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Associated Press

Chancellor of the Exchequer George Osborne, right, with Danny Alexander, Chief Financial Secretary to the Treasury, leave Downing Street, Wednesday. Mr Osborne said the country would pare back a budget deficit of £155 billion ($243 billion) via a £113 billion fiscal tightening over the next five years.

U.K. unveils sweeping cuts to spending

By Alistair MacDonald
And John Hilsenrath

LONDON—In a bold gambit to tackle its record debt, the British government detailed sweeping spending cuts Wednesday that will hit everyone from welfare recipients to the Queen, positioning the U.K. as a global test case in the argument for choosing austerity over stimulus to repair the economy.

Treasury chief George Osborne said the country would pare back a budget deficit of £155 billion ($243 billion) via a £113 billion fiscal tightening over the next five years, including £81 billion in spending cuts.

The steep cuts are a gamble that weaning the U.K. off robust public spending will keep lending costs low—and therefore reinvigorate the private sector without undercutting the country's sluggish recovery from the recession.

"Today's the day when Britain steps back from the brink, when we confront the bills from a decade of debt," Mr. Osborne told the U.K. Parliament.

Mr. Osborne, the U.K.'s youngest Treasury chief in more than a century, calculated that average cuts to government departments will be 19% over the next four years, rather than the 25% he had previously predicted. That took some wind out of opposition criticism in the U.K. The Labour party has warned of cutting spending too quickly, but even its calculations imply 20% cuts.

But the U.K.'s five-month-old coalition government, led by Prime Minister David Cameron's Conservative Party, will find plenty of opposition to its plan abroad, especially in the U.S. The U.K.'s aggressive spending cuts mark a risky fiscal policy experiment at a delicate moment for the global economy. Economists have argued for more than a half century about the proper role of government in combating recession. Today, the world's largest economies are going in different directions.

President Barack Obama and his advisers—stocked with the heirs of British economist John Maynard Keynes, who argued for government deficit spending to replace missing private sector demand in a downturn—have acknowledged a need for deficit reductions in the long-run. But the U.S. has urged European nations not to rein in their spending too aggressively now, for fear it could tip the global economy back into recession.

Europe has so far ignored the call. Austerity has become the watchword on the continent, from weak economies such as Ireland and Greece to more stable recovering countries like Germany and France.

Market response to Wednesday's announcements in the U.K. was muted, given that the moves have long been telegraphed. Sterling was unmoved and government debt

Please turn to page 6

Steep spending cuts in...

LOCAL GOVERNMENT
-27%

DEFENSE
-8%

HOME OFFICE
-23%

Apple unveils laptops as rivalries heat up

Apple Inc. unveiled two new MacBook Air laptops that use flash memory for storage instead of hard drives, and promised updated software for its Macintosh computers that borrows features from its iPhone and iPad.

Apple's event came just two days after the consumer electronics giant unveiled blockbuster fourth-quarter earnings with revenue topping $20 billion for the first time. However, the performance rattled investors because Apple reported a narrower-than-expected gross margin and iPad sales that missed expectations.

The market for smartphones and tablet devices is heating up. Also Wednesday, **Samsung Electronics** Co. announced U.S. release details for its Galaxy Tab, one of the first tablets to rival Apple's iPad. The Galaxy Tab will hit Verizon Wireless stores next month and cost $599.99.

Highlighting the sharp rivalries, Apple Chief Executive Steve Jobs went out of his way earlier this week to publicly criticize rival products.

Mr. Jobs made a surprise appearance on Apple's quarterly earnings call Monday for the first time in two years. After briefly highlighting the success of the iPhone, Mr. Jobs went straight for Blackberry maker **Research In Motion** arguing that Apple had sold more iPhones in the latest quarter than RIM had sold BlackBerrys. He then argued it was going to be tough for RIM to create a competitive software platform and convince developers to make applications for it.

Mr. Jobs also criticized a slate of seven-inch tablet computers—the size of rivals' tablets. "This size isn't sufficient to create great tablet apps in our opinion," Mr. Jobs said. The iPad has a 9.7-inch screen.

Jim Balsillie, co-chief executive at RIM, fired back: "For those of us who live outside of Apple's distortion field, we know that 7-[inch] tablets will actually be a big portion of the market," he said.

In its event Wednesday, Apple also announced a new version of its operating system, called Mac OS X "Lion," that will include an app store for Mac software. It's similar to the iTunes store that sells apps for the iPhone and iPad. It is adding FaceTime video chatting to Macs—a feature debuted this summer on the iPhone 4. Apple hopes the new software update for the computers will boost interest by adding ways to organize, email and print photos from its computers. The U.S. prices for the new machines range from $999 to $1,599, putting them closer to the iPad but well above netbook prices.

The Quirk

Dust off your old game table: Mah-jongg is making a comeback. Page 37

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David Cameron and George Osborne have let a good crisis go to waste. Page 17

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Still a long way to go, Mr. Osborne

[Agenda]

BY PATIENCE WHEATCROFT

Spending taxpayers' money is easy. Governments across Europe have demonstrated a facility for dispensing fortunes. Stopping the outflow of funds is a much tougher assignment. Those who have been in receipt of the largess resent any withdrawal; major commitments already made may limit the room for maneuver.

The U.K.'s coalition government has been vocal in its determination to tackle the country's deficit and with its Comprehensive Spending Review, delivered on Wednesday, it reassured the markets that it remained set on that course. Any sign of wavering would have been disastrous, prompting ratings downgrades and increased interest bills.

But despite all the lurid headlines and squeals of outrage, the U.K.'s public spending is set to go up, not down. Chancellor George Osborne is being accused of drastically rolling back the state, and he has made a brave start on that, but he still expects current public expenditure in 2014-15 to be £693 billion compared with £651 billion in the current year.

In 1997, when the previous Labour government took office, it was £318 billion.

In the intervening years, the then Chancellor Gordon Brown developed a spending habit to rival a footballer's wife. Unlike the latter, however, he couldn't afford it, and he had to resort to borrowing on a massive scale. As Mr. Osborne reminded the country in his June emergency budget, Mr. Brown's self-proclaimed "Golden Rule" about borrowing only to invest over the course of the economic cycle, had become a travesty. The departing government had missed the Golden Rule target by £485


Getty Images

Former U.K. prime minister and chancellor Gordon Brown last month.

billion. Which means that the current government faces a bill of £120 million a day, £43 billion a year just to service the interest on that debt.

As money goes to pay down that debt, the taxpayer will pay more to receive less. This is not, generally, perceived as a way in which governments gain popularity with voters but the coalition is determined that the policy is the right one and, so far, the polls have shown the country agreeing. But so far the country has only really heard talk of cuts and not experienced them. Attitudes may change as jobs are lost and welfare benefits withdrawn.

Former Chancellor Gordon Brown developed a spending habit to rival a footballer's wife.

But the pain will not all land at once. Although an estimated 490,000 public-sector jobs are to go, the hope is that natural wastage will account for a significant number. Some of the departmental spending cuts sound draconian but, spread over four years, they will not seem quite as drastic.

The most controversial cuts are destined to be those to the welfare budget, which has taken a substantially harder hit than had been envisaged in June. As Mr. Osborne pointed out, benefit bills soared by 45% under the previous government. This administration is adopting as a key mantra the idea that work should pay, and therefore benefits should be capped at a level that encourages people to work.

Yet the risk is that people who are perceived to be "the deserving poor," the genuinely disadvantaged rather than the work shy, will be the victims of this clampdown. It may be that in Prime Minister David Cameron's vision, the "Big Society" would step in to help such people but that idea is still in its infancy. That families and communities would rally round to help those in genuine distress is not something to be relied upon in some parts of the country.

There is some detail still to be fleshed out after Mr. Osborne's speech. Banks were warned in June that he would be imposing a levy on them and that he intended it should raise more than the one-off bonus tax imposed by his predecessor. On Wednesday he reiterated that promise, with details to follow Thursday, but there were some tempering comments that led the City to feel slightly more sanguine.

"We neither want to let banks off making their fair contribution, nor do we want to drive them abroad," he said, adding that the government recognized that many hundreds of thousands of jobs across the U.K. were involved in financial services. Their continuation would "depend on Britain being a competitive place for financial services," he said.

This intimation that the government would not want to be seen to be too far out of step with other major financial centers was welcome, even though the chancellor insisted again that the levy he would impose would raise more each and every year than the bonus tax had done.

