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THE WALL STREET JOURNAL.

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Portugal fails to quell fears with auction

By David Gauthier-Villars And Alex MacDonald

LISBON—Portugal passed a key test by carrying out a pair of government-bond auctions on Wednesday, but the high interest rates demanded by investors on the new debt sustained concerns that the Iberian country could be next in line for a bailout, after Greece and Ireland.

Portuguese officials said the auction, in which Portugal sold €1.25 billion ($1.62 billion) of government bonds that come due in October 2014 and June 2020, the maximum planned, was a sign that investors are confident in the country's ability to improve its financial health.

The auction came just a few days after Portugal sold €1.1 billion to China in a private placement, a person familiar with the matter said.

But while the average yield on the longer-dated bond wasn't as high as analysts had anticipated, at 6.716%, they remained close to levels that many economists deem unsustainable in a slow-growing country such as Portugal.

High interest rates paid by Portugal to finance its public debt have fueled concerns that, after Greece and Ireland, Portugal will need to seek a bailout from the European Union and the International Monetary Fund.

"We don't need that help," Portugal Prime Minister José Sócrates said after the auction. "We only need confidence, the confidence that markets have shown today."

In Brussels, however, European officials are debating how better to help euro-zone countries cope with their debt problems.

EU Economics Commissioner Olli Rehn on Wednesday said the European Financial Stability Facility, the euro zone's current bailout fund, should be reinforced and its application widened.

Mr. Rehn's remarks echoed growing concerns that the EFSF, created in May after a bailout for Greece, may be ill-suited to assist countries before their public finances collapse.

Officials said the discussions have covered a wide range of ideas about how to improve the functioning of the EFSF and a permanent rescue fund that will replace it in 2013.

The ideas include expanding the size of the current bailout fund, which is currently set up to lend a maximum €255 billion to troubled governments, allowing the fund to buy sovereign bonds

Please turn to page 4

Palin accuses media of 'blood libel'

In a Facebook video Wednesday, Sarah Palin accused critics of 'blood libel' in linking political rhetoric to the Arizona shootings. She was criticized for using cross hairs on a map to pinpoint Democrats she wanted to defeat. President Obama was to address the nation Wednesday night. **Articles on page 7**

The Quirk

Congress finds that in passing bills, names can never hurt you. Page 29

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How big government killed Britain's regions. Page 12

Spending spree marked Qatar's World Cup bid

By Matthew Futterman

Qatar's winning bid to hold the 2022 World Cup was marked by a spending spree that included investments in the home countries of several executives who were responsible for choosing the host nation, according to internal documents from the emirate's bidding committee.

The spending sheds light on how FIFA regulations—outlined in the two-page rules of conduct for World Cup host-nation bidding—left the door open for hopefuls to open wallets to exert indirect influence on football's small circle of decision makers.

Qatar also paid football luminaries from France, Spain, Argentina and elsewhere who publicly endorsed its bid, according to Qatar bid committee documents and emails reviewed by The Wall Street Journal. Some of these people were paid more than a million dollars in connection with these endorsements, according to a person familiar with the situation.

The documents don't show that Qatar violated rules set down for World Cup host-nation bidding by the Fédération Internationale de Football Association, or FIFA, which in December chose hosts for both the 2018 and 2022 World Cups. Rather, they highlight how Qatar worked within FIFA's broad guidelines to win what was initially seen as a quixotic quest to host global football's marquee event.

FIFA bidding rules bar prospective host nations from promising favors or gifts to FIFA executives or their representatives. But the rules don't address whether would-be hosts can invest in the home countries of these executives, who determine the World Cup's host by secret ballot.

FIFA's decision to award the cup to Qatar capped a scandal-plagued campaign that included allegations that the Qatar committee and Spain-Portugal's 2018 bid committee colluded to trade

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THE WALL STREET JOURNAL.

PAGE TWO

Another patch-up: how much longer can Trichet and ECB hold the line?

[Agenda]

By Terence Roth

The European Central Bank has staved off another euro debacle. How much longer can it hold out on its own? The question is answered by patchy pledges of more sovereign support from governments themselves.

Greek Finance Minister George Papaconstantinou has been able to reveal that the European Union within the next two months will take big decisions that will resolve the euro-zone debt crisis "once and for all."

He is seconded by European Commission President José Manuel Barroso, who wants more money in the EU's bailout fund and sees a pact next month, with broader scope for government support.

Germany, publicly at least, plays down the idea of stocking up the €440 billion ($574 billion) European Financial Stability Facility as "not pertinent." China and Japan have fewer qualms and helpfully have offered to pick up part of the tab, for undeclared reasons of their own.

That is pretty much in line with EU communication standards. But it's as good an indication as any that institutional Europe recognizes that investors need assurance of a thicker safety net or it will lose the struggle to save the common currency.

What is obvious is that the European Central Bank, the only EU institution standing between the euro and ruin, can't forever hold the creaking currency bloc together on its own.

The ECB's calculated purchasing of unwanted bonds from fiscally weak governments along the euro-zone periphery ensured a so-so result in a wobbly Portuguese bond auction. That feat prevented the next bailout of a euro-zone country as early as this weekend, with Belgium and Spain lining up as the next targets.

Associated Press

ECB President Jean-Claude Trichet at the organization's bimonthly meeting in Basel on Monday.

But few are fooled into believing that Portugal's trials are over. The ECB's saturation purchasing won't durably hold down high yields if investors worry about default. High debt-financing costs make a bailout inevitable, many economists still believe, leaving the currency bloc limping from test to test in the unblinking credit market.

The ECB is no longer containing its exasperation, recently berating "irresponsible" government treasuries and warning that its array of artificial monetary life-support systems aren't forever, even if they have been extended already.

But now that euro-zone inflation has exceeded the ECB's inflation target for the first time since the beginning of the financial crisis, the central bank is beginning to worry more about its central mandate to keep inflation in line.

Special funding conditions for banks in poorer euro-zone countries and its bond-purchasing plans are frail defense against market fears of sovereign default. The ECB's support in open government bond markets helped to knock down the interest rate Portugal had to pay, but the result at 6.7% is still deemed unsustainable.

So EU officials are girding for worse to come. A Portugal rescue plan might cost in the region of €60 billion, one euro-zone government official estimates. Earlier calculations of the price tag of a Spanish bailout tower over that and quickly exhaust available funding.

There is near consensus among EU governments that if other counties need to be bailed out the existing funds pledged won't be enough, suggesting a substantial increase in the EU's bailout fund.

Future meetings of European finance ministers, beginning early next week, also will study the proposal for a common debt-management office that collectively issues bonds for all euro-zone countries. Germany and other "core" countries hate the idea of subsidizing the debt-servicing costs of others at the expense of a rising cost of issuing its own debt.

Still, that could help take some of the air out of the risk premium demanded on bonds issued by high-debt euro-zone governments, up to a point. The nettlesome prospect of sovereign default and debt restructuring continues to weigh on the euro-zone government bond market. There also is the fear and loathing over the hits that bond investors now will have to absorb on defaults after mid-2013.

ECB President Jean-Claude Trichet will take another rap at fiscal profligacy when he announces the results of the ECB's policy meeting Thursday. What markets will really want to hear is how much longer the central bank can hold the line without itself losing its way.

ONLINE TODAY

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'The bank bonus bonfire didn't need any more sparks, but this one is sure to elicit another round of shock.'

Margot Patrick on reports that Lloyds' CEO will pocket a £2 million bonus

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Question of the day

What grade would you give European leaders on their handling of the sovereign-debt crisis?

