sales.

"Mapping the human proteins makes it possible to fully exploit the results from the human genome project," said Mathias Uhlen, program director for the Human Protein Atlas project.

"Together, mapping the human building-blocks at the genome and proteome level has the potential to transform modern medicine. Reaching this halfway point is significant for the Human Protein Atlas project as it moves us a significantly large step closer to completion, which we anticipate to be in 2015," he said.

Recent years have seen increased interest and investment in a more personalized approach to medicine, aided by better understanding of human proteins.

The approach means doctors can detect disease at a much earlier stage and select the right treatment for each patient.

Research breakthroughs, like the Human Protein Atlas project, will enable earlier and more precise diagnosis, a necessity for selecting patients that actually might benefit from expensive and very targeted drugs which only work for specific small groups of patients, said Dr. Uhlen.

"With this information you can stratify patients—you can divide patients into 'responders' and 'non-responders,' which is a very important field now for the pharmaceutical industry, because they are having a harder and harder time to find and launch blockbuster drugs," Dr. Uhlen said in a telephone interview.

"There now is a trend to try to determine which patients will respond to a particular drug and which will not, so this information from the Human Protein Atlas project can be used for this."

The Human Protein Atlas project is a collaboration between the Royal Institute of Technology in Stockholm and Uppsala University. It seeks to emulate the success of the Human Genome Project, focusing on the previously uncharted human proteome.

When complete, the Human Protein Atlas will provide scientists with data for helping detect and treat some of the world's most serious diseases.

The scientists have used genes as their starting point—identifying the associated protein and then choosing a specific region of the protein to act as a template for making associated antibodies, proteins found in the blood and other bodily fluids, which the body's immune system uses to target and neutralize foreign bodies. These antibodies are then used to document the proteins in a large variety of normal human tissues, cancer cells and cell lines.

"We have decided that all information from this project should be made publicly available," Dr. Uhlen said.

Results from Human Protein Atlas project are being put in a massive online database for use by scientists around the world at http://www.proteinatlas.org/.

U.S. NEWS

End of jobless benefits is political plight

By Janet Hook
And Sara Murray

Jobless benefits for two million unemployed Americans will begin to expire in two weeks, an issue Congress is ill-prepared to tackle during a packed lame-duck session that is shadowed by growing voter antipathy toward government spending.

With the aid for the long-term unemployed due to lapse Nov. 30, Democrats are under heavy pressure to extend the program during the lame-duck session because its prospects will likely dim after Republicans gain control of the House in January.

The program, which provides aid for up to 99 weeks after workers are laid off, has been extended seven times during the current economic downturn. Democrats are hoping its critics will be loath to allow the benefits to lapse during the holiday season, with the unemployment rate still exceeding 9%.

But the last time Congress extended the program, the summertime battle was so pitched that extended benefits lapsed for more than a month as Republicans opposed another extension on the grounds that it would add to the deficit—a concern that has only grown more prominent during and after the midterm elections.

In a concession to those pressures, senior congressional aides say that Democrats are now weighing options that would scale back the program as the economy improves either on a national or state-by-state level.

"There is a desire to see that any reduction in weeks be connected to the state of the economy," a House Democratic aide said.

The issue likely will be swept up into the debate over the Bush-era tax cuts for the highest earners. Liberal Democrats, disappointed that their party likely will have to compromise and allow those tax cuts to be extended at least temporarily, want that concession to be linked to an extension of jobless benefits.

"A strong case can be made that the duration of unemployment benefits should be no shorter than the amount of time for which the tax cuts are continued," said Robert Greenstein, head of the Center on Budget and Policy Priorities, a liberal think tank.

Given the complexity of negotiations over the tax cuts, aides say it is unlikely the debate will be resolved before unemployment benefits expire Nov. 30. The lame duck Congress convened Monday amid uncertainty about a wide range of issues. After just a week in session, Congress is scheduled to take another week off for Thanksgiving and return Nov. 29.

Without another federal extension, jobless workers in most states would receive a maximum of 26 weeks of benefits through their regular state programs.

Agence France-Presse/Getty Images

Unemployed Americans attend a job fair outside of Los Angeles in September. The U.S. jobless rate exceeds 9%.