The need to not only preserve private sector jobs but also to create them is imperative if the public sector is to shrink on the scale that is promised. There are already fears that the cutbacks in public spending could have a dramatic effect on private sector jobs. PricewaterhouseCoopers has calculated that as many as 450,000 private-sector jobs could be at risk. The battalions of consultants who have been maintained by their work for government will have to seek customers elsewhere. Smaller firms that have supplied the public sector will also be vulnerable as the search for spending efficiencies pushes the government toward more centralized purchasing.

As Mr. Osborne laid out the cuts to come, putting the blame firmly on the previous administration, he did not try to sugar the pill. It is going to be painful but the country needs to put right its finances now rather than load yet more debt upon future generations. But the success of this strategy depends on growth from the private sector picking up the baton. There are signs that U.K. manufacturing is moving above trend but it remains vulnerable to global pressures. Entrepreneurs need to be able to find funding from the banks, which many still feel is too scarce.

Mr. Osborne and his colleagues have taken the first steps to righting the economy but they have a long way to go.

What's News

■ **Morgan Stanley** reported that profit fell 67% in the third quarter, as lower trading revenue underscored that the investment bank's makeover under CEO James Gorman is still incomplete. 23

■ **Spain's prime minister** shuffled his cabinet in a bid to build political momentum in face of EU demands for tougher austerity measures. 4

■ **Britain's central bankers** can't agree on whether to put more cash into the economy to keep it from stalling amid conflicting signals on growth and inflation. 8

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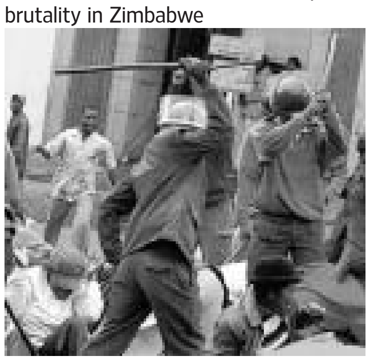
Africa Dispatch

wsj.com/africa

'The policeman beat us for 15 minutes. In between, he lectured us on the importance of his uniform.'

Farai Mutsaka on his brush with police brutality in Zimbabwe



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Question of the day

Vote and discuss: Is Wayne Rooney better off staying at or leaving Manchester United?

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

Previous results

Q: Do you think the U.K. defense spending cuts have gone too far?

Yes **51%**

No **49%**

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NEWS

U.K. court says prenups are binding

By Maryam Omidi

LONDON—Britain's Supreme Court ruled Wednesday that prenuptial agreements in the U.K. are legally binding in a case that is expected to have far-reaching ramifications for high-net-worth couples in the country.

Eight of the nine justices at the U.K.'s highest court ruled in favor of Katrin Radmacher, 40 years old, a German heiress with a fortune of at least £55 million ($86 million), who was fighting a legal battle over the validity of a prenuptial agreement with her ex-husband Nicholas Granatino, 39, a former J.P. Morgan investment banker from France.

"I'm really pleased with the ruling, but saddened at the four-year process that brought us to this point. I'm delighted that Britain has upheld fairness. It is important to me that no one else should have to go through this," Ms. Radmacher said.

Agence France-Presse/Getty Images; Reuters

The ruling was a victory for Katrin Radmacher, a German heiress, and a defeat for Nicholas Granatino, a former investment banker.

An expensive business

Some of the U.K.'s costliest splits

- 2009: Formula One boss Bernie Ecclestone reportedly lost a third of his wealth in his divorce after nearly 25 years of marriage. Slavica Ecclestone is said to have received £1 billion of his £2.4 billion fortune.
- 2008: Former Beatle Paul McCartney gave away £24.3 million out of his estimated £825 million fortune to Heather Mills. The amount awarded was only a fifth of what she originally sought.
- 2005: WPP founder Sir Martin Sorrell was ordered to pay his former wife £30 million. Lady Sorrell was also awarded two parking spaces at Harrods, believed to be worth about £200,000, and £2 million of bank deposits.

Source: WSJ Research

Simon Bruce, Ms. Radmacher's lawyer at Farrer & Co., said: "This decision means prenups are binding as long as they are fair. Prenups are like a form of fire insurance—better taken out before the event rather than after it. Couples can now decide in the best of times what the outcome would be in the worst of times."

Mr. Granatino and his lawyer, Fiona Shackleton of law firm Payne Hicks Beach, declined to comment. Ms. Shackleton represented Paul McCartney during his divorce from Heather Mills as well as Prince Charles during his divorce from Princess Diana.

Ms. Radmacher and Mr. Granatino, who married in 1998, have two children. Under the terms of the couple's prenuptial agreement, which was signed in Germany, Mr. Granatino had agreed not to make any claims on his wife's wealth if they were to divorce.

But the couple had been locked in a bitter dispute since divorcing in the U.K. in 2006. By this time, Ms. Radmacher had amassed a personal fortune from her family's paper company, which Mr. Granatino claims he was unaware of when signing the prenuptial agreement.

Although prenuptial agreements carry weight in the couple's native countries, Germany and France, Ms. Radmacher and Mr. Granatino divorced in the U.K., where they spent most of their time and where, until now, marriage contracts weren't legally binding. The verdict now brings the U.K. into line with other European countries and the U.S.

Michael Gouriet, a partner at Withers law firm, said: "It would have been incredibly difficult and politically embarrassing for the English Supreme Court to dismiss a valid European prenuptial agreement out of hand."

Prenuptial agreements among wealthy individuals have risen to prominence in the past decade in Britain after a landmark verdict in 2002 ruled that former housewife Shan Lambert was entitled to half of her ex-husband Harry Lambert's £20 million fortune.

David Greer, an associate solicitor at Schillings law firm, said: "In a revolutionary judgment the Supreme Court has swept away the previous obstacles to the enforceability of prenups whilst retaining safeguards to prevent injustice."

—*More at efinancialnews.com*

L'Oréal heiress files suit against child

By Christina Passariello

PARIS—**L'Oréal** SA heiress Liliane Bettencourt Wednesday filed a lawsuit against her only child, the latest twist in a family dispute that centers on one of Europe's biggest fortunes.

The new lawsuit adds to a growing legal battle that has been brewing between Ms. Bettencourt and her estranged daughter for three years, thrusting one of France's most private families into the spotlight.

European Pressphoto Agency

Liliane Bettencourt in 2004.

In 2007, Françoise Bettencourt-Meyers filed a lawsuit against her mother's friend, society photographer François-Marie Banier, who she accuses of exploiting her mother's mental weakness to obtain nearly €1 billion ($1.4 billion) in gifts.

Ms. Bettencourt has rejected any claims of coercion by Mr. Banier. However, she has recently distanced herself from him, and in August wrote him out of her will, her spokeswoman said.

As part of the daughter's lawsuit against Mr. Banier, Ms. Bettencourt-Meyers has asked the court three times to appoint a guardian and mandate medical tests.

In the new lawsuit, filed in the Paris suburb of Nanterre, the 88-year-old Ms. Bettencourt accuses her daughter of harassing her with requests for a court-appointed guardian and of attacking her in the media.

"The successive and fierce legal complaints, the totally indecent exposure of her private life and her smallest health details in the press are repeated attacks on her tranquility," Ms. Bettencourt's spokeswoman said.

If a judicial investigation leads to a trial, Ms. Bettencourt will seek an end to the harassment but no financial award, her spokeswoman said.

The "Bettencourt affair," as it is known in France, has spread far beyond a family spat.

Evidence related to the daughter's lawsuit includes secret tapes made by Ms. Bettencourt's butler that allege questionable donations to France's ruling political party and potential conflicts of interest with government officials. Ms. Bettencourt has said all of her donations were legal.

French police clear access to fuel depots

By David Gauthier-Villars

PARIS—President Nicolas Sarkozy sent in police to clear blockades of striking refinery workers that have left 40% of the country's gas stations dry, in a show of strength that unions said would only fuel their determination to continue rolling strikes against the French leader's plans to raise the retirement age.

Labor unions leaders are expected to meet on Thursday and Friday to decide whether to continue their strikes and marches, which—with some episodes of violence—are the biggest in France since 2006, when workers and students joined forces in massive demonstrations against the then-government's labor overhaul.

The issue for unions is whether to extend their protests beyond the middle of next week, when parliament is expected to approve the bill, turning it into law.

"It's hard to convince people to resume work if they have obtained nothing," said Didier Hotte, a spokesman for the Force Ouvrière union.