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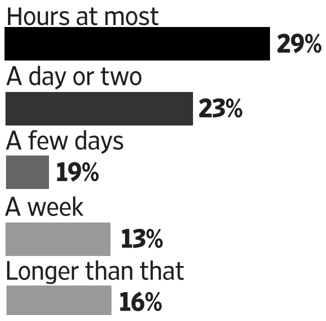

What's News

- **As Wall Street gears up** for the "Re-IPO" of AIG, it faces a challenge in how to get investors that lost billions of dollars from the stock to pony up billions more as the insurer attempts to exit U.S. ownership. 17
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- **Hungarian Prime Minister** Viktor Orban pledged to push for tighter spending rules and support the euro as his government takes up the EU's rotating presidency. 5
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NEWS

Agence France-Presse/Getty Images (top left); European Pressphoto Agency (2)

Clockwise from top left: Anne Smart on the steps of her house in Ipswich, near Brisbane, one of Australia's biggest cities, Wednesday; floods near Ipswich; a man paddles past flooded shops in Brisbane.

Floods turn Brisbane to ghost town

The Australian government's handling of devastating floods across Queensland, which have displaced thousands of people and killed more than 20, came under greater scrutiny Wednesday as the Brisbane River's muddy waters began swamping the nation's third-largest city.

*By **Rachel Pannett** in Canberra and **Enda Curran** in Brisbane*

Authorities expected the flood level in Brisbane to peak early Thursday, drenching up to 20,000 homes around the city, and leaving 126,000 without electricity. Military helicopters hovered over the central business district Wednesday, which Queensland Premier Anna Bligh said resembled a "ghost town."

Opposition lawmakers have so far shied from apportioning blame, but questions over the government's preparedness for the flooding—one of the worst environmental disasters to hit Australia—threaten to add political strain on Prime Minister Julia Gillard's minority Labor government, which depends on independent political support to maintain its grip on power.

The flooding, and the potential political fallout, could be a defining moment for Ms. Gillard.

"How crises and disasters on the ground are managed is one thing but how the political fallout is managed is another," said Allan McConnell, an expert on crisis management at the University of Sydney. "There'll be fallout as to why didn't we see it coming, surely we should have better warning systems?"

Ms. Gillard arrived late Tuesday in Brisbane, the waterlogged state capital, vowing to face the crisis "shoulder-to-shoulder" with local authorities.

The prime minister pledged more military planes to move supplies around the devastated region and put 700 army personnel on standby.

Meanwhile, Deputy Prime Minister Wayne Swan cut short a U.S. visit to join Ms. Gillard and other senior government officials.

A representative for the prime minister said the scale of the disaster made it difficult to reach the worst-hit areas.

Ms. Gillard courted controversy Monday, attending a cricket match in Canberra between a hand-picked prime minister's team and the touring England squad.

Under Australia's political system, state and local governments are responsible for emergency services and search-and-rescue efforts, while the federal government oversees the military response to emergencies. But some residents are skeptical about the effectiveness of the state and federal governments' responses so far.

Mike Russell, 54 years old, from Hemmant, about 10 kilometers east of Brisbane's central business district, believes the government was "caught unawares" by the scope of the disaster.

The risks for Ms. Gillard's government will intensify in the months after the floods pass, said Stephen Dovers, an expert in disaster and emergency policy at the Australian National University.

"It's not an enviable position to be in for the government," Mr. Dovers said. "Some of the infrastructure will take literally years to put in place. Whether it can be well communicated, why certain things are being done earlier such as securing critical infrastructure and communications in front of helping to clean up someone's messy backyard, that's a real communication challenge."

Tony Abbott, leader of the main opposition Liberal-National coalition of center-right parties, has said now isn't the time to criticize. At the same time, he is has pushed for more dams to be built, accusing policy makers of "dam phobia" over the past two decades. Wivenhoe Dam, built to protect Brisbane following devastating floods in 1974 was forced Tuesday to release water, adding to the deluge.

Mr. Abbott's coalition narrowly lost out after an August election failed to give a clear majority to either major political party. Ms. Gillard secured the support of several rural-based independent lawmakers in forming a minority government. That has forced the traditionally urban-based Labor Party to be more accountable to rural areas—a situation likely to take on even greater emphasis in the flooding aftermath and rebuilding efforts.

—Geoffrey Rogow in Sydney contributed to this article.

Last year tied 2005 for warmest on record

By Gautam Naik

The year 2010 tied 2005 as the Earth's warmest on record, according to an assessment by U.S. government scientists.

Researchers at the National Oceanic and Atmospheric Administration said that the combined global land and ocean annual surface temperature for 2010 was 1.12 degrees Fahrenheit (0.62 degrees Centigrade) above the 20th century average.

It was the 34th consecutive year that the global temperature was above last century's average. Nine of the 10 warmest years on record occurred in the past decade. The exception was 1998, the third-warmest.

The global temperature record compiled by NOAA is based on data from hundreds of land-based weather stations and from ships and buoys at sea, sent by more than 200 countries around the world. The data go back to 1880.

The latest finding was seen by some as further evidence of a link between human activities and global warming.

"In my mind, it reinforces the notion that we're seeing a signal from increasing greenhouse-gas emissions," said David Easterling, a researcher at NOAA. "If that weren't a fact, we'd see temperatures tapering off and cooling, but we're not seeing that."

Not all scientists agreed. John Christy, a climatologist at the University of Alabama in Huntsville, said natural long-term variability in climate, rather than greenhouse-gas emissions, could play a greater role in warming the planet.

In addition, Dr. Christy said, "If greenhouse gases are causing warming, the climate system is not very sensitive to carbon dioxide because the warming is not very dramatic."

Dr. Christy helped develop a global temperature data set based on satellite measurements going back to 1979. His approach indicates that 1998 was the warmest year. Dr. Christy noted that despite disagreement about the rate at which the Earth is warming, most scientists agree that global temperatures are, indeed, rising.

In July, an international study by 300 scientists concluded that the Earth has been getting warmer over the past 50 years and that the past decade was the warmest on record. Those conclusions broadly matched the findings of the most recent report by the United Nations' Intergovernmental Panel on Climate Change, published in 2007.

Earlier this week, the environmental agency of Canada said 2010 was its warmest year on record, with the country's average temperature 3 degrees Celsius above normal since nationwide records began in 1948.

Meanwhile, the Finnish government reported that 2010 was their country's coolest year since 1987, at 0.6% below average. Yet the decade 2001-2010 was Finland's warmest, based on records going back to the 1840s.

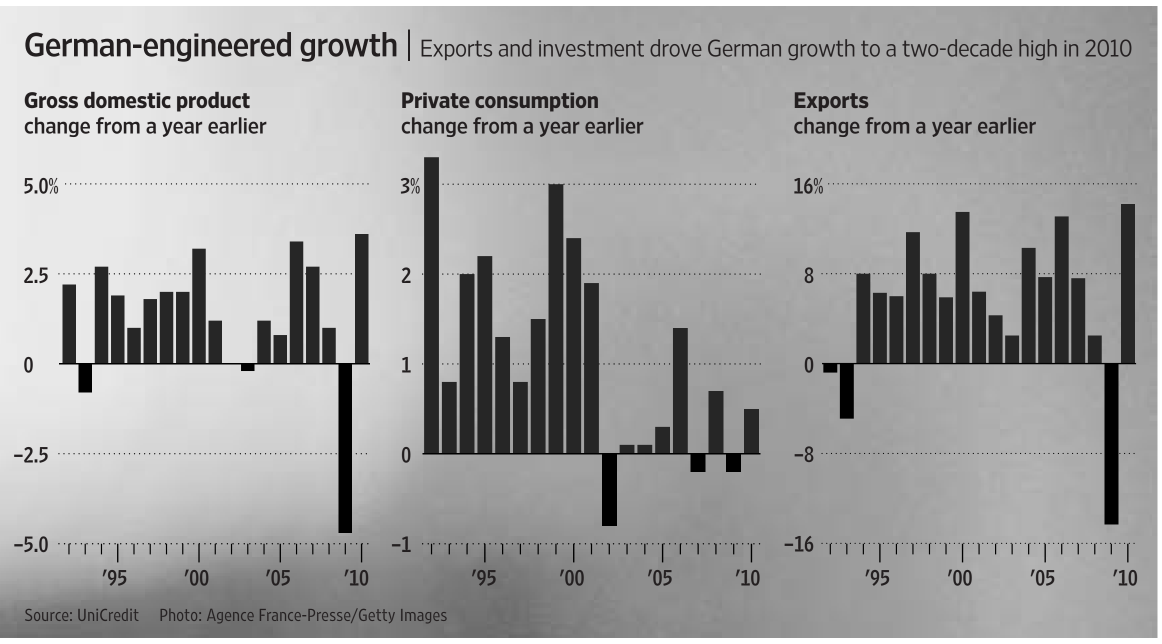
Dr. Easterling said that unusually cold temperatures recorded during a single year or two didn't undermine the evidence of a warming planet. "Climate change is a global and long-term phenomenon," he said.