A state-federal program, currently 100% federally funded, offered another 13 to 20 weeks of benefits to workers in high unemployment states. Some 800,000 workers in those programs would be cut off almost immediately. Another 1.2 million jobless Americans will stop getting benefits by December's end. Some of those workers will exhaust their state benefits and be unable to access the federal program.

The majority of that 1.2 million is already receiving federal emergency extended benefits for up to 53 weeks and will be gradually knocked out of the program. Another extension wouldn't add more weeks beyond 99.

Congress initiated federal extended benefits in July 2008, relatively early on in the downturn. That's helping to fuel the urge to ratchet back benefits.

In past recessions Congress tended to wait longer to initiate federal benefits and didn't let them expire until the unemployment rate had fallen further. When extended benefits expired after the 1980s recession, the jobless rate was 7.2%.

Cutting off unemployment benefits could drag on the already fragile economic recovery by reducing consumer spending. The economy grew at a 2% annual rate in the third quarter, which has not been enough to bring down the unemployment rate. Goldman Sachs economist Alec Phillips estimated that, if the extensions are allowed to expire, it will shave half a percentage point from growth.

Retail sales register gain

By Jeff Bater
And Luca Di Leo

U.S. retail sales surged in October, rising above expectations on robust car sales and solid spending for a broad array of merchandise going into the holiday shopping season.

Separately, inventories at U.S. businesses in September rose above expectations, a sign of confidence among companies in the economic recovery as the holiday shopping season grew nearer.

Retail sales rose 1.2% last month, the Commerce Department said Monday.

Economists surveyed by Dow Jones Newswires had projected sales would climb by 0.8%.

The increase was the biggest since March and the fourth in a row. September sales rose 0.7%, revised up from a previously estimated 0.6% increase.

The strong gain is important for the economic recovery. Consumer spending makes up most of gross domestic product, which is the broad measure of U.S. economic activity.

GDP in the third quarter grew a modest 2%, supported by a solid but not very big gain in consumer spending.

Consumers have been frugal, restrained by a U.S. unemployment rate of 9.6%.

Still, the latest government data show nonfarm payrolls rose by a greater-than-expected 151,000 jobs in October, a sign of improving labor conditions that, if sustained, could lead to stronger spending and economic growth.

Big retailer Macy's Inc. reported a profit of $10 million in the quarter ending Oct. 30, compared with a loss of $35 million for the prior-year period.

October's 1.2% increase in retail sales was powered by strong sales of autos and parts, which climbed 5%—also the highest since March.

Excluding automobiles, all other retail sales rose 0.4%, just shy of the 0.5% gain that was expected.

Clothing-store sales rose 0.7% in October.

Sales at sporting goods, hobby, book and music stores increased by 1%. October gas-station sales rose 0.8%.

The increases in inventories and sales were positive signs for the economy as companies prepared for the crucial holiday shopping season.

Food- and beverage-store sales increased 0.3%. Restaurant and bar sales also rose 0.3%.

Mail-order and Internet sales increased 0.8%.

But there was weakness in some categories. Furniture sales fell 0.7%, as did sales at electronics and appliance stores.

Sales at health- and personal-care stores dipped 0.1%.

Inventories increased 0.9% from the prior month to a seasonally adjusted $1.403 trillion, the Commerce Department said.

Economists surveyed by Dow Jones Newswires expected a 0.6% increase. August inventories also rose 0.9%, revised up from a 0.6% increase.

U.S. business sales accelerated in September, rising 0.5% to $1.101 trillion after an upwardly revised 0.3% gain in August.

The increases in inventories and sales were positive signs for the economy as companies prepared for the crucial holiday shopping season.

Monday's inventories report said that at the current sales pace, businesses had enough goods on hand in September to last 1.27 months, the same as the level in August and below 1.30 in September 2009.

U.S. companies cut inventories furiously during the recession, then built supplies back up as the economic recovery got under way. Now companies are trying to keep stockpiles in line with demand.

Department-store operator Dillard's Inc., for instance, attributed the increase in its fiscal-third-quarter earnings to efforts made to effectively manage inventory and control expenses.

Wholesalers make up about 30% of all business stockpiles. Factories account for about 38%. Retailers make up the rest. Wholesale inventories rose 1.5% in September. Manufacturing inventories increased by 0.7%.

Retailers' stocks of goods climbed 0.8%, driven partly by a 1.7% gain in autos and parts. Excluding cars, other retail inventories increased 0.4%. Inventories at clothing stores were flat.