In 2006, students succeeded in forcing then-President Jacques Chirac to retreat from plans to introduce a short-term labor contract for young people, even after the labor law had been approved by parliament.

The rolling strikes by some railway and refinery workers caused further disruption to public transport and the gasoline supply on Thursday.

Some protesters temporarily slowed down traffic on roads that led to Paris's main airports—though airline service wasn't disrupted during the day.


Associated Press
Crew members make their way to Orly airport, south of Paris, amid slowed traffic blocking access by car on Wednesday.

For the third day in a row, violent clashes pitted youths against riot police in Lyon and Nanterre, a suburban city near Paris.

Despite police intervention to unblock some fuel depots, the government said it would take several days before the situation returns to normal. Around 40% of France's 12,500 gas stations have run dry, the government said.

Mr. Sarkozy, who was elected in 2007 on the promise that he would energize France's economy, slim down public services and halve unemployment, has a lot riding on the pension bill, which comes fewer than two years before the next presidential elections.

Mr. Sarkozy would risk blowing his credibility—including internationally—if he, like some of his predecessors, backs down on the pension overhaul in the face of protests, aides to the president say.

During their Thursday meeting, union leaders are likely to call for another day of nationwide marches, the seventh in two months, according to union officials. The demonstrations could take place on Tuesday, said officials at the Confédération Générale du Travail, one of France's largest unions.

At France's 12 refineries, which have reduced output or been shut down since Oct. 12, workers are expected on Friday to vote on whether to extend their own rolling strike. François Pelegrina, a national delegate with the refinery branch of the moderate Confédération Française Démocratique du Travail union, predicted the strike would go on.

"At the CFDT, we've always preferred negotiation over protest," Mr. Pelegrina said. "But there are no negotiations."

To extend the pension protest over the next few days, unions are counting on support from young people, who have proved a formidable force in the past. As of Wednesday, classes at nine of France's 83 universities were disrupted or canceled, according to the Education Ministry, though the strike could fizzle as France enters a coming holiday weekend.

To fix a growing deficit in the nation's mandatory, state-run pension system, the government has proposed increasing the minimum, standard retirement age to 62 from the current level of 60.

But unions don't want to give away the 60-year-old retirement age, which was adopted in 1983. They say it represented a major social victory, on a par with universal health insurance and paid annual vacations.

Unions say that the distribution of wealth between corporate profits and salaries has tipped in favor of profits in recent years, and that it is time to increase payroll and other corporate taxes.

Mr. Sarkozy has ruled out raising taxes, saying France already has among the highest levies in the industrialized world.

France's pension system has been under pressure for several years, because French people are living longer and thus spend more years drawing pensions. But the shortfall widened sharply after last year's recession caused a sharp drop in payroll-tax revenue. This year's shortfall could reach €32 billion ($44.6 billion), according to government forecasts.

Zapatero shuffles cabinet, names new deputy premier

By David Roman

MADRID—Spanish Prime Minister José Luis Rodríguez Zapatero announced Wednesday his largest cabinet reshuffle in a bid to build political momentum in face of European Union demands for tougher austerity measures.

Mr. Zapatero said he would shut down the equality and housing ministries and replace several cabinet members, including his deputy. The two ministries have long been the target of criticism but analysts say their elimination is unlikely to lead to major savings. Both ministries are closely involved with economic policy.

"This is a step in the right direction," said María Jesús Fernández, economist at the think tank Funcas. "But most of the budget in the two ministries goes to pay the civil servants' salaries. And these civil servants will simply be moved to other ministries."

Investors want Spain to reduce its budget deficit quickly. The government seeks to narrow the gap to 6% of gross domestic product next year from as much as 9% of GDP this year. But the prime minister's popularity has plummeted as Spain struggles with unemployment above 20% and a barely growing economy.

Spain's $1.5 trillion economy is much bigger than those of Ireland, Portugal and Greece, and a fiscal crisis here would likely have serious consequences for the euro zone as a whole. The country's borrowing costs hit their highest levels since the creation of the euro in June, and remain well above last year's levels.


Reuters
Alfredo Pérez Rubalcaba, left, was named deputy prime minister.

Mr. Zapatero said Interior Minister Alfredo Pérez Rubalcaba will succeed deputy Prime Minister María Teresa Fernández de la Vega, while keeping his current portfolio.

That will leave Mr. Rubalcaba, a veteran of the Felipe Gonzalez Socialist governments of the 1990s and a top negotiator in on-and-off peace talks with terrorist group ETA, as the clear No. 2 in the cabinet, right after parliament approved next year's budget—a sign, observers say, that Mr. Zapatero will likely survive challenges to his leadership and hold on to his position at least until the general elections that must be held by 2012.

Emerging Europe pushed on deficits

By Paul Hannon

LONDON—Governments in emerging Europe must act quickly to cut their budget deficits or else risk fiscal crises similar to those experienced by Greece that would inflict severe damage on already weakened banking systems, the International Monetary Fund said Wednesday.

The IMF said economies in Eastern Europe will grow by 3.9% in 2010 and 3.8% in 2011, having contracted by 6% last year. But in its twice-yearly Regional Economic Outlook for Europe, the IMF warned that many economies face major challenges if they are to maintain the recovery. And it said much will depend on developments in the euro zone, which is eastern Europe's main export market.

"The main downside risk for emerging Europe is the revival of sovereign stress in advanced Europe, which could depress growth in the euro area and lead to adverse spillovers for the region," the IMF said.

And even without an intensification of the euro zone's fiscal crisis, investors may become concerned about the ability of some eastern European governments to repay their debts, and become extremely reluctant to lend, as they did to Greece. To protect themselves against that possibility, the IMF said many eastern European governments need to take urgent action to cut their budget deficits.

"To prevent the emergence of market concerns, countries with high fiscal vulnerabilities may need to proceed with fiscal consolidation at a faster rate," the IMF said.

The IMF said it expects Poland's budget deficit to rise to 7.4% of gross domestic product in 2010, up from 7.1% last year, before falling to 6.7% of GDP in 2011. In emerging Europe as a whole, it expects budget deficits to fall to 5.2% of GDP this year and 4.2% of GDP next year from 6% in 2009.

The IMF said a sharp rise in government-bond yields, and a fall in the market value of government bonds, could have a negative impact on local banking systems.

"Financial sectors would be particularly affected, especially in those countries where banks hold a large portion of their assets in the form of government securities—Albania, Hungary, Poland, and Turkey," the IMF said. "In such countries, bank capitalization could be significantly impacted if the value of government securities declined. This in turn could curtail the supply of bank credit."

The IMF said that many economies in emerging Europe will need to find new sources of growth

EUROPE NEWS

Archbishop Donald Wuerl at the Cathedral of Saint Matthew the Apostle in Washington on Wednesday.

Associated Press

Pope names 24 cardinals

By Stacy Meichtry

ROME—Pope Benedict XVI named 24 new cardinals on Wednesday, including two U.S. prelates, in a move that reshapes the ranks of the roughly 120 Catholic officials who are likely to vote in the next papal election.

The newly named cardinals hail from four different continents and include Archbishop Donald Wuerl of Washington and Archbishop Raymond Burke, an American in charge of the Apostolic Signatura, a Vatican high court.

As cardinals, the prelates will become close advisers of the pontiff. The most important task facing the new batch of cardinals, however, will be to vote in the next conclave to elect Pope Benedict's successor.

Only four of the cardinals named Wednesday were over the age limit—80 years old—of voting for the next pope.

Eight of the new voting-age cardinals named by the pope were Italian, partially restoring Italy's sway over papal elections.

For years, the percentage of cardinals who were Italian declined because the late Pope John Paul II focused on appointing prelates from other parts of the world.

When the pope formally promotes the prelates during a Vatican ceremony next month, 25 of the 120 voting-age cardinals will be Italian. The U.S. will have 11 voting-age cardinals.

Archbishop Gianfranco Ravasi, 68, head of the Pontifical Council for Culture, will be among the more closely watched Italians in the crop of newly created cardinals.

Many church officials regard Archbishop Ravasi as a leading *papabile*, or papal candidate, because of his command of foreign languages, including English, and because of his formidable theological background.

In a statement on Wednesday, Archbishop Wuerl said that "I am humbled and grateful to our Holy Father for his trust in me."

Archbishop Burke thanked the pope and said his "thoughts naturally turn to the many challenges which the Church faces in our day in carrying out her divine mission for the salvation of the world."