In its latest report, NOAA also noted that 2010 was the wettest year on record globally since 1900, though patterns varied from region to region. The United Kingdom, for example, recorded its driest January-to-June period since 1953 and the second-driest since 1929, while Pakistan was hit by the worst floods seen in a generation.

The contiguous U.S. recorded its 14th consecutive year when the annual temperature was above the long-term average, while precipitation in 2010 was 1.02 inches (2.59 centimeters) above the long-term average.

EUROPE NEWS

Germany's Chancellor Angela Merkel



Source: UniCredit Photo: Agence France-Presse/Getty Images

German economy grew 3.6% in 2010

By Brian Blackstone

FRANKFURT—Germany's economy grew at its fastest pace in a generation last year, but doubts are growing that its export-fueled expansion can continue to defy Europe's widening debt crisis.

Strong demand from China and elsewhere in Asia for German cars, machinery and other goods sparked a 3.6% expansion, the strongest since East and West Germany were reunified in 1991.

Yet skeptics question whether Germany's export- and manufacturing-dependent model can ultimately weather stagnant output in Southern Europe. Portugal, weakened by high debt and an anemic economy, cleared an important hurdle on Wednesday when it succeeded in raising €1.25 billion ($1.62 billion) from investors in a bond auction. Nevertheless, many analysts remain convinced that Portugal will eventually be closed out of capital markets, forcing it to seek a bailout.

"It's hard to see how those markets are going to be particularly buoyant ones," said Philip Whyte, economist at London-based Centre for European Reform. "There's an element of optical illusion about Germany's rebound."

If Germany's economic fortunes sour, the effects would be felt around Europe. Germany's robust performance in recent months has lifted other economies in the region, softening the impact of the debt crisis. Countries across the Continent are implementing deep spending cuts in an effort to restore confidence in their public finances. But the austerity measures will depress the region's already fragile economic outlook. Europe's prospects would dim further if its economic powerhouse, Germany, loses steam.

Fears that the debt crisis will spread from Portugal to much larger Spain and even deeper into the euro zone have persuaded Europe's leaders to pursue more-aggressive measures in combating the crisis. Eurozone countries have been locked in talks about a "comprehensive package" of measures, including rules for national economic policies and mutual aid, said a senior European official. Leaders hope to reach an agreement in the coming weeks.

If Europe's efforts to stem the crisis fall short, Germany's recovery, which followed its worst contraction since World War II could quickly derail.

In addition to exports, business investment and government spending have fueled the German expansion. Consumer spending, long dormant in Germany, advanced just 0.5%. Some economists expect that to improve this year, however, amid greater hiring and investment, building a foundation for a lasting recovery.

Indeed, despite concerns over Germany's ability to withstand the shocks of Europe's debt crisis, many economists are confident the country will record solid growth in 2011.

"There seems to be a self-reinforcing mechanism at work that makes it feel a lot more durable than past recoveries," says Thomas Mayer, chief economist at Deutsche Bank Group in Frankfurt.

The economic and fiscal crises in Greece, Ireland and Portugal have only limited direct impact on Germany's €2.5 trillion economy. Those countries accounted for just over €10 billion in German exports in 2009. But if the debt crisis spills over to Spain, Belgium and Italy, as many economists fear, German exporters would take a big hit. Germany shipped almost €125 billion in exports to those three countries in 2009, the latest year for which data are available.

Still, the government seized on the gross domestic product figures as evidence that its recent emphasis on stable government finances as a means to achieve growth—an economic philosophy at odds with many other industrialized countries including the U.S. and Japan—is justified.

"The message is that growth and consolidation are not on the opposite side," said Germany's deputy finance minister, Steffen Kampeter, in an interview.

However durable it proves to be, for now Germany's resurgence exposes a growing north-south divide that poses a threat for the European Central Bank's one-size-fits-all monetary policy. Last year's German growth surge coincided with a pickup in inflation driven largely by food and energy prices. German unions, which during the downturn accepted little or no wage gains in exchange for job security, are pressing for higher pay to keep pace with inflation.

"This is a major risk for monetary policy because we have a strong pickup in headline inflation due to the steep rise in energy and food prices, and we have talk about wage increases," said Andreas Rees, economist at lender UniCredit in Munich.

The ECB meets Thursday, and is expected to leave its key policy rate at a record-low 1%. Despite the recovery in Germany and, to a lesser extent, France, the Netherlands and others in Central and Northern Europe, ECB officials are also expected to maintain crisis-era programs including abundant loans to commercial banks and purchases of Irish, Greek and Portuguese bonds.

—Marcus Walker contributed to this article.

Germany flags Afghan drawdown

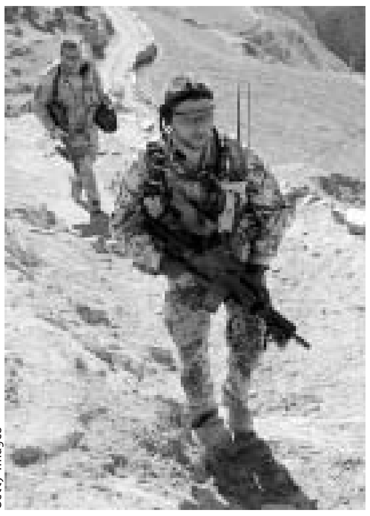
By Patrick McGroarty

BERLIN—The German government resolved to start withdrawing troops from Afghanistan by year end and tempered expectations for the conditions it will leave behind, saying its involvement in a war that has been deeply unpopular domestically will be guided by "very realistic goals" to ensure the country doesn't slip into chaos.

Chancellor Angela Merkel's cabinet set the deadline as it extended the German deployment in Afghanistan for another year. The mandate kept the maximum number of German soldiers allowed in Afghanistan at 5,350, though the actual number of troops deployed isn't likely to rise above the current level of around 4,600.

"We are confident we can reduce the [German military's] presence by the end of 2011 as we hand over responsibility for security" to Afghan military and police forces, Foreign Minister Guido Westerwelle said. The government plans to withdraw the last German troops in 2014.

The timeline roughly mirrors that of the U.S. and other major North Atlantic Treaty Organization



Getty Images

German soldiers patrol high ground in Narwan, Afghanistan, in October.

coalition partners, but suggests Washington could face resistance if it shifts course and asks its allies to commit more troops or undertake more risky missions in Afghanistan over the next few years.

The deadline can be met only if local security forces are on track to assume responsibility in 2014 for the parts of northern Afghanistan currently overseen by German troops, said Steffen Seibert, a spokesman for Ms. Merkel.

"Of course, a timetable like the one in this mandate also gives some urgency to the Afghan government to expedite and complete its work on military and political reforms," Mr. Seibert said.

The German military operates mainly in the Kunduz province of northern Afghanistan, long one of the most stable regions in the country but the site of a marked increase in insurgent activity over the past two years.

Germany's schedule for withdrawing its troops—the third-largest force in the U.S.-led NATO coalition—is similar to President Barack Obama's plan to remove some troops this July and have the bulk of forces out of the country by 2014.

The U.K. is the second-largest contributor to the NATO mission, with about 10,000 troops in Afghanistan. British Prime Minister David Cameron said during a visit to the country in December that bringing some troops home in 2011 was "possible," but Defense Secretary Liam Fox seemed to temper those expectations during a visit this month, saying it was difficult to predict U.K. troop levels in Afghanistan over the next two years.

The German cabinet's agreement will be put to a vote in parliament on Jan. 28 and is expected to pass easily because the most powerful opposition party, the Social Democrats, has said it will support it on the basis of the commitment to begin withdrawals this year.