Inventories at furniture stores rose 0.1%. Building-materials inventories gained 0.7%. Food- and beverage-store inventories rose 0.3%. General-merchandise-store inventories increased 0.1%.

U.S. NEWS

Rangel ethics panel deliberates fate

By Devlin Barrett

WASHINGTON—A House ethics panel is deciding whether senior Democratic Rep. Charles Rangel is guilty of violating ethics rules after the eight lawmakers decided to accept as fact the entire prosecution's case against him.

The panel's decision came after Mr. Rangel walked out of the hearing in protest, and it suggests he will almost certainly be found to have violated House rules. If the eight panel members find Mr. Rangel guilty, the full 10-member ethics panel will determine his sentence. Even with a finding of guilt, Mr. Rangel is unlikely to face expulsion from the House; the most likely punishment would be a public reprimand.

Mr. Rangel, 80 years old, wasn't in the hearing room when the panel announced its decision. Chairwoman Zoe Lofgren (D., Calif.) said she had decided the allegations against Mr. Rangel were factually true, and none of the other seven lawmakers on the panel appealed that decision. The lawmakers are proceeding with deliberations without hearing further evidence or testimony.

The two other members of the House ethics committee, who would participate in any sentencing decision, are Rep. Ben Chandler (D., Ky.) and Rep. Jo Bonner (R., Ala.).

As the trial began Monday morning, Mr. Rangel surprised lawmakers by walking out after saying he shouldn't be required to face the trial without a lawyer at his side. Last month, Mr. Rangel parted ways with his high-powered, high-price legal team after he ran out of campaign funds to pay them.

"I am being denied the right to have a lawyer right now because I don't have the opportunity to have a legal-defense fund set up," he said.

Associated Press

Senior Democratic Rep. Charles Rangel walked out of a House ethics-panel hearing in protest on Monday.

"I truly believe I am not being treated fairly.''

Within the first minutes of Monday's hearing, the New York lawmaker quickly seized the spotlight at what had been a long-anticipated confrontation over alleged misconduct in his personal office and misuse of congressional perks. Mr. Rangel's wife sat in the hearing room, crying as she watched him.

The case has been a source of embarrassment for Democrats, who took control of the House in 2007 pledging to run the most ethical Congress in history. After Mr. Rangel's walkout, Ms. Lofgren huddled in private with other members of the panel and decided to go forward without him. "He has indicated that he does not intend to participate, and it is his right not to participate,'' said Ms. Lofgren.

Blake Chisam, the committee lawyer acting as prosecutor in the case, then gave a general description of the evidence against Mr. Rangel, including video snippets from past speeches in which Mr. Rangel admitted some wrongdoing but denied intentionally lying to anyone.

Mr. Rangel faces 13 separate counts of violating House rules, including failing to report assets, failing to pay taxes on rental income from a vacation property and misusing congressional stationery to try to raise money for a college center named in his honor.

The lawmaker has represented New York City's Harlem neighborhood in the House since 1971 and had been the chairman of the powerful Ways and Means Committee until he was forced to step down in March.

The last time the House Committee on Standards of Official Conduct held such hearings was in 2002 against then-Rep. James Traficant (D., Ohio), but the committee in that case was simply following investigative work done by federal prosecutors. Mr. Rangel's case marks the first time the House ethics committee has independently investigated and convened hearings on lawmaker misconduct since 1987. The senior Republican on the committee, Rep. Michael McCaul of Texas, called the Rangel hearing "rare and historic,'' based on a 21-month investigation with nearly 50 witnesses.

Mr. Rangel found sympathy from the committee over the departure of his lawyers last month. Mr. McCaul said it was "unfortunate'' that the law firm, Zuckerman Spaeder LLP, left the case at a critical hour. The lawyers weren't the first Mr. Rangel hired in the case, but they cost him the most money, about $1.4 million, according to disclosure reports.

Democrats on the panel were sharply critical of the lawyers' departure. "It's an astonishing display of professional irresponsibility,'' said Rep. Peter Welch (D., Vt.), for a law firm to take so much money to represent an individual then withdraw."

Rep. G.K. Butterfield (D., N.C.), a former judge, called the move "fundamentally unfair'' and said it wouldn't have been allowed in his courtroom.