Archbishop Burke, who formerly headed the Archdiocese of St. Louis, angered some Catholics in 2004 for saying Democratic presidential candidate Sen. John Kerry of Massachusetts wasn't welcome to receive communion, because the senator, who is Catholic, supported abortion rights.

Saudi prince gets 20 years in prison

Associated Press

LONDON—A British court sentenced a Saudi prince to at least 20 years in prison Wednesday for beating and strangling one of his servants at a swank British hotel in a case that featured days of lurid testimony about their abusive relationship.

Justice David Bean sentenced Prince Saud Abdulaziz bin Nasser al Saud to a life sentence without the possibility of parole for 20 years for the brutal assault at the Landmark Hotel in London on Feb. 15. The sensational case featured CCTV images of the prince throwing a punch at his aide in a hotel elevator—the set piece in a prosecution case that alleged the prince battered his lover in a rage following years of abuse.

"No one in this country is above the law," Justice Bean said. "It would be wrong for me to sentence you either more severely or more leniently because of your membership of the Saudi royal family."

The jury had deliberated just 95 minutes before returning its verdict. The prince was convicted of both murder and a second count of grievous bodily harm with intent relating to the attack in the elevator.

Prosecutor Jonathan Laidlaw described a flamboyant lifestyle with a dashing prince who lived the luxury life—dining in fine restaurants and receiving erotic massages from a masseur who compared him to Hollywood actor Omar Sharif.

The prince's lawyers attempted before the trial to stop evidence of his homosexuality from being made public. "Beneath the surface this was a deeply abusive relationship which the defendant exploited for sadistic reasons, for his own personal gratification," Mr. Laidlaw said. He described the assault leading to the aide's death as being "a really terrible, a really brutal attack."

The prince originally told police that he and the victim, Bandar Abdulaziz, had been swigging champagne into the early hours of the morning, and that when he awoke at 3 p.m. he couldn't rouse Mr. Abdulaziz.

Jurors rejected a claim by his defense lawyer, John Kelsey-Fry, that the prince was guilty only of manslaughter.

Defense lawyers had attempted to shield the prince's sexuality during the bail application process, but failed.

Since the prince's arrest, Saudi officials have said nothing about the case, and Saudi newspapers and television haven't even mentioned it, a sign of how embarrassing the trial and sentencing are for the royal family.

Media in the kingdom strictly avoid any discussion of the private lives of members of the royal family—particularly of anything that casts them in a negative light. The prince's grandfather is the half-brother of the current king.

Britain has no prison transfer agreement with Saudi Arabia, so there is no possibility the prince could serve his sentence there.

Vatican funds stay frozen

By Stacy Meichtry

ROME—A judge ruled that €23 million ($31.8 million) in Vatican funds should remain frozen as part of a probe into whether top officials of the Holy See's bank violated Italy's anti money-laundering laws.

The move comes as prosecutors are broadening their probe into the Vatican bank's transactions with Italian financial institutions, said people familiar with the probe.

In September, Italian prosecutors placed Ettore Gotti Tedeschi, chairman of the Institute for Religious Works, or IOR, as the Vatican bank is known, and the bank's managing director, Paolo Cipriani, under investigation on suspicion of violating Italy's anti-money-laundering laws after the IOR ordered the transfer of €23 million from a small Italian bank to other banks in Germany and Italy. Prosecutor say the Vatican didn't fully disclose the nature of the transactions. Neither man has been charged, and the Vatican has repeatedly denied any wrongdoing on their behalf.

Mr. Gotti Tedeschi has denied any wrongdoing and has said the bank operates with "absolute transparency." The Vatican hasn't made Mr. Cipriani available for comment.

On Wednesday, Vatican spokesman Federico Lombardi said the Rome judge's ruling "has been met with stupor," and that "we're dealing with a problem of interpretation." He added that "IOR managers believe they can clarify the whole issue as soon as possible with the appropriate authorities."

The judge, Maria Teresa Covatta, didn't issue the text of her ruling, so it was unclear why she decided to keep Vatican funds frozen.

Reuters

Ettore Gotti Tedeschi says Vatican bank operates with 'absolute transparency.'

The Vatican has previously said the bank ordered the transfer of most of the Vatican funds from an IOR account at regional lender Credito Artigiano to a branch of **J.P. Morgan** in Frankfurt in order to purchase German bonds. The Vatican has asserted that the investigation is the result of a "misunderstanding" between the bank and Italian authorities. Credito Artigiano and J.P. Morgan have declined to comment.

The ruling comes as prosecutors are broadening their investigation to examine IOR's transactions with other Italian banks, said a person familiar with the matter. In particular, prosecutors are looking at the activity of accounts that the IOR has opened at Italian banks on behalf of Vatican bank clients over the years, this person said. A spokesman for the Vatican declined to comment on the broadening of the investigation.

Traditionally, the IOR's clients have been Vatican officials and clergy, who receive salaries and other funds from the Holy See into their IOR accounts. For years, the IOR has transferred funds to its accounts at other banks on behalf of its clients without fully disclosing their client's identities. In 2007, however, Italy introduced tougher disclosure laws, requiring banks to list the names of people who receive funds from IOR accounts and the reason for the transaction. Over the past year, a number of accounts in Italian banks, registered under the IOR, have breached those laws, said the person familiar with the matter.

The Vatican has said its bank accounts in Italy are registered under the IOR, and not under the names of its clients. Mr. Gotti Tedeschi and other Vatican officials said they are reviewing the bank's practices.

U.K. SPENDING REVIEW

Wielding the ax | How various departments will fare under Britain's public-spending cuts

	HEALTH	EDUCATION	BUSINESS, INNOVATION & SKILLS	HOME OFFICE	CULTURE, MEDIA & SPORT	ENERGY & CLIMATE CHANGE
2010–2011 budget	£98.7 billion	£50.8 billion	£16.7 billion	£9.3 billion	£1.4 billion	£1.2 billion
2011–2015 percentage change*	1.3%	–3.4%	–25%	–23%	–24%	–18%

*Adjusted for inflation

Photos: Getty Images (health, education, windfarm); Press Association (Home Office, British Museum) ; Bloomberg (business)

Source: U.K. Treasury

ONLINE TODAY: See a full table of how each department fared at **europe.WSJ.com.**

Banks face further tax rises

By Margot Patrick
And Phillipa Leighton-Jones

LONDON—U.K. banks were warned Wednesday by the government that they face further tax increases, although U.K. Chancellor of the Exchequer George Osborne stopped short of introducing additional bank levies as part of his plan to cut the U.K.'s budget deficit.

Delivering the Conservative-Liberal Democrat coalition government's spending review, Mr. Osborne suggested banks will pay more toward public finances by signing on to a new code to reduce tax avoidance, as the government embarks on an effort to cut the nation's £155 billion ($245 billion) budget deficit through sweeping spending cuts and tax rises.

He also confirmed that draft legislation for a previously announced charge on bank balance sheets, one of the U.K.'s toughest measures in its efforts to make the financial system safer, will be published Thursday.

The levy, which comes into effect on Jan. 1, is expected to raise about £2.5 billion a year when it is fully implemented in 2012. The separate tax code, drafted last year under the former government, asks banks not to seek out tax loopholes for themselves or clients, and to make sure employee pay packages aren't designed to avoid tax. Mr. Osborne said only four out of 15 big banks it wants to agree to the code have signed on and that all of them must do so by the end of November.

"Our aim will be to extract the maximum sustainable tax revenues from financial services. We will assess what those maximum revenues could be—not just in one year, but over a period of years," he said.

In its spending review, the Treasury said the U.K. continues to work with international partners on the introduction of a financial activities tax on profits and remuneration, a proposal that has already won support from the European Union. A one-time 50% tax on many bankers' 2009 bonuses introduced by the previous Labour government raised £2.3 billion on a net basis.

Bob Penn, a regulatory partner at law firm Allen & Overy, said Mr. Osborne "is playing a politically understandable, but risky, game with the City."

In making cuts and raising taxes, both the general public and the banks are being hit. He added, "The difference between banks and the public, however, is that banks can vote with their feet and move overseas; the public generally cannot."

Some City firms have been spooked by the level of uncertainty over tax in the U.K. In a statement Wednesday, the City of London Corporation, which provides local government services to the City, said "we are at a tipping point not just in terms of the amount of tax firms and individuals are being asked to pay but also in terms of the predictability and uncertainty underpinning our tax regime."