The war is deeply unpopular in Germany, with polls consistently showing that a majority of voters want German troops withdrawn from Afghanistan. The deployment has also brought a very public end to the careers of at least two high-ranking politicians.

In Nov. 2009 a member of Ms. Merkel's cabinet, Franz Josef Jung, resigned amid allegations that the German military had withheld information about an airstrike in Kunduz earlier that fall, while Mr. Jung was defense minister.

In June, President Horst Köhler abruptly resigned after suggesting in a radio interview that Germany might go to war to defend its business interests—a risky assertion in a nation that avoids comparisons to its militaristic past at all costs.

Portugal fails to quell concerns in bond auction

Continued from first page

and reducing the interest rate charged to borrowers.

Unlike Ireland's economy, which was rescued by the EU and the IMF late last year, Portugal isn't sagging under a pile of real-estate debt.

And unlike Greece, Portugal moved relatively quickly to shore up its public finances with a combination of spending cuts and tax increases.

Yet Portugal is now feeling similar pressure to Greece and Ireland.

Economists say Portugal may struggle to regain full investor confidence—and to raise debt at affordable costs—after the central bank Tuesday projected the country's economy would shrink 1.3% this year.

The government, which forecasts economic growth of 0.2% in 2011, has said it is committed to reducing the budget deficit and meeting targets.

—Emese Bartha in Frankfurt, Stephen Fidler in Brussels and Riva Froymovich in Brussels contributed to this article.

EUROPE NEWS

Orban vows tighter spending rules

By Gordon Fairclough
And Margit Feher


Guy Martin for The Wall Street Journal

Hungarian Prime Minister Viktor Orban said the strictest spending rules should apply to countries that use the euro.

BUDAPEST—Hungarian Prime Minister Viktor Orban, a skeptic of the European Union's authority to police members' budget policies, pledged to push for tighter spending rules and support the euro as his government takes up the bloc's rotating presidency.

"Without fiscal unity, the currency is vulnerable," Mr. Orban said in an interview with The Wall Street Journal on Wednesday. "The euro must be defended, or uncertainty about the EU will be widespread."

Still, the prime minister, who battled the EU and the International Monetary Fund last summer over the organizations' calls for austerity measures to shrink Hungary's budget gap, said the tightest spending rules should apply to countries that use the euro.

Countries outside the currency area, such as his own Hungary, should have different standards, Mr. Orban said. He said it wouldn't be "realistic" for Hungary to adopt the euro before the end of the decade, adding that today, "it is better not to be in." He said Estonia, which Jan. 1 became the latest country to adopt the euro, is the "bravest nation" in the EU.

Mr. Orban, who swept to power after a landslide victory in April elections, has become a contentious figure as he pushes forward with economic policies that even his staunchest supporters often describe as "atypical" and "idiosyncratic."

A charismatic populist, Mr. Orban and his Fidesz party, which has a two-thirds majority in parliament, are advancing an ambitious agenda: moving to rewrite the constitution; revamp the tax, pension and social-welfare systems; and rewrite the rules for the country's media.

The 48-year-old prime minister became famous as a student dissident calling for the removal of Soviet troops from his country in 1989. He says his political goal now is to complete the unfinished business of the country's peaceful anticommunist evolution—dismantling the last vestiges of what he considers a corrupt governing system still dominated by the old socialist elite.

"We made compromises that turned out to be bad or shortsighted," Mr. Orban said in the interview in his office in Hungary's ornate parliament building on the banks of the Danube. Now, Mr. Orban says, he wants to use his powerful legislative majority to remake politics. "I waited 20 years to have this moment," he says.

Mr. Orban said his government plans to announce a series of measures in February aimed at shrinking spending on pensions, unemployment benefits and state subsidies for drugs.

Mr. Orban said the era of generous and long-lasting welfare benefits for the unemployed "is over." But he said he didn't yet have estimates for how much money curtailing the measures would save the government.

Markets have been hoping that the February measures will provide evidence of concrete and enduring cuts in state spending.

Hungary's new leaders last year alienated the IMF and EU—which rescued the country from insolvency with a massive bailout in 2008—by scorning their advice for serious cuts in state spending.

Instead, Mr. Orban stuck to his election promises of no new austerity measures and moved to cut personal income taxes and lower tax rates on small and midsize businesses.

To pay for this and still meet EU-required budget-deficit targets, he has slapped hefty temporary taxes on a handful of industries whose major players are large, foreign companies.

He has also diverted a huge sum of privately managed pension money back into state coffers.

Mr. Orban defended his unorthodox approach, saying that it aims to spark growth and create jobs in an economy recovering from its worst recession since the end of communism in 1989.

"It's legitimate for Hungary to have its own view, to think not just about budget deficits, but about long-term competitiveness," Mr. Orban said. Still, he acknowledged market pressures. "The fight for credibility is a constant fight," he said.

He added that Hungary expects to reduce its outstanding public debt this year, in part by using the funds returned to state coffers from private pension managers. He also wants the central bank to return unspent funds from the IMF bailout.

Mr. Orban said that the sectors selected for the temporary taxes were all service industries, saying the country's economic strategy is to "support investors who want to create jobs through manufacturing activities."

Investors have been skeptical. The cost of insuring Hungarian bonds against default has soared. Its debt is the world's ninth-riskiest—riskier than Iraq's. The main ratings agencies all rank Hungarian government debt one rung above junk-bond status.

Critics in Hungary and among its increasingly nervous neighbors say Mr. Orban's drive to concentrate power and stifle his detractors seems as if he is coming full circle, building an intolerant regime like the old totalitarian one he despised.

The flash point has been the new media law passed by parliament in late December that allows regulators to fine journalists for reporting that regulators deem "unbalanced" or "offensive."

"It's only one element of a broader development," says Guy Verhofstadt, leader of the European Parliament's Alliance of Liberals and Democrats for Europe. Mr. Orban's Fidesz party "has become more and more a party of nationalist rhetoric. That's a dangerous evolution."

Mr. Orban dismissed such worries. "The rest of Europe sees the two-thirds majority as a danger. We see it as an opportunity," Mr. Orban said. "If a strong party respects the sharing of power, checks and balances, there is no danger."

Russia blames Polish crew for airplane crash

MOSCOW—Russia cast full blame on the Poles for the crash that killed their president and 95 others last year, saying the country's air force commander entered the cockpit of the Polish plane under the influence of alcohol and pressured the crew to land in heavy fog.

*By **Richard Boudreaux** in Moscow and **Marcin Sobczyk** in Warsaw*


Reuters

A Russian serviceman stands guard near the plane's wreckage in April.

Polish officials objected to what they called one-sided conclusions Wednesday by Russian investigators. Responding to an earlier draft of the report, the Polish government said last month there was no evidence in the flight recordings that officials aboard the plane ordered the crew to land. It further said the Russians hadn't provided evidence of alcohol in the air force chief's blood.

Russian officials said the crew feared President Lech Kaczynski's reaction if they failed to land in Russia in time for a historic ceremony. "He'll get mad," a crew member said on a cockpit recording played by Russian investigators in Moscow.

The probe's disputed conclusion puts a strain on ties between the two countries, which had appeared to improve with the outpouring of public and official sympathy in Russia following the April 10 crash near the airport in Smolensk, in western Russia. All aboard the Tu-154 plane died, including the president's wife and dozens of Polish dignitaries.

Officials of both countries had accepted months ago that a decision to land in bad weather at an airport with only basic navigation equipment led to the disaster.

But there was an expectation in Poland, a country that chafed under Moscow's domination during Soviet times, that Russia would acknowledge some degree of shared responsibility for that decision.

Instead, the Moscow-based Interstate Aviation Committee's 200-page report found no fault with air-traffic controllers and airport officials at Smolensk. Tatyana Anodina, head of the panel, emphasized that the four-member Polish crew had minimal emergency training, ignored repeated advice from the controllers to land elsewhere and yielded to pressure from Polish leaders.