The law firm issued a statement saying it had been "a privilege'' to represent the congressman, adding the lawyers "did not seek to terminate the relationship and explored every alternative to remain as his counsel consistent with House ethics rules prohibiting members from accepting pro bono legal services."

Leading up to the trial, Mr. Rangel had publicly complained about their fees and rejected some of their advice. Jan Baran, a lawyer specializing in government ethics, said "it's always tempting and easy to blame lawyers for a client's own misconduct, or to divert attention. This could be interpreted by some as simply a tactic."

After Mr. Rangel's departure, Mr. Chisam, the committee lawyer, outlined the evidence against the congressman, facing an empty defense table. Under questioning from lawmakers, Mr. Chisam said he didn't believe Mr. Rangel's actions were corrupt, but certainly sloppy and in violation of House ethics rules.

Perry denies White House run

By Stephanie Simon
And Ana Campoy

DALLAS—Running for an unprecedented third term this fall, Republican Texas Gov. Rick Perry steered clear of the media and refused to participate in any debates. As soon as Mr. Perry won, however, he leapt onto the national stage.

On a whirlwind tour to promote his new book, "Fed Up!" Mr. Perry has held court at a breakfast with the Washington, D.C., press corps, sparred with comedian Jon Stewart on "The Daily Show" and given interviews on national TV and radio.

He has made headlines by criticizing former President George W. Bush for overspending and by jabbing at the health-care law signed by former Massachusetts Gov. Mitt Romney, a likely contender for the Republican presidential nomination in 2012.

Last week, Mr. Perry appeared next to Republican Party A-listers, signing books with former House Speaker Newt Gingrich on Thursday after joining Sarah Palin on stage Wednesday to raise money for abortion opponents. "You are blessed to have him," Ms. Palin told the Dallas crowd.

All of which has raised the question: Is this really just about the book?

"I have zero doubt he's running for president—and has been running for president for the last three years," said Royal Masset, a veteran Republican strategist in Texas.

Associated Press

Republican Gov. Rick Perry addressed supporters at an election-night party in Buda, Texas on Nov. 2.

Mr. Perry has disavowed any national ambitions. "I want to stay here in this state and help lead an effort across the country with other like-minded governors who believe that Washington has overstepped their constitutional bounds," he told reporters Wednesday at a book-signing event in Dallas.

It's hard to find folks who believe him. "It would be great if we could take everyone at face value, but this is politics. Things change," said Mark Reid, a leader of the Texas Tea Party Alliance.

Mr. Perry's disdain for Washington and his professed disinterest in the presidency play well with an electorate in revolt against establishment politicians, said Bruce Buchanan, a government professor at the University of Texas at Austin.

Veterans of Texas politics point out that what Mr. Perry calls "the best job in America" might become a lot more stressful when the Legislature convenes Jan. 11.

Both legislative houses are dominated by Republicans, but Mr. Perry will still have to deal with political battles over drawing new lines for congressional districts and policy debates over how to close a state deficit projected at about $25 billion for the next two-year budget cycle.

Mr. Perry says he isn't daunted by the task. In interviews, the governor talks up the state's low taxes and limited regulation as the key to creating jobs and driving growth. The Texas unemployment rate stood at 8.1% in September, well below the national average of 9.6%.

On the other hand, Texans' hourly wages and household income are lower than the national average, and 15.8% of residents fall below the poverty line, compared with 13.2% nationally, U.S. Census figures show.

"The rhetoric doesn't match the facts," said state Rep. Garnet Coleman, a Democrat who has represented Houston since 1991. "If we're doing so great as a state, why is the budget at least $25 billion out of balance?" Mr. Coleman blames the governor. "That's on his watch."

Panel calls for overhaul of teacher preparation

By Stephanie Banchero

A panel of education experts has called for an overhaul of America's teacher-preparation programs, including tougher admission and graduation standards for candidates hoping to teach in elementary and secondary classrooms.

The panel's sweeping recommendations, released Tuesday, urge that teacher-training programs operate more like medical schools, which rely heavily on clinical experience. They call for teacher candidates to spend more time in classrooms learning to teach before they earn a license.

"We need large, bold, systemic changes," said James Cibulka, president of the National Council for Accreditation of Teacher Education, the group that convened the panel. "As a nation, we are expecting all of our students to perform at high levels, so it follows that we need to expect more of our teachers as they enter the classroom."