Last week the same body published a study in which it said banks believed that the level of unpredictability surrounding the U.K. tax system was "out of control," and that the lack of tax predictability, rather the absolute level of taxation, had altered the financial-services sector's view of the U.K.

Bank shares had little reaction to the review, in line with the broader London market.

Public cuts could hit provincial property market

By Anita Likus

LONDON—Property markets in provincial U.K. locations could be hurt most by the government's planned spending cuts, though it could be some time before the impact is felt.

Industry executives and experts said that as the government slimmed down, provincial locations, for example in the west and the north of England, would be hit harder than London as public-sector occupants had a larger share of those markets. In the capital, the government is a smaller tenant and there is demand to absorb extra space with little impact, they said.

"While London will be fairly insulated from the effects thanks to strong demand for office space, regional locations such as Newcastle and Wales will fare worse as it will be harder to find tenants to replace the outgoing public sector," said Sarah Whitney, managing director of government and infrastructure at CB Richard Ellis.

Jones Lang LaSalle agreed that "public-sector job losses will lead to increased property consolidation and more office space coming onto the market, which will not help the majority of regional office markets." These markets already are suffering from oversupply.

The U.K. government Wednesday said it would sell some of its assets and better manage the remaining space it uses as it plans to cut public spending as part of a wider plan to shrink the nation's huge debt burden. London didn't give details.

The move comes after the government hired retail entrepreneur Philip Green, who heads clothing retailer Arcadia Group PLC, to review its spending. Sir Philip, who has a reputation for fierce lease negotiations, said the government's property portfolio was wholly inefficient. He said the government could save billions of pounds a year if it improved spending processes.

U.K. Chancellor George Osborne said that the government would consolidate its rented space through lease breaks, make better use of buildings and improve the management of its assets, as well as selling some that it owns.

Meanwhile, the housing industry criticized planned cuts to social housing because it will limit the number of new low-cost homes built and cost tenants more.

Mr. Osborne said the coalition government plans to build 150,000 affordable new homes over the next four years despite cutting the housing budget to £4.4 billion ($6.9 billion) over the period, down from £8.4 billion spent over the previous three-year period.

The U.K. coalition government said that while rent levels and terms in social housing will remain unchanged, new tenants will be offered intermediate rents at around 80% of the market rate, which should help pay for building the 150,000 homes over the next four years.

The National Housing Federation slammed the move to cut the affordable-housing budget and said charging "new social housing tenants up to 80% of the market rate could trap thousands of social housing tenants in a lifetime of poverty, provide a strong disincentive to work and increase dependency on benefits."

Austerity: those on dole to the queen

Continued from first page

edged only slightly higher, as the announcement removed any uncertainty that the government wouldn't follow through.

His voice growing hoarse, Mr. Osborne announced annual cuts in police spending of 4% for the next four years; deep cuts in the central government grant to local government, of 7.1% a year in inflation-adjusted terms; a 14% cut for 2013-14 to the Royal Household's budget and a 33% hit to the budget of his own Treasury department.

Mr. Osborne also added an extra £7 billion of cuts to the £11 billion already earmarked for the welfare bill, which—from unemployment compensation and worker disability to government retirement benefits, but excluding health care—will total around £200 billion in fiscal 2010-2011, about 14% of the country's gross domestic product.

Mr. Osborne says he is still investing to grow, announcing an annual £2 billion increase in investment in capital projects and saying he would protect the education and science budgets in a bid to spur private growth.

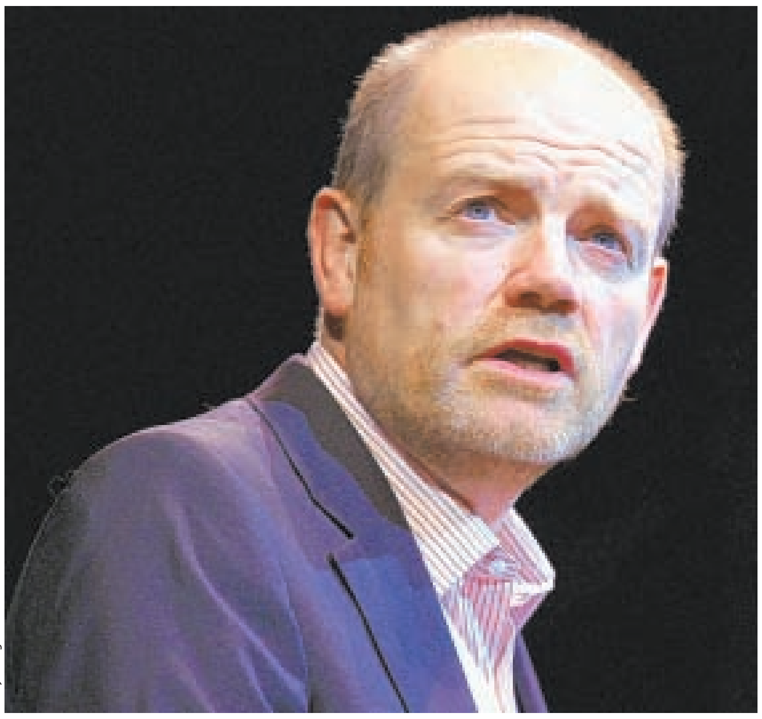
Still, the coalition government's cuts will lead to the loss of 490,000 jobs in the public sector by 2015.

"Cutting government spending in the short run can have substantial costs even if there are long-run benefits," says Valerie Ramey, an economist and fiscal policy expert at the University of California San Diego. Ms. Ramey studied U.S. defense cutbacks in California in the 1990s, and found it took years for workers affected by the reductions to find new jobs, often at lower wages.

—Laurence Norman contributed to this article.

U.K. SPENDING REVIEW

BBC, U.K. reach a deal on funding, cost sharing


BBC Director General Mark Thompson has pledged to pare management ranks.

By Cassell Bryan-Low

LONDON—Facing heavy pressure over its spending on executives and on-air talent, the U.K.'s publicly funded **British Broadcasting Corp.** agreed to a deal with the government that secures its income for the next six years but requires the news organization to shoulder more of its own costs.

The British government Wednesday announced that it is freezing the annual TV license fee that funds the BBC as part of a sweeping government spending review by David Cameron, who took over as prime minister in May. The fee will be fixed at the current annual rate of £145.50 ($228.50) for each color TV household in the U.K. until April 2017, which allows the broadcaster to collect roughly £3.5 billion each year.

At the same time, the BBC will take on additional funding obligations, the government said. Notably, it will absorb the £272 million annual cost of running the World Service, which broadcasts around the globe and until now has been largely funded by the government. Among other additional costs, the BBC also will now fund, but not control, the Welsh language channel S4C. Previously, both the government and the BBC funded the channel. The additional costs and the fee freeze will in effect mean the BBC will see a 16% cut in real terms.

Michael Lyons, chairman of the BBC governing body, known as the BBC Trust, said Wednesday: "This is a tough settlement, but it's also a settlement that delivers certainty and stability for the BBC and licence fee payers."

He added: "There is no doubt that the settlement will present us with some difficult choices, but importantly, these choices will remain firmly in the hands of the BBC Trust and we will of course seek the views of licence fee payers."

The deal, which was hammered out during a couple of days of talks, comes as the broadcaster has been under heavy scrutiny for its spending, including on pay.

The deal to freeze the license fee for six years comes far in advance of the 2012 deadline for renewal of the fee. But even so far ahead of the current license fee's expiration, it has been the subject of a sharp political debate in the U.K. The BBC had already agreed to freeze the fee for the next two years, and there was talk of a reduction in the fee during the 2012 renegotiation. A prominent critic of the BBC has been **News Corp.**, which has objected to its U.K. broadcasting rival's funding and growth plans. News Corp. owns The Wall Street Journal.

BBC Director General Mark Thompson has pledged to reduce senior management by one-fifth by the end of next year. Earlier this month, the BBC announced the planned departure of deputy director general Mark Byford, who is responsible for overseeing the network's renowned news and current affairs reportage.

BBC Trust Chairman Sir Michael said earlier this year that most of the BBC's top executives would take a voluntary yearly pay cut of 8.3% over the next two years, in part to keep with the new U.K. government's budget cuts.

U.K. broadcasters, particularly British Sky Broadcasting Group PLC, are likely to benefit from the BBC's 16% budget cut. A lighter BBC funding pot could lead to cuts to programming and new commissioned projects.