Poland's air force commander, Gen. Andrzej Blasik, had a blood-alcohol level of 0.06%, enough to impair reasoning, the panel said. It released audio evidence that the general and Poland's protocol chief, Mariusz Kazana, were in the cockpit as the crew approached Smolensk, where the Polish delegation was to commemorate a massacre of Polish prisoners ordered by Soviet ruler Josef Stalin during World War II.

The two officials' presence in the cockpit "had a psychological influence on the pilot's decision to take an unjustified risk by continuing the descent with the overwhelming goal of landing by all means necessary," Ms. Anodina said at a news conference.

In Warsaw, Interior Minister Jerzy Miller said Poland didn't dispute its responsibility but added that investigators overlooked Russia's role in the crash. Mr. Miller, who is heading a separate Polish investigation, said both Polish and Russian aviation officials were "unprepared" to ensure a safe landing for the president's plane.

Polish Prime Minister Donald Tusk cut short a ski vacation to oversee a more detailed government response. A lawyer for some of the crash victims called for an international investigation.

Jaroslaw Kaczynski, the late president's twin brother and head of the opposition Law and Justice Party, called the Russian report "a mockery of Poland" and said he would ask Parliament to dismiss it. He questioned whether the president had pressured the crew.

The Polish rebuttal on Dec. 19 said Russian controllers should have closed Smolensk and diverted the plane to a different airport. It said the airport commander was ultimately responsible for letting the plane's crew attempt a landing, even after it had shunned advice to the contrary.

Alexei Morozov, head of the probe's technical commission, said Russian norms, which are in line with global air-traffic control standards, give pilots of international flights sole responsibility for deciding whether to land.

Bloomberg News

U.S. Treasury Secretary Geithner speaking Wednesday in Washington about the U.S.'s economic relationship with China.

Geithner warns China on access to U.S. market

By Bob Davis

WASHINGTON—U.S. Treasury Secretary Timothy Geithner said China's rapid economic ascent is a "growing source of concern" and warned Beijing it risked expanded access to the rich U.S. market unless it revamped its policies.

"We are willing to make progress" on issues of interest to China, Mr. Geithner said at Johns Hopkins University's School for Advanced International Studies, "but our ability to move on these issues will depend on how much progress we see from China," including a faster appreciation of the Chinese currency.

The tough words come a week before President Barack Obama meets with his Chinese counterpart, Hu Jintao, in Washington, and aim to set the tone and agenda for the meeting. Top Chinese officials are doing the same, as the two sides jockey to frame the meeting.

In London, China's deputy central bank governor, Yi Gang, reiterated that China intended to buy European bonds to stabilize the euro, which analysts see partly as an effort by China to line up European allies. In Beijing, Vice Foreign Minister Cui Tiankai said China was nervous about the security of its huge holdings of U.S. Treasury bonds—looking to shift the focus of the Hu-Obama meeting to U.S. economic policies, not Chinese.

Mr. Geithner batted away Mr. Cui's comments as "the kind of thing that you typically see foreign-ministry people say in the run-up to these meetings. There's nothing exceptional or interesting in this."

The U.S. wants visible progress on a range of issues, including currency appreciation, intellectual-property protection and reduction of domestic subsidies. China's goals are more symbolic, say analysts. It is looking to affirm its status as a powerful contributor to growth, while Mr. Hu wants to be recognized as a global statesman a year before he is scheduled to step down.

China's currency policy will be front and center. The U.S. has long argued that the yuan is undervalued and acts as a subsidy for Chinese exporters at the expense of U.S. competitors. In June, Beijing said it would let its currency float somewhat. It has appreciated 3.4% since, including a bit of an upward bounce in the past few days.

Mr. Geithner made clear the U.S. wanted the appreciation to move "more rapidly," and tried a new argument. He discussed the larger change in the "real exchange rate"—the exchange rate adjusted to account for the difference between China's burgeoning inflation, which now tops 5%, and the U.S. near-zero inflation rate. By that lens, China's real exchange rate is moving at an annual clip of about 10%.

"If that appreciation was sustained over time, it would make a very substantial difference in correcting what is a major distortion of the Chinese economy and the global economy," Mr. Geithner said. He urged the Chinese to let the currency rise faster as a way to fight inflation.

Mr. Geithner noted that China wants greater access to U.S. high-tech products and U.S. markets, he said. Those goals are threatened by a political backlash, unless China changes course.

U.S. import prices rose in 2010

By Sara Murray

The prices of U.S. imports climbed last year, driven mainly by higher food and energy costs.

Import prices rose 4.8% in 2010, after increasing 8.6% in 2009, the Labor Department said Wednesday. Excluding energy, imports were up 3% last year—the largest calendar-year increase since 2007. While U.S. inflation remains tame overall, rising prices for commodities such as oil hold the potential to filter into higher prices for finished goods.

So far, that spillover remains limited. A separate report released Wednesday by the Federal Reserve, a summary of economic conditions in its 12 districts, noted that manufacturers in both the Philadelphia and Kansas City Fed districts said they aim to push through more price increases this year. Manufacturers in the Boston, Cleveland and San Francisco districts also noted concern over rising commodities prices. Companies in the Chicago district predicted their future price increases would be "limited and gradual."

The Fed report, known as the beige book, said economic activity across the U.S. continued to "expand moderately" at the end of 2010.

Inflation has largely been subdued during the economic recovery, with producers hesitant to raise prices amid weak consumer demand. But as prices for raw materials rise—industrial-materials prices were up 12% last year—that cuts into producers' profit margins.

"Manufacturers haven't had the ability to pass these price increases along to the consumer quite yet," said Sam Bullard, a Wells Fargo Securities economist.

The Fed's beige book said, "Most District reports cited comments by both retailers and manufacturers that costs were rising, but indicated that competitive pressures had led to only modest pass-through into final prices."

Real estate remained a weak point in the Fed's report, as high unemployment, excess housing supply and financing constraints hindered residential construction.

The problematic reality of ditching the health law

[Capital]

By David Wessel

Newly emboldened Republicans want to repeal the Obama health law, a symbol of all that they—and many voters—dislike about President Barack Obama and congressional Democrats' approach to governing. If you were a business executive and employer, would you *really* favor repeal?

The U.S. Chamber of Commerce does. Its president, Thomas Donohue, calls for "a fresh look at health-care reform" that replaces Mr. Obama's "unworkable approaches with more effective measures." So does the National Federation of Independent Business, a small-business lobby. It says the law "costs too much and further jeopardizes the economic recovery." The big-company Business Roundtable is quieter: Many of its members doubt the Obama law does enough to restrain costs, but regard repeal as neither practical nor wise. Wal-Mart, for one, has backed the law since last year, saying, in effect: We don't want to go back to where we were.

At the National Business Group on Health, a collection of nearly 300 big employers, President Helen Darling, a former corporate-benefit administrator and Republican Senate staffer, says about executives who call for repeal: "If they really understood it, they wouldn't."

"I don't think we'll get a better solution in the U.S. in our lifetime" she said. "If it gets repealed, or gutted, we'll have to start over and we'll be worse off."

Set aside the rhetoric. The health overhaul doesn't do as much as friends or foes assert. It has so many parts that few nonexperts grasp what it actually is, a formidable PR problem for the White House. A useful Kaiser Family Foundation *summary* of the law runs 13 pages in small print. There's a lot for business not to like: taxes and fees on providers that will be passed along to the ultimate payers, restrictions on what employers can and can't do; a mind-numbing number of regulations to be written.

But, for moment, look at the big picture from the perspective of a CEO.

One, the law moves to cover basically all the uninsured, except illegal immigrants. For businesses, that's a big plus. Those who offer insurance are paying at least some of the cost of caring for those who don't have insurance. Once implemented, the health law ends the freeloading.

That should save business money—though executives, rightly, worry that if the government's expanded Medicaid (for the poor) and Medicare (for the elderly) programs pay less, private payers will be forced to pay more.