The panel, convened 10 months ago, includes representatives from higher education, districts of elementary and secondary schools, teacher unions and state boards of education. It doesn't have the authority to institute the recommendations, but it has persuaded school officials in several states to try some of the recommendations.

The nation's colleges of education are a patchwork of programs with varying degrees of quality. Each state sets its own admissions, graduation and licensing requirements. Unlike other professionals, such as nurses, teachers aren't required to graduate from nationally accredited programs.

But as evidence has mounted that teacher quality is the biggest in-school determinant of student achievement, the programs have come under fire. Critics say they have lax admissions standards and pump out graduates ill-prepared for what they'll face in schools.

Studies have found that students who enter teacher-education programs generally have low grade-point averages or low scores on college entrance examinations, and that state licensing exams often aren't very challenging.

Sharon Porter Robinson, president of the American Association of Colleges of Teacher Education, said many states had raised admissions standards, but more work was necessary.

"We need to become a more competitive career choice and we need to tap into a much wider span of the talent pool," said Ms. Robinson, who praised the panel's recommendations.

White House renovation calls for a bridge builder

[Capital Journal]

By Gerald F. Seib

As the White House fills some important vacancies in coming days, it might want to include this new job: bridge builder.

In his tenuous postelection condition, President Barack Obama finds himself on a political island, no longer linked to the comfortable Democratic majorities in Congress that served as his lifeline for two years.

To exit from that island, he needs to build bridges to three groups: Republican leaders in both houses of Congress, moderate Democrats in the congressional rank and file, and the business community. Such bridges don't simply materialize. They have to be built, and the White House could use a respected figure from the outside to help.

Let's look at the three groups where such a figure could prove useful.

Mr. Obama has held plenty of meetings with business executives, and his staff works the account hard. Yet ties have grown more strained, anyway.

The need to build better ties to Republican leaders is obvious, but the task may be even more arduous than it seems. One of the choices the Obama White House made early on was to essentially contract out details of its legislative strategy to Democratic leaders in Congress. Mr. Obama often dived into legislative details, but largely in discussions with leaders of his own party and rarely with leaders from the other party.

A simple illustration of that reality: Mr. Obama held his first—and so far only—one-on-one Oval Office meeting with Senate Republican leader Mitch McConnell on Aug. 4, 2010, a year and a half into his presidency. Relationships between the White House and the Republican leaders with whom the White House now must work are minimal and strained; they will need a lot of nurturing.

Second, consider rank-and-file moderates in Congress from the president's own party. The corps of these lawmakers was ravaged by this months' election, so their numbers are down. Yet their importance actually may go up in months ahead.

These Democratic moderates, particularly in the Senate, worked over the last two years to nudge legislation from the left toward the political center, in ways that annoyed the White House.

But now they have the ability in the new Congress to nudge legislation from the Republican right toward the center, this time in ways that can benefit the White House.

Again, though, relations with this group suffered in the last two years as the White House focused on working with the more-liberal Democratic congressional leaders. Moreover, many moderates blame the White House for their own election shellacking. The relationship needs work.

Third, there's the business community. Mr. Obama has held plenty of meetings with business executives, and his staff works the account hard. Yet ties have grown more strained, anyway. There is a tendency for the two sides to talk past each other—a bad state of affairs when much of the capital to create jobs is locked up in corporate bank accounts.

On all these fronts, a bridge builder in the White House would be useful. In today's polarized Washington, such figures are rare—but they do exist. Here's just one example: Kenneth Duberstein, former White House chief of staff for Republican Ronald Reagan who reversed field to endorse Mr. Obama in the 2008 presidential campaign.

Mr. Duberstein has traversed the partisan and ideological landscape in a long Washington career.

He started as an aide to liberal Republican Sen. Jacob Javits, moved into the centrist administration of Gerald Ford and finally into the White House of Mr. Reagan, a conservative Republican.

His White House experience most relevant to today's situation came not as chief of staff in the final stage of the Reagan presidency, but in his role as the man in charge of relations with the Democratic-controlled House at the outset of the Reagan years. The only way for a Republican president to accomplish anything then was to win support—lots of it—from across the aisle.

So Mr. Duberstein learned to assiduously court Democrats, one by one.

The Reagan White House essentially created the so-called Boll Weevils, a group of about 60 House Democrats willing to work and occasionally vote with the Republican president. The payoff came when the first Reagan budget passed the House with 63 Democratic votes.