"Obviously this will be music to the ears of the broadcasting industry in the U.K.," said Adrian Drury, media, broadcast and telecoms senior analyst at Ovum.

Mr. Drury said BSkyB is likely to benefit the most as it "positions itself as a privately funded source of public sector broadcast content," potentially filling the gap left by the BBC.

News Corp. holds a 39.1% stake in BSkyB, and is hoping to buy the remaining 60.9% stake that it doesn't already own. A BSkyB spokesman declined to comment.

Broadcaster ITV PLC, publisher and events group Daily Mail & General Trust PLC, newspaper publisher Trinity Mirror PLC and TV producer Ten Alps PLC could also be beneficiaries, Mr. Drury said.

The BBC has agreed to reduce its online spending, and "make no further encroachments into local media markets, to protect local newspapers and independent local radio and TV," said U.K. Chancellor of the Exchequer George Osborne.

—Lilly Vitorovich contributed to this article.

BOE minutes highlight divide

By Neil Shah

Britain's central bankers are butting heads over whether to pump more cash into the economy to keep it from stalling amid conflicting signals on growth and inflation.

That stands in contrast to the situation in the U.S., where policy makers at the Federal Reserve—facing high unemployment and low inflation—are likely to take new measures to get the U.S. economy going again. Meanwhile, the European Central Bank is starting to wind down some of its unconventional measures to support banks.

But the Bank of England's Monetary Policy Committee can't agree on what to do. Some MPC members fear the government spending cuts detailed Wednesday will knock the economy back into recession. Their prescription: restart the BOE's so-called "quantitative easing" policy of buying government bonds to lower long-term interest rates in a bid to boost the economy.

Other MPC members fear inflation, which stands at 3.1% and has remained stuck above the BOE's 2% target since last December. A reboot of quantitative easing while inflation is relatively high could create credibility problems for the BOE, whose focus is supposed to be price stability. At least one MPC member in this group wants the bank to start raising short-term interest rates. A third group, of course, would prefer to do nothing for now.

The full extent of the three-way squabble became clear Wednesday when the BOE released minutes from its latest MPC meeting. The minutes showed that MPC member Adam Posen voted to increase the bond-buying monetary stimulus program by £50 billion ($78.51 billion).

While Mr. Posen was alone in voting for further stimulus, the minutes said some of the members who voted to keep policy unchanged, "felt the likelihood that further monetary stimulus would become necessary in order to meet the inflation target in the medium term had increased in recent months."

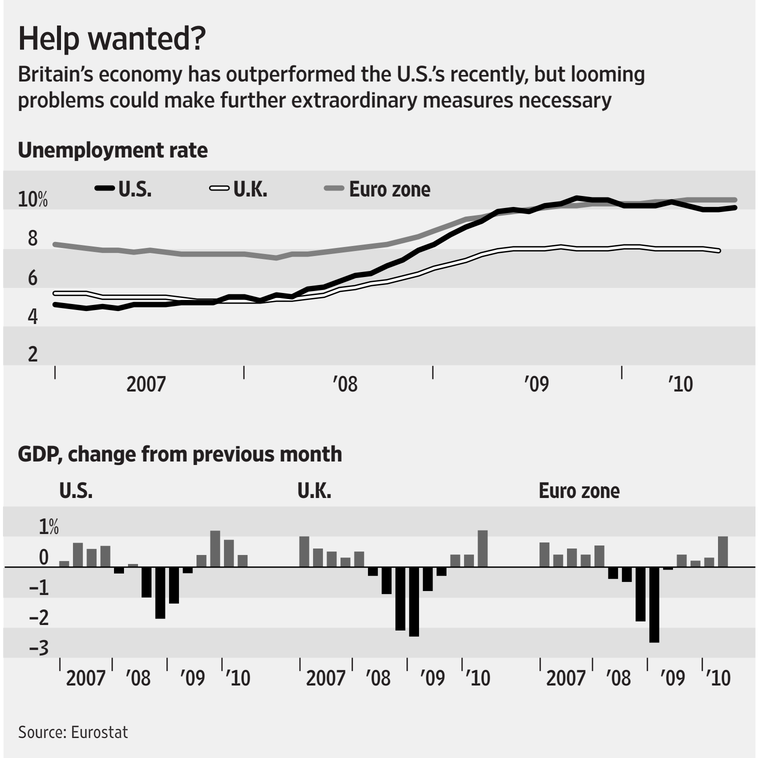
That suggests Mr. Posen is more likely to gain support for his view than is Andrew Sentance, who voted for a fifth consecutive month to increase interest rates to 0.75%. The split into three camps was the first since August 2008.

Such division could lead to delays and raises the risk of a policy error, economists say. "You want to be proactive," says Simon Hayes, economist at Barclays Capital in London, who says policy changes take time to affect the economy. "You need to (expand stimulus) as soon as you see there's a problem to deal with."

Many observers expect the BOE to hold off buying more government bonds when officials meet on Nov. 4, but purchases of at least £50 billion could be in the cards in coming months if the economy falters, economists say. The BOE halted its bond-buying program in February after snatching up £200 billion of mostly government debt.

Britain's economy charged ahead in the second quarter of this year, expanding 1.2% from the previous quarter. The country's jobless rate, at 7.7%, is lower than the U.S.'s 9.6% level and the roughly 10% average for the 16 countries that share the euro. This week, the Confederation of British Industry, a business lobbying group, said it expects Britain's private sector to create enough new jobs to offset positions lost in the public sector as a result of the government's aggressive spending cuts.

BOE Governor Mervyn King has hinted of a more aggressive approach.



While recent economic reports have pointed to a slowing recovery, Britain's inflation rate remains high and could climb once a planned value-added tax hike takes effect next year. Pumping more freshly created cash into the economy through bond purchases could make the inflation problem worse, triggering anxiety among workers and investors holding assets with fixed payments such as bonds since the value of such holdings is eroded by inflation. And it could distort prices in Britain's bond market: The BOE already owns some 20% of the entire supply of British government bonds.

Benjamin Williamson, senior economist at the Center for Economics and Business Research, a London-based consultancy, says Britain's expected spending cuts will hamper the economy and that the Bank of England will have to pick up the slack. "It's an extra assurance to markets, and it should drive borrowing costs lower and stimulate a bit of lending," he says.

On Wednesday, the U.K. government unleashed the most aggressive deficit-cutting program of spending cuts and tax rises among the world's major economies, including the losses of an estimated 490,000 public-sector jobs by 2015. In a recent study, economists at the International Monetary Fund found that a fiscal consolidation equal to 1% of GDP tended to reduce gross domestic product by 0.5% within two years. Britain's five-year budget-cutting plan amounts to some 6% of its GDP. The U.K. economy is expected to grow only about 0.4% on a quarterly basis in the third quarter, economists say.

Making things worse, U.K. policy makers are mystified as to why the pound's weakness over the past two years hasn't boosted British exports. If Britain's economy can't depend on consumer spending or trade, pressure will grow on the BOE to do what it can to get the economy back on track.

BOE Governor Mervyn King seemed to hint that a more aggressive policy approach could be in the offing. "Domestic spending has already fallen before a pickup in net exports," Mr. King said in a speech Tuesday in the West Midlands. "This highlights a key role for monetary policy: Smoothing the adjustment process by providing temporary stimulus." The pound has fallen 8% against the euro since August, partly on expectations policy makers are close to cranking up their bond buying.

—Paul Hannon and Nicholas Winning contributed to this article.

Moscow permits small rally by activists

By Richard Boudreaux

MOSCOW—Officials here delivered a concession to a growing opposition movement by giving permission for a rally by up to 200 people Wednesday, just five days after the Kremlin installed a new Moscow mayor.

Leaders of the Strategy 31 movement, which has drawn far bigger crowds for unauthorized demonstrations in defense of free assembly, welcomed the offer of a permit as a tentative victory and a sign of hope for a freer regime in Moscow. But they balked at accepting it, saying they would press for a larger authorized space, one that could accommodate 1,500 people.

Official response to the movement has been a closely watched gauge of tolerance for dissent in Russia. Since July of last year, it has held rallies at Moscow's Triumfalnaya Square on the 31st of each 31-day month, a date symbolizing the right to free assembly guaranteed by Article 31 of Russia's constitution.

Authorities have routinely denied permission for the rallies and sent police to break them up, drawing criticism by the Obama administration and European leaders. In August, City Hall declared most of the square closed for construction of an underground parking lot.