Assuring Americans that they'll be able to buy health insurance—with subsidies if they're low-income—has less direct effects, too. It'll make people more willing to change jobs, even if there are illnesses in their families. That's a plus for some companies (particularly small ones that find health-insurance issues a barrier to recruiting) and a minus for others (who may lose valued workers because health insurance won't be a tether). The change also helps cope with one of the biggest drivers of health-care cost: chronic disease, which is nearly impossible to manage when people are in and out of health insurance.

Two, for really small businesses, despite understandable objections to some of the law's complexities, there are often-overlooked features. The most tangible are the taxpayer-financed health-insurance subsidies for some of them. Over time, if the law is implemented as written, small employers will be able to get out of the business of buying and shopping for health care by turning that over to the new "exchanges," the marketplaces for health insurance that are to be organized in each state.

For all employers, the exchanges offer another hidden benefit: an eventual end to what's known as Cobra, the requirement that employers offer temporary coverage to former employees, which can be costly because sicker employees are more likely to take the offer than others.

Three, even really big businesses are now frustrated that they lack the muscle to force changes to the health-care system that are needed to slow the unsustainable pace of cost increases.

"Harvard is a big business," says Harvard University health economist David Cutler, a fan of the law. "We insure 10,000 people. We're not big enough to do anything in our market. And that's not unusual."

The government now insures 93 million people, 37% of all those with insurance. And that's before the overhaul.

If the government uses the levers in the health-care law to truly change the way it buys health care, to successfully structure incentives to get more high-quality care instead of simply more care, then the American health-care system will change in ways that will pay dividends to everyone, including employers and workers who pay for insurance.

If the government fails, then costs will rise inexorably. Nothing in the law guarantees success: The law embodies almost every idea anyone has offered and hopes a couple of them will work. No wonder executives are skeptical.

But here's the question: Would repeal in the current political climate be followed by more muscular restraints on health-care costs? Or weaker ones?

Talking about repeal of the health law may be a winning political strategy for Republicans, a rare way to please both workers and business executives. As long as they don't actually succeed in doing it.

THE ARIZONA SHOOTINGS

Washington pauses to honor victims

By Patrick O'Connor
And Janet Hook

WASHINGTON—The U.S. House of Representatives paid tribute to one of its own Wednesday with a resolution honoring Democratic Rep. Gabrielle Giffords and 19 other people shot Saturday in Arizona.

"Today we are called to mourn," Speaker John Boehner (R., Ohio) said as he opened debate on a resolution honoring the six who died and the 14 injured in Tucson. "These are difficult hours for our country."

It was a day of tributes for Ms. Giffords, who remains hospitalized with a gunshot wound to the head, and other victims. President Barack Obama traveled to Tucson to honor the victims at a memorial service Wednesday night.

The gunman opened fire outside a supermarket where Ms. Giffords was holding an event to meet constituents; law-enforcement authorities said the shooting was an attempt to kill the congresswoman. Doctors said Wednesday Ms. Giffords's recovery was proceeding and she was showing signs of awareness as they ratcheted back her sedation.

The shooting prompted lawmakers in the House to suspend their jousting. Instead of the resolution honoring the victims, the House was supposed to be debating a repeal of the new health-care law.

Rep. Jeff Flake, an Arizona Republican, called the outpouring of support "Congress at its best."

The resolution introduced Wednesday honors each of the victims of the shooting, including federal judge John Roll; Gabe Zimmerman, a 30-year-old aide to Ms. Giffords; and Christina Taylor Green, the 9-year-old who went to the event to learn more about the democratic process.

European Pressphoto Agency

U.S. House leaders John Boehner, right, Steny Hoyer, middle and Eric Cantor, left, sign condolences for Saturday's victims.

Authorities have given no motive for the accused gunman, Jared Lee Loughner, 22 years old, though the incident has prompted some lawmakers to call for a re-examination of heated political rhetoric. But that call has stirred controversy, with some conservatives saying it was unfair to connect the two.

House Democratic Whip Steny Hoyer of Maryland said the aftermath of the violence served as a time to consider the heightened anger in public discourse, what he termed the "daily denigration of those with whom we disagree." That, he said, should "compel us to reflect on our own responsibility to temper our words."

But many Republicans have dismissed those suggestions. "It seems like some would blame everything but the real cause," said Rep. Trent Franks, an Arizona Republican.

The House regularly marks the death of current and former colleagues. But Wednesday was rare because it was the first time since the late 1970s that a sitting House member had been shot.

A lot was riding on Mr. Obama's address, said Democratic pollster Peter D. Hart.

"For President Obama, the public has been trying to evaluate if he relates to the average person, and this will be a chance to show that he feels the nation's pain, and he can help to heal a nation," Mr. Hart said.

He pointed to President Bill Clinton's address after the Oklahoma City bombing in 1995, which helped restore his standing with the public a few months after a brutal election, and to President Ronald Reagan's remarks after the space shuttle Challenger exploded.

"There are a limited number of times when the public opens a window and is willing to listen," Mr. Hart said. "Times of tragedy are one of those times."

—Laura Meckler contributed to this article.

WSJ.com

ONLINE TODAY: For video and full text of Obama's speech, plus reactions, see **WSJ.com/US.**

Palin rejects critics, cites 'blood libel'

By Aaron Zitner

Former Alaska Gov. Sarah Palin released a video statement defending her campaign rhetoric and calling it "irresponsible" and a "blood libel" to link political language to the shooting rampage in Arizona.

"Acts of monstrous criminality stand on their own," Ms. Palin said in the video. "They begin and end with the criminals who commit them, not collectively with all the citizens of a state, not with those who listen to talk radio, not with maps of swing districts used by both sides of the aisle, not with law-abiding citizens who respectfully exercise their First Amendment rights at campaign rallies, not with those who proudly voted in the last election."

Sarah Palin rejected any connection between political language and violence.

The Arizona shootings have touched off a debate about whether the U.S.'s heated political rhetoric plays any role in inciting violence, a claim most often put forward by people on the political left.

Ms. Palin, a Republican, has been drawn into the debate because of a map posted on her political action committee's Web page that used cross hairs, as if from a gun sight, to identify congressional districts where she wanted to defeat Democratic incumbents.

Ms. Palin had also issued the call to unhappy citizens: "Don't retreat, instead reload." Democrats at times have used a "bull's eye" motif, as well, and talked of "targeting" opponents' districts.

Despite the furor, Ms. Palin had commented only by offering condolences via Facebook and emailing a brief statement to conservative media figure Glenn Beck.

Some analysts said Ms. Palin needed to come forward with a fuller statement if she wanted to preserve her status as a credible candidate for president.

In her video statement, Ms. Palin rejected any connection between political language and violence.

She said she had told Arizona voters last year: "We know violence isn't the answer. When we 'take up our arms,' we're talking about our vote."

Ms. Palin may draw attention for saying critics would create a "blood libel" by linking the shootings with political rhetoric. The phrase refers to false claims against minorities—commonly, assertions dating to the Middle Ages that Jews murdered Christian children in order to use their blood in holiday rituals. Such claims were often used to inflame hatred against Jews.

Ms. Palin in her video says that "journalists and pundits should not manufacture a blood libel that serves only to incite the very hatred and violence they purport to condemn. That is reprehensible."