Since leaving the White House, Mr. Duberstein has built bonds with that other constituency where the Obama White House needs some help, the business community. He runs a consulting firm bearing his name that advises a select group of American corporations—as well as some nongovernment organizations—on how to solve problems and get things done in Washington.

One of his key corporate roles, as it happens, is as lead director for Boeing Co., a firm with a few things to contribute to the Obama goal of ramping up American exports.

Help could come from other sources, of course. The point is that reaching out in multiple directions is a tough job—one requiring a bit of help.

European Pressphoto Agency

Rahm Emanuel arrives at a school Saturday to announce his candidacy for mayor of Chicago.

City's big shoulders

The Daley family has presided over Chicago for 42 of the past 55 years

- **1955 to 1976** Richard J. Daley
- **1977 to 1979** Michael Bilandic
- **1979 to 1983** Jane Byrne
- **1983 to 1987** Harold Washington
- **1987** David Orr
- **1987 to 1989** Eugene Sawyer
- **1989 to present** Richard M. Daley

Source: Encyclopedia of Chicago

Chicago mayoral hopefuls vie to succeed a dynasty

By Douglas Belkin

CHICAGO—Former White House Chief of Staff Rahm Emanuel and a pack of other mayoral hopefuls this week formally launch their quest to lead this city into an era that could be dubbed A.D.

After Daley.

The dynasty that ruled America's third-largest city for 42 of the last 55 years will end in May, creating a political vacuum and an opportunity for the most substantial reshaping of Chicago's power structure in a generation.

Over the weekend Mr. Emanuel and two other candidates held events to announce their campaigns. By Nov. 22, candidates must submit petitions with at least 12,500 signatures.

"There are a lot of people in Chicago who have never known a mayor other than Daley," said local political strategist Tom Serafin, who isn't advising any candidates. "They're going to get to see the first real mayoral campaign in their lives."

Already, Mr. Emanuel's return to his hometown has been marred by protests at campaign stops and charges he is ineligible to run because he doesn't meet the residency requirements; a candidate favored by Chicago's large union population has decided not to run; and effort by a group of black leaders to settle on a consensus African-American candidate has crumbled.

Mayor Richard M. Daley, who said in September he wouldn't seek a record seventh term, assembled an unlikely coalition out of Chicago's strongest tribes: blacks, businesses, unions, Hispanics, gays, lakefront liberals and ethnic whites. He won his last two elections with more than 70% of the vote.

The loyalty of those supporters is up for grabs, boding a political free-for-all Chicago hasn't seen since the 1980s, during the interregnum between Mr. Daley's father, Richard J. Daley, and the son. That period left Chicago so politically fractured and racially polarized that The Wall Street Journal famously called it "Beirut by the Lake."

The younger Mr. Daley revived the city. While other Rust Belt towns stumbled, Chicago enjoyed two decades of economic growth. Now a financial reckoning is at hand. In a privatization push over the past decade, Mr. Daley managed the budget by raising $3 billion in the sale of public assets such as toll roads and 40,000 parking meters. Most of that money, used to operate the government, is now gone.

Mr. Daley, who declined to comment for this article, left no heir apparent. "He never wanted to let competitors get a foothold, so there was no grooming process," said Don Rose, a political operative here since the elder Daley held sway.

Efforts to unite pieces of the Daley coalition have stumbled.

Chicago is home to the nation's second-largest Mexican-American community after Los Angeles. Two Hispanic candidates, City Clerk Miguel Del Valle and Mr. Daley's former chief of staff, Gery Chico, have laid claim to their support.

African-American business and political leaders, representing many of the one million blacks concentrated on the South and West sides, joined to lead an effort to settle on a black unity candidate. After two months, the coalition selected U.S. Rep. Danny Davis. But separate groups seeking black candidates emerged, and former U.S. Sen. Carol Moseley Braun and state Sen. James Meeks have continued to campaign.

Unions are another crucial voting block in this beer-and-bratwurst town. An umbrella group, the Chicago Federation of Labor, claims 250,000 members. The likely recipient of many of those votes was Tom Dart, the popular Irish-American sheriff of Cook County. But Mr. Dart, who was leading in some polls, opted in late October not to run for family reasons.