On Wednesday, city officials offered about 80 square meters of space just outside the fenced-off construction zone for the movement's Oct. 31 rally, its organizers said.

"It's a step forward, but a very strange step," said Lyudmilla Alexeyeva, a Soviet-era dissident and an organizer of the periodic rallies. "How is it possible to hold a normal demonstration in such a small space? We will insist on more."

Other opposition activists called the decision part of a tentative political thaw following the departure of Yuri Luzhkov, the longtime autocratic mayor of Moscow, who was fired by President Dmitry Medvedev on Sept. 28 after criticizing him. City Hall, now run by Kremlin loyalist Sergei Sobyanin, has also suspended construction of a museum in front of the Kremlin, a Luzhkov-backed project that enraged preservationists.

City authorities couldn't be reached to comment about the rally permit. Medvedev adviser Vladislav Surkov had forecast the decision recently by saying the Kremlin had nothing to fear from the free-assembly protesters. "If out of the millions of people in Moscow, 200 want to gather on the 31st," he said, "then let them."

Eduard Limonov, a veteran opposition leader who first proposed the 31st demonstrations, said Mr. Surkov's comment to a Russian news website indicated that it has always been the Kremlin, not City Hall, that decides what the movement is allowed to do.

"They're allowing our rally because public pressure has been growing," he said. "And now they have a chance to throw the blame at Mr. Luzhkov, to say it was Mr. Luzhkov who was repressing us."

Ally of Ukraine's ex-premier is arrested

By James Marson

KIEV, Ukraine—Ukrainian prosecutors on Wednesday requested that the Czech Republic extradite a former economy minister charged with abuse of office, drawing cries of political persecution from the opposition.

Bohdan Danylyshyn, who served under ex-Prime Minister Yulia Tymoshenko, was detained in the Czech Republic on an international arrest warrant issued by Ukraine.

Mr. Danylyshyn is the latest ally of Ms. Tymoshenko to be arrested, with at least four other high-ranking officials from her government having been detained in recent months and under investigation for abuse of office and corruption.

Last week, three U.S. legal and investigative companies published a report commissioned by the Ukraine government alleging widespread corruption under Ms. Tymoshenko.

The opposition called the report "a witch hunt." The government says it is clamping down on corruption.

Mr. Danylyshyn is accused of causing damage to the state of 13.9 million hryvnias ($1.8 million) through overpriced state purchases. A spokesman for the Czech police told the Associated Press that a court will have to rule whether to extradite Mr. Danylyshyn, and that the process may take months.

Serhiy Vlasenko, a lawmaker from Ms. Tymoshenko's party, said Mr. Danylyshyn's lawyers would seek to demonstrate the case was political in nature, not criminal, and thereby prevent his extradition. His lawyers couldn't be reached for comment.

The charismatic Ms. Tymoshenko is a bitter, longtime rival of President Viktor Yanukovych. She was a leader of the Orange Revolution in 2004, where thousands hit the streets to protest an allegedly fraudulent presidential ballot won by Mr. Yanukovych. He lost a court-ordered rerun to an ally of Ms. Tymoshenko, but won a comeback victory over her in a vote in February this year. His allies in parliament then dismissed her as prime minister.

Since then, Ms. Tymoshenko has accused Mr. Yanukovych of rolling back democratic freedoms and clamping down on the opposition.

U.S. NEWS

Weaker dollar key part of growth recipe

[Capital]

By David Wessel

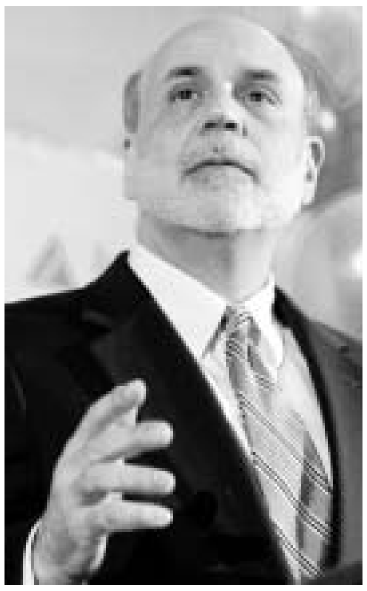
The U.S. government's recipe for stronger global economic growth has three ingredients. Big trade-surplus countries, notably China, should export less and rely more on their own consumers' spending. Big trade-deficit countries, notably the U.S., should export more and rely less on their consumers. For that to happen, the dollar needs to fall.

Treasury Secretary Timothy Geithner and Federal Reserve Chairman Ben Bernanke talk about the first two, but aren't explicit about the third. That's where newspaper columnists step in.

The logic, drawn from textbooks, is that a decline in the dollar will make U.S. exports cheaper for foreign customers, so they'll buy more, and will make Asian exports more expensive, so the world will buy less.

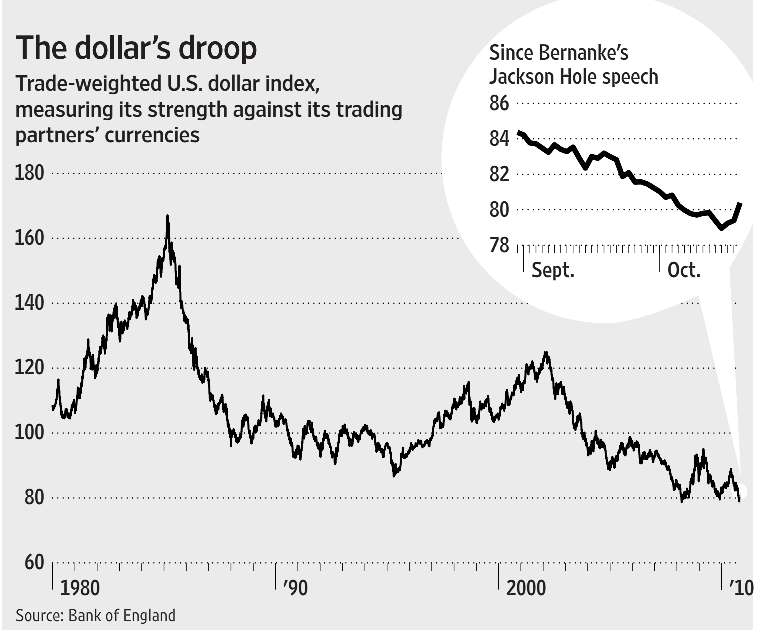
It's no magic elixir. "An exchange rate 30% lower is not going to be of much help to an unskilled or semi-skilled worker in the U.S. competing head-to-head with Chinese labor," Barry Eichengreen of the University of California, Berkeley writes in a forthcoming book on the dollar. But there's no way to achieve the much-discussed "rebalancing" of the world economy without a weaker dollar.

Alas, the world doesn't work as antiseptically as textbooks, hence the shouts of "currency war" from Brazil's finance minister, a comment that earned him private scoldings from peers at recent meetings in Washington.



Associated Press

Fed Chairman Ben Bernanke on Tuesday in Fairfax, Va.



Is this a war that the U.S. already has won, and all that's left is negotiating terms of surrender? After all, if the Fed prints enough dollars—"quantitative easing," or QE—the increased supply eventually will push down their price. Or does Yiping Huang, a Chinese academic and former Citibank economist, have it right when he says: "The U.S. did not win the past currency war with Japan. It is less likely to win a new war with China."

Or is this a war without victors? The Bank of England's Mervyn King suggested ominously this week that "conflicting policies" could produce "an undesirably low level of world output with all countries worse off."

The specter of every country trying to devalue more than competitors to spur exports stirs frightening images of the Great Depression. We're not there, yet. This dispute is more about speed. Governments and consumers in the U.S., Japan, U.K. and much of Europe are under pressure to cut debt soon; that means exporting more now. China is trying to prolong its shift away from exports for fear that it can't create other jobs in other sectors fast enough.

That tension shows up in foreign-exchange markets: Since Mr. Bernanke signaled Aug. 27 that the Fed was preparing to print more dollars, the dollar has fallen more than 6% against major currencies, but risen only a bit more than 2% against the yuan.

In this standoff, the innocent bystanders are emerging markets from Brazil to Israel to India. As investors flee low interest rates in the U.S., Europe and Japan, those countries' currencies are rising, endangering *their* exports. "The international monetary system today has become distorted," Mr. King said this week. "The major [trade] surplus and deficit countries are pursuing economic strategies that are in direct conflict. Those emerging market economies which have adopted floating currencies are now suffering from the attempts of other countries [China] to hold down their exchange rates, and are experiencing uncomfortable rates of capital inflows and currency appreciation."