WORLD NEWS

From China, Gates goes to rally Japan

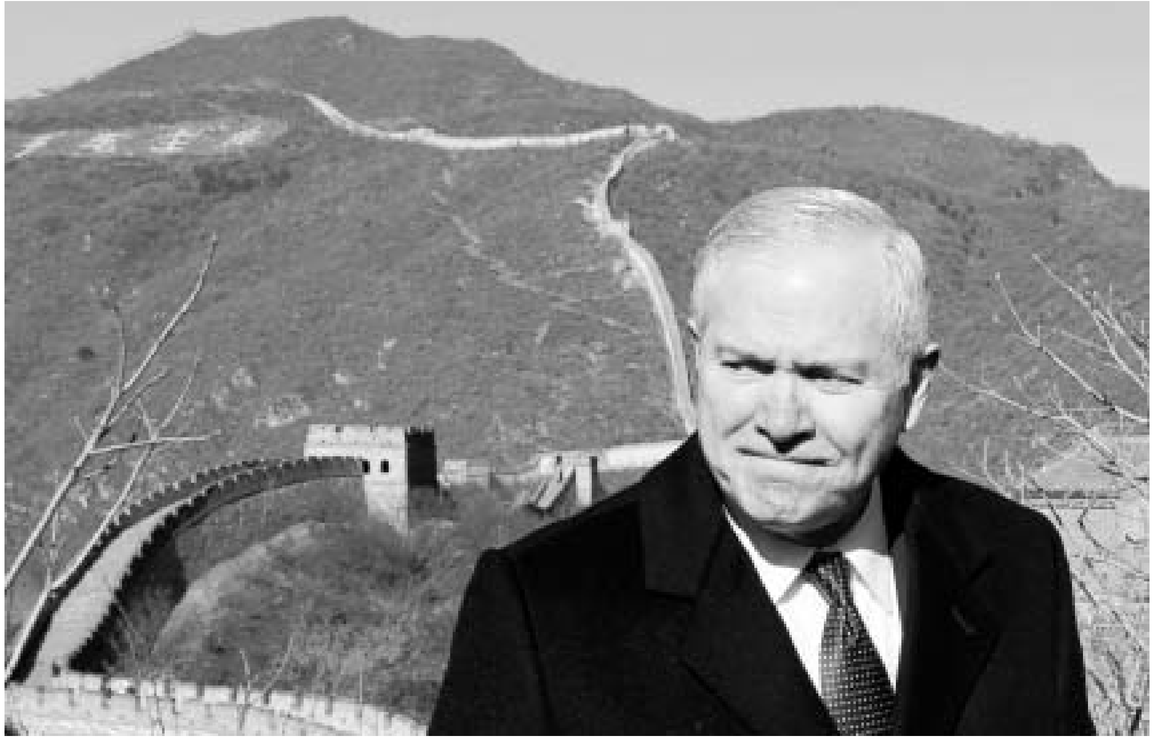
TOKYO—U.S. Defense Secretary Robert Gates headed Wednesday for Tokyo, where he is expected to push for Japan's more active involvement in regional defense to ease the tension on the Korean peninsula and to counterbalance the rapid buildup of China's military capability, highlighted by China's bold move to test fly its new stealth fighter during his visit.

By Yuha Hayashi in Tokyo and Julian E. Barnes in Beijing

As security dynamics in East Asia rapidly realign, the U.S. has stepped up the heat on Tokyo in recent months to share the peacekeeping burden in the region. Japan, still among the region's wealthiest economies despite its struggles, has been asked to establish stronger military ties with South Korea as Washington and Seoul try to rein in the North's aggression.

Mr. Gates, who pronounced his China visit a success despite the stealth fighter test, which came years earlier than many expected, suggested Tuesday he would make a case for Japan's purchase of a new generation of fighter jets, the first public comments by a U.S. official pushing for such a deal. Specifically, Mr. Gates said he would suggest Japan buy F-35s, developed by an international consortium led by **Lockheed Martin** Corp.

But Mr. Gates faces a high hurdle in generating goodwill and persuading Japan to embrace such requests wholeheartedly. A deadlock over relocating a U.S. military base in Okinawa continues to be a domestic policy headache for the government of Prime Minister Naoto Kan, posing a roadblock to expanding bilateral security ties after Japan and the U.S. marked the 50th anniversary of their military alliance last year.



Reuters

U.S. Secretary of Defense Robert Gates, at the Great Wall on Wednesday, pronounced his China visit a success.

Mr. Kan's government has promised to implement a U.S.-Japan agreement signed in 2006 to build a new facility in Okinawa, but voters and officials on the island—including its governor, whose support is essential—oppose the plan.

Mr. Gates said Wednesday that the disputes over moving the Okinawa military base shouldn't influence talks over a joint vision statement for the bilateral alliance, to be signed during Mr. Kan's planned trip to Washington in the spring.

"It has been since 2005 when there was last a joint vision statement and a lot has happened in the last six years including the fact we have a new president and Japan has a new government," he said before leaving Beijing Wednesday morning. "A lot has happened in the last six years and so it is timely to look at the alliance, and update it if you will, going forward. The one thing that continues, is the strength of the alliance."

Some blame Mr. Gates for contributing to the escalation of the Okinawa base contention with his remarks during his last visit in late 2009. Mr. Gates, in an ultimately unsuccessful bid to rush Japanese leaders to action, had urged Japan it was "time to move on" with the unpopular plan to build a new base in Okinawa in exchange for the return of other facilities in the island's crowded urban areas.

The two sides are making efforts to avoid such friction this time.

Making the last stop during his whirlwind tour of Asia that in addition to China also included a stop in South Korea, Mr. Gates is spending nearly two full days in Japan, despite there being no urgent military tension. He is attending a wreath-laying ceremony to commemorate fallen soldiers of Japan's Self-Defense Forces and will also speak to university students.

Mr. Kan's government, for its part, is escalating efforts to persuade Okinawans to support its plan for the military base by putting together a large package of economic stimulus steps aimed at helping the local economy.

In addition to broader regional security issues, the topics of discussions between Mr. Gates and Japanese Defense Minister Toshimi Kitazawa are expected to include moving part of the air force drills conducted in Okinawa to elsewhere in Japan and to Guam.

Still, experts say solving the base issue—a relatively small matter in the context of the broader bilateral relations—is a prerequisite for further military cooperation between the two allies. The Japanese government, weakened by a divided parliament and falling popular support, needs to come up with creative solutions to convince the Okinawans to drop their opposition to the new base. The U.S. needs to help Tokyo by showing flexibility in implementing the relocation plan and reducing the impact of the hefty military presence on the local community.

The inability of the two nations to solve the problem has "corrosive effect on the alliance, both internally...and for the third parties, the Chinese and the Russians," said Kent Calder, director of Japan studies at Johns Hopkins' School of Advanced International Studies. "It was part of the reason why they are thumbing their nose at Japan in the way they have."

Before leaving Beijing, Mr. Gates visited the headquarters of the People's Liberation Army's Second Artillery Corps, which commands China's nuclear missile force and said he discussed nuclear strategy with military leaders there.

He said Gen. Jing Zhiyuan, commander of China's nuclear arms, had accepted his invitation to visit U.S. Strategic Command in Omaha, Neb.

Spending spree marked Qatar's World Cup bid

Continued from first page

support from Africa for support from Spanish and Portuguese-speaking countries. The committees said the allegations weren't true. FIFA's ethics body said it didn't find sufficient grounds to warrant punishing the committees.

An official speaking on behalf of the Qatar bid committee and its chairman, Sheikh Mohammed bin Hamad al-Thani of the Qatar royal family, said Qatar did nothing wrong throughout the bid process.

A FIFA representative said its regulations ensured a fair and ethical competition. "FIFA has established clear rules of conduct for the 2018 and 2022 FIFA World Cup bidding process, which are also public and available on FIFA.com," the body said in a statement. "The bidding process has been supervised by FIFA's Ethics Committee since the beginning and this Committee acted whenever necessary."

Qatar bid-committee documents outlined how the emirate expanded the activities of a Qatar-based football-training academy—Aspire Academy for Sports Excellence, also controlled by the royal family—into a total of 15 countries world-wide.

One bid-committee document from 2009 states plans to expand grass-roots training in Nigeria and to "build a football academy in Thailand emulating the Aspire Football Dreams Academy in Senegal."

Both Thailand and Nigeria had representatives on FIFA's executive committee who, at the time the document was produced, could provide Qatar with two of the 13 votes it would need on Dec. 2, 2010, to secure hosting rights.

Thailand is home to executive committee member Worawi Makudi. People familiar with the FIFA's secret balloting say Mr. Makudi voted for Qatar in the final round.

In keeping with FIFA's rules on confidentiality, Mr. Makudi declined to confirm which country received his vote, but said it had nothing to do with the Thailand Football Dreams program referred to in Qatar's bid documents. "I don't know about this" Qatari plan to build an academy in Thailand, Mr. Makudi said in an interview in late December, adding that Asian countries often send their best players to Qatar to train. "There is no deal about it at all."