College presidents' pay climbs

By Lauren Etter

A record 30 presidents at private colleges earned annual compensation packages worth $1 million or more in 2008, according to the latest annual survey released by the Chronicle of Higher Education.

The report, based on a review of federal tax documents from 448 private-college presidents, showed the continuation of a trend where a growing number of "million-dollar college presidents" run colleges and universities across the U.S.

The Chronicle said most of the pay packages cited in the survey were negotiated before the brunt of the economic crisis hit college campuses in the fall of 2008. The previous year's survey found that 23 private-college presidents earned $1 million or more in compensation, also a record at the time.

Critics question whether the pay packages are too lavish, especially as many students and their families face rising tuition bills. Tuition and fees in all sectors of higher education have consistently increased faster than the consumer-price index, according to data from the nonprofit College Board.

The Chronicle recently reported that a record 100 colleges are now charging $50,000 or more for tuition, fees and room and board.

"I don't begrudge anybody a decent standard of living for doing this work, but the only thing that's gone up faster than [college] presidential salaries is tuition, and that's dragging down public confidence in higher education," said Patrick Callan, president of the National Center for Public Policy and Higher Education, a California-based think tank.

The Chronicle's 2008 survey of private-campus compensation is the first to reflect changes where colleges were asked by the Internal Revenue Service to report salaries on a calendar year, instead of the fiscal year used in the past. As a result, the Chronicle chose not to compare year-over-year changes in 2008 median pay.

The highest-paid sitting president on the Chronicle's list was R. Gerald Turner of Southern Methodist University in Dallas. Mr. Turner's total compensation package in 2008 was worth $2.8 million, including a base compensation of $535,000.

Michael M. Boone, vice chairman of SMU's board of trustees, said Mr. Turner's compensation package was "inflated" by a one-time $1.6 million life-insurance payout that was triggered by a rule change at the IRS.

Mr. Boone said Mr. Turner's compensation has since come back down to around $950,000. "The best investment the board ever made was R. Gerald Turner," he said.

Special Advertising Section

INVESTING IN THE BALKANS

A resurging region offers strong incentives for foreign investors

Countries are making long-sought reforms and provide such benefits as easy access to EU and growing domestic markets

GETTY IMAGES/Walter Bibikow

Skopje, capital city of Macedonia, a country poised to be the new star of the Balkans.

The debt crisis in Greece earlier this year rattled Southeast Europe just as the region was coming off the global economic downturn.

But investors can take heart. Chastened governments are making long-sought reforms and putting assets on the block to bring in cash. Meanwhile, the fundamentals haven't changed: countries in the region still offer well-educated workers at lower wages than Western Europe; access to the European Union either as member states or candidates; short transportation distances to markets in the east and west; growing domestic markets and, in several of the countries, low flat tax rates.

Greece, which has the region's biggest economy, is undertaking a rigorous fiscal consolidation to reduce its budget deficit and public debt to restore market confidence and contribute to stronger growth over the longer term, says Vassiliki Koutsogeorgopoulou, economist of the Australia/Greece desk of the Organization for Economic Cooperation and Development in Paris. It also is moving to facilitate foreign direct investment by removing administrative constraints, she notes.

Macedonia, is poised to be the star of the region. It zoomed up 37 places to No. 32 out of 183 countries in the World Bank's Doing Business report for 2010, besting Spain (No. 62), Poland (No. 72), or China (No. 89). It made improvements in all but two areas on the World Bank's checklist, with the biggest reforms in the areas of employing workers, registering property, closing a business and dealing with construction permits.

"Macedonia is a country that will continue to do well," says Joel Anand Samy, co-founder of the Adriatic Institute for Public Policy in Rijeka, Croatia. "It has a low 10% flat tax. It created incentives for investors and is attracting manufacturing for export in automotive supplies, pharmaceuticals and textiles. At the same time it has a good work force that will certainly benefit Macedonia in the years to come. The labor force exhibits a higher level of work ethic," he explains. "That is always great for investors."

Tourism and retail

As Macedonia moves out of recession, opportunities are likely to arise in tourism, with construction of hotels, especially around Lake Ohrid, and retail, with the development of shopping centers, Mr. Anand Samy says.

Another fast climber is Albania, which ranked No. 82 in the Doing Business report, up seven places from a year earlier, thanks mostly to improvements in starting a business with the establishment of a "one-stop shop" and trading across borders.