In the old days, a handful of finance ministers or top leaders from the U.S., Europe and Japan would try to settle currency disputes over dinner—sometimes before a crisis, sometimes after. The Group of 20 is supposed to be the new forum for such talks because China is at the table. But it may simply be too big to negotiate a grand bargain.

Mr. Bernanke and Mr. Geithner are stepping delicately. As an academic lecturing Japan in 1999 ("significant yen depreciation would go a long way toward jump-starting the reflationary process") and as a Fed governor in 2002 ("there have been times when exchange rate policy has been an effective weapon against deflation,") Mr. Bernanke was blunt. Last week, listing the pros and cons of printing more money last week, Mr. Bernanke didn't mention the inevitable impact on the dollar. No surprise.

"The danger is of a disorderly adjustment, of investors losing confidence in the dollar," says Mr. Eichengreen, the Berkeley economist. "The Fed is acutely aware of the risk. This is one reason QE2 will be incremental."

Mr. Geithner is doing an awkward straddle. On one hand, he said this week, the yuan is "significantly undervalued" (so the dollar should fall, at least against the yuan.) On the other, he insisted: "No country...can devalue its way to prosperity and competitiveness. It is not a feasible strategy and we will not engage in it."

What he wants to say is this: The dollar is going down. We all know that. The faster the Chinese get with the program, the better off we'll all be. But we're not pushing it down to avoid getting our fiscal house in order, fixing our schools, making our exporters as competitive as the Germans. And we really don't want the dollar to fall so fast that markets lose confidence in the U.S.

Oh, and as he acknowledged explicitly this week, we know the dollar isn't just our currency. It's the one in which business around the world—at least so far—is conducted. So let's all be careful.

Employer credit checks on job seekers draw scrutiny

By Sara Murray

Checking credit histories of job applicants—a common practice among employers—is coming under fire.

Four states have passed laws that limit the practice in the past three years, and similar bills have been introduced in 20 other states and Congress. The issue has special urgency in the wake of the recession, which has left many unemployed workers with tattered credit.

The underlying concern is the potential discriminatory impact in hiring. At a hearing on Wednesday, the Equal Employment Opportunity Commission, heard testimony from advocates on both sides of the issue.

Some studies have shown that African-Americans and Latinos tend to have lower credit scores, partly because they have been disproportionately targeted by predatory lending, which often results in credit problems.

Opponents of the practice also dispute whether credit reports are an accurate way to measure an employee's qualifications. Indeed, an early 2000s study by Eastern Kentucky University's Jerry Palmer showed bad credit had little to do with whether an employee performs on the job.

"It is a practice that we believe is both harmful and unfair to American workers," Chi Chi Wu, counsel for the National Consumer Law Center, said at Wednesday's hearing. She argued that the practice has a negative impact on African-Americans and Latinos.

State laws passed to limit the use of credit checks tend to carve out exceptions for certain industries. Oregon's law, for example, exempts federally insured banks or credit unions, among other positions for which the "information is substantially job-related." In Illinois, debt collectors, insurance agents and state and local government agencies are among those exempt.

But proponents of credit checks, which include employers, fraud examiners and credit reporting groups, contend the histories are an important screening tool for employers and tend to be limited in use. A recent Society for Human Resource Management study showed 60% of employers used credit checks for select job candidates. Of those, just 13% used them for all job candidates.

Michael Eastman, an executive director at the U.S. Chamber of Commerce, told the EEOC that employers take individuals' circumstances into account. Many at the hearing stressed that employers look for a pattern of careless financial behavior, not one-time events.

"Not all debt is considered equal," Mr. Eastman said. "It's very easy for the best, well-intentioned people to have very difficult times. Employers recognize that."

Credit checks can also be used as a tool to protect businesses against fraud, supporters argue. A recent study by the Association of Certified Fraud Examiners of some 1,800 fraud examiners globally showed that fraud costs businesses about 5% of their revenue.

In the U.S., the median loss was $105,000 an incident. And in many of those instances there were "red flags," examiners reported. In 44.7% of cases, fraudsters were experiencing financial difficulties, according to the survey, and in 44.6% of cases they were living beyond their means.

One problem in evaluating credit checks, which became quickly apparent in Wednesday's hearing, was confusion over what information is included in credit reports, how employers use it and what research has been conducted on the effects of credit checks.

Experian Information Solutions Inc., a company that provides credit reports, offers an employment report that includes details such as a credit history, evidence of bankruptcy or liens, and information on previous employers. It does not include a credit score.

But much of the research on disparities in credit histories between racial groups is based on credit scores, though most employers never see that number.

"I have yet to see a study that shows the relationship between the use of credit reports and the disparate impact," Pamela Q. Devata, an employment lawyer at Seyfarth Shaw LLP, said.

Reuters

Rep. Chris Van Hollen helped build the Democratic majority now threatened.

Democrat shores up House amid storm

By Janet Hook

Rep. Chris Van Hollen has one of the grimmest jobs in politics: putting a brave face on Democrats' chances in November.

The Maryland lawmaker, chairman of the Democratic Congressional Campaign Committee, is charged with trying to keep the House in his party's control, a goal most political prognosticators say is nearly out of reach. The 51-year-old is soldiering on—encouraging candidates, telling reporters the die isn't cast and deciding which candidates should get more or less financial support.

"It's like Whac-A-Mole," said Mr. Van Hollen, after checking a daily report on Republican campaign ads popping up from coast to coast.

That is how many Democrats say they feel these days as they grapple with hostile political forces. It's a 24/7 condition for Mr. Van Hollen, who has been seen as a rising prospect within the party. He had a big hand in building the Democrats' House majority in the past two elections. Now he's presiding over the election that is likely to dismantle it.

Democratic voters are demoralized and Republicans are energized. His party's message and legislative record are falling flat in swing districts. Vulnerable Democrats, especially on the party's conservative wing, are struggling to defend the agenda crafted by him and other party leaders, and several are successfully running against it.

Still, Mr. Van Hollen said he remained optimistic. "I'm confident we are going to retain the majority," he said, not for the first time.

Paul Lindsay, spokesman for the National Republican Congressional Committee says that was a false hope. "His party has done him no favors by imposing an unpopular job-killing agenda," Mr. Lindsay said.

The Democratic and Republican campaign committees are political arms of the congressional leadership, and are charged with raising money, recruiting candidates and marshaling resources for House campaigns nationwide.

Mr. Van Hollen's biggest contribution to the party's battle has been the solid financial advantage he built over his GOP counterpart. At the end of September, his committee had $41.6 million in cash on hand; the National Republican Congressional Committee had $19 million.

That advantage has been largely eradicated by outside groups supporting Republicans, which have flooded campaigns with money and advertising outside traditional party channels.

Few blame Mr. Van Hollen personally for the coming losses—at least not yet. And others who have this job before express some sympathy with his predicament.

"He's got a terrible hand, but he's played it as well as anyone can," said former GOP Rep. Tom Davis, chairman of Republicans' campaign committee from 1998 to 2002. "This atmosphere for Democrats is unforgiving."

History offers an uncertain guide to what Election Day means for Mr. Van Hollen. In 2008, after big Democratic gains, Republicans sacked their campaign chairman. In 1994, after a historic GOP win, the Democrats' campaign chief, Rep. Vic Fazio, moved up in party leadership.

Mr. Van Hollen is cut from different cloth than his predecessor, Rahm Emanuel, the former White House chief of staff. Mr. Emanuel is a blunt, often abrasive politician who cultivates a reputation for ruthlessness. Mr. Van Hollen is more low-key.

Born in Pakistan the son of a foreign-service officer, he grew up largely overseas and studied philosophy at Swarthmore College before serving in the Maryland legislature for 12 years.

In 2002, Mr. Van Hollen muscled his way into Congress by defeating a scion of the Kennedy family in the suburbs of Washington, D.C. After winning the Democratic primary over the better-funded Mark Kennedy Shriver, Mr. Van Hollen went on to defeat the Republican incumbent, Rep. Connie Morella.

He became Mr. Emanuel's deputy in 2006 when Democrats picked up 31 House seats to win the majority. When Mr. Van Hollen ran the committee in 2008, Democrats added 21 seats on the coattails of President Barack Obama's victory.