"In the face of strong headwinds, the Albanian economy has weathered the global crisis fairly well so far," the International Monetary Fund said earlier this year, noting the country's 3% GDP growth in 2009. The IMF predicts 2.6% growth this year, and 3.2% next year.

A mostly privatized economy was one reason for Albania's resilience, says Zef Preci, executive director for the Albanian Center for Economic Research in Tirana. Businesses responded to the downturn more quickly than the government could.

Flat taxes

He also credits Albania's 10% flat tax for the country's successful performance. Flat taxes became a fad in the region a few years ago, as a way to simplify the tax codes, create incentives for investors and reduce corruption. Indeed, though the countries generally lowered tax rates, they increased tax revenues as the payoff for tax evasion became smaller, loopholes disappeared and transparency increased.

Montenegro has a 9% corporate flat tax. Albania, Bulgaria, Macedonia and Bosnia-Herzegovina have flat tax rates of 10%. Serbia has flat tax rates of 10% for corporate income and 14% for personal income. Romania imposes a 16% flat tax rate. In the region, only Greece and Croatia don't have flat tax rates.

> *"The role of the EU is pretty important. It introduces a level playing field. That works in favor of investors."*

Serbia also weathered the storm of the global crisis relatively well. Exports to the EU already are at pre-crisis levels in euro terms and ever better in dinar terms, says Albert Jaeger, the IMF's mission chief for Serbia. While growth projections for 2010 have been revised downward for many countries in the region, not so for Serbia, where the IMF expect 1.5% GDP growth this year and 3% next year.

While most countries in Southeast Europe hope to join the EU one day, three countries already belong: Greece, Romania and Bulgaria.

Greece's problems with government debt, coming on the heels of the global economic crisis, had only a limited direct effect on other countries in the region. Greek banks, present throughout the region, posed no problems. However, the indirect effects included investors' flight from the region as a whole. In addition, Greece was a big magnet for émigrés, who had to reduce remittances sent to families back home or even return home themselves.

Greece has been working to improve foreign direct investment flows to help fuel economic growth. Greece and Qatar signed an investment memorandum valued at $5 billion (€3.6 billion) over the next few years, with possible investment projects in tourism, real estate development, infrastructure, finance and energy, says the OECD's Ms. Koutsogeorgopoulou. Greece and China also have signed 13 bilateral agreements covering areas such as maritime transportation, telecoms and exports.

Trade links

Bulgaria and Romania both have been hit hard by the global crisis, with 2009 GDP falling 4.9% and 7.1%, respectively, according to Eurostat. They had more trade links to the EU than did their neighbors, and suffered more when their EU export markets shrank.

FDI, too, has taken a hit. The biggest investor countries have been from the EU: Germany, Italy, Austria, Greece and France. Germany has recovered but the others are just picking up from the downturn. Bulgaria's FDI was 30% of GDP in 2007; this year, it is 10 times less, says Krassen Stanchev, chairman of the Institute for Market Economics, a think tank in Sofia. Romania's FDI was around 6% of GDP in 2007; it's expected to sink to around 2% this year.

Bulgaria was hoping to enter the euro zone in 2013, but the process has been put on hold because of the crisis. That leaves the country with a currency pegged to the euro, though not yet in the Exchange Rate Mechanism that precedes euro entry, but without the benefits of actually using the euro, says Dimitar Bechev, senior policy fellow for the European Council on Foreign Relations in Sofia.

Croatia has been a candidate for EU membership since 2004. For other countries in the western Balkans, the EU's pre-accession process is just beginning. "The role of the EU is pretty important," Mr. Bechev says. For example, governments that want to join the EU have to show already that they are complying with EU laws for state contracts. "It introduces a level playing field," Mr. Bechev adds. "That works in favor of investors."

Better for Business

The World Bank's "Doing Business 2010" survey measures business regulations and their enforcement among 10 broad topics in 183 countries, and ranks countries accordingly.

Country	2010 ranking	2009 ranking
Macedonia ▲	32	69
Bulgaria ▼	44	42
Romania ▼	55	45
Montenegro ▲	71	77
Albania ▲	82	89
Serbia ▲	88	90
Croatia ▲	103	110
Greece ▼	109	100
Bosnia ▲	116	119

Source: World Bank, "Doing Business 2010"