According to the Qatar documents, in 2009, Aspire continued its work in 10 African countries through the Football Dreams program, three of which—Cameroon, Ivory Coast and Nigeria—were home to executive committee members. Executives from Ivory Coast and Cameroon didn't return messages seeking comment. The Nigerian executive declined to comment.

In all, six of the 15 countries singled out by Qatar for Aspire expansion, or 40%, were home to executives. World-wide, by comparison, FIFA's two dozen executive committee members account for about 12% of its 208 member associations.

Qatar says programs have been held in the countries discussed. The Thailand academy has yet to be built. In a statement, Phil Hall, chairman of a London-based PHA Media, which is representing Qatar2022, said the group is proud of the Aspire academies and programs across the world. "Inevitably some are in countries which are the home of executive committee members and many are not," he said. "At no time were they established to secure votes."

Many in the international football community were dubious that FIFA would bring its flagship event to Qatar, with its average summertime high temperature of 108 degrees Fahrenheit and its estimated $50 billion in new infrastructure needed to host the event. Qatar's victory met with criticism from officials from Australia, the U.K. and the U.S., whose bids for 2018 or 2022 were rejected though all received stronger scores for their technical or financial attributes from FIFA consultants.

Qatar officials say the criticism is a result of misconceptions and prejudices against the Middle East.

FIFA has said bringing the World Cup to new lands is central to its mission to expand football internationally. Last week, FIFA President Joseph "Sepp" Blatter said due to the extreme temperatures he expects the 2022 tournament to be held in the winter, breaking with the 90-year tradition of holding the World Cup during international football's traditional off-season.

Confidential Qatar committee bid documents reviewed by The Journal also show that on one occasion, Qatar's bid officials and their advisers discussed circumventing a FIFA request, made in a letter to bid committees, not to hold high-profile events during the FIFA World Cup.

In a Jan. 4, 2010, strategy meeting, several bidding committee executives discussed the need to improve Qatar's standing within the football community by helping South Africa's poor during the 2010 World Cup there. "If FIFA regulations prevent these initiatives then a way has to be found to do these under a different name (e.g. through the embassy or as the State of Qatar)," minutes from the meeting state.

Qatar2022 spokesman Mr. Hall described the minutes as "an expression of strategic thought" and denied the committee attempted to circumvent FIFA rules. "We did not want the projects we planned to support to suffer because they may have been thought to be in contravention of FIFA rules," Mr. Hall said in a statement. "We subsequently concluded that any help from any Qatar organization could be misconstrued and they were NOT followed through."

To talk up Qatar's quest, the nation hired an international slate of "bid ambassadors," including a Spaniard, an Argentine, a Cameroonian and French star Zinedine Zidane, according to bid-committee documents. The FIFA rules on cup bidding don't address such payments. The U.S. and U.K. bid committees said they didn't pay celebrities who endorsed or worked on behalf of their bids.

A 2009 document called "Scope of Work for Zinedine Zidane," one of several ambassador documents reviewed by the Journal, proposed paying Mr. Zidane €900,000 ($1.17 million) for a series of appearances and €5,000 for each interview. In all, a person familiar with the Qatar bid said, Mr. Zidane received $3 million for his endorsement.

In Qatar's public bid brochure, published last year, Mr. Zidane is quoted as saying that what the youth of the Middle East are missing "is an event like the World Cup."

Mr. Zidane couldn't be reached for comment through several representatives. A spokesman for Qatar said: "These were confidential arrangements and thus I am unable to comment except to say the figures do not accurately reflect what our ambassadors were paid."

—Wilawan Watcharasakwet in Bangkok contributed to this article.

WORLD NEWS

Agence France-Presse/Getty Images

A demonstrator prepares to throw a rock during clashes with security forces in Regueb Monday. Tunisia's president has set up a special commission to probe the police response to protests.

Protests in Tunisia stoke concerns in Arab world

BY MARGARET COKER

Tunisia's president fired his interior minister and set up a special commission to investigate the police response to nearly monthlong antigovernment protests that have destabilized this largely authoritarian country.

The capital, Tunis, was under curfew Wednesday night and soldiers were deployed across the center of the city after violence flared there for the first time during unrest that has left at least 23 people dead, officials said. The country's general trade union called a nationwide strike for Thursday.

Since December, daily protests by Tunisian university students, professional groups and artists—as well as angry rioters confronting well-armed police—have transfixed much of the Arab world. Observers have watched the demonstrations via Facebook and commented on Twitter feeds, despite some attempts by Tunisia's government to censor the flow of information.

The protests are stoking concern among other Arab leaders and prompting debate about the possibility of a domino effect. Many countries in the region also have authoritarian regimes and suffer from similar social and economic problems as Tunisia, including high youth unemployment, a lack of affordable housing and limits on political freedom.

Last week, in Algeria, crowds of young people rioted over rising food prices and concerns about jobs. On Tuesday, the Jordanian government attempted to pre-empt possible public outcry by cutting fuel taxes and imposing food-price controls. On Wednesday, Egypt's trade minister was quoted in local press as saying he ruled out a "Tunisia scenario" in his country.

Protests have been rare in Tunisia, which gained independence from France in 1956. President Zine el Abidine Ben Ali, who took power in a bloodless coup 23 years ago, has built up strong internal security and police agencies and outlawed most political opposition. The intensity of the demonstrations appears to have surprised his government.

Over much of the past decade, Tunisia has seen healthy economic growth. But the government hasn't been effective in adapting to the global financial crisis, which has hit its tourism and manufacturing-dominated economy hard. The effects of the crisis have exacerbated the economic imbalances between coastal cities, such as Tunis, and the less-developed interior region, and cut job opportunities for skilled, university graduates, according to Lahcen Achy, an economist and scholar at the Carnegie Middle East Center in Beirut.

"With education comes expectations. The government has not been able to transform the economy to create the type of jobs to meet these expectations," said Mr. Achy.

The Dec. 17 death of a young university graduate who was operating a vegetable stand triggered Tunisia's protests. Mohamed Bouazizi set fire to himself in Sidi Bouzid, 200 kilometers southeast of the capital, when local officials confiscated his stand for not having a permit.

Since then, protests have crossed class and tribal lines, with trade unions, famous artists and social organizations participating in antigovernment demonstrations.

"It struck a chord," says Issandr el-Amrani, an Arab political commentator and blogger. "A lot of people are stuck in [his] situation."

Many of the protests have been violent and chants have specifically criticized the president. Government officials blame demonstrators for vandalizing government buildings and businesses. Demonstrators say they have been victims of police brutality. The government says 23 people have died in the clashes, while protest organizers put the number as high as 50.

At midday Wednesday in Tunis, Prime Minister Mohamed Ghannouchi announced the firing of Interior Minister Rafik Belhaj Kacem, and said most detainees arrested during the riots would be freed.

In a statement carried by the state news agency TAP, Mr. Ghannouchi announced the creation of two inquiry commissions to probe "excesses committed during the troubles" and "the question of corruption and faults committed by certain officials." Officials said an emergency meeting of parliament would be held Thursday to discuss these matters.

Hezbollah topples Beirut government

Associated Press

BEIRUT—Lebanon's year-old unity government collapsed after Hezbollah ministers and their allies resigned over tensions stemming from a U.N.-backed tribunal investigating the 2005 assassination of former Prime Minister Rafik Hariri.

The walkout ushers in the country's worst political crisis since 2008, in one of the most volatile corners of the Middle East.

The tribunal is widely expected to name members of Hezbollah in coming indictments that have the potential to re-ignite sectarian tensions that have plagued the country for decades.

Hezbollah, which is backed by Iran and Syria, has denounced the tribunal as an "Israeli project" and urged Western-backed Prime Minister Saad Hariri—the son of the slain leader—to reject any findings by the court even before it announced any indictments.

But the prime minister has refused to break cooperation with the tribunal.

The Netherlands-based tribunal hasn't said who it will indict. Hezbollah leader Sheik Hassan Nasrallah has said he has information that members of his group will be named.

The office of Mr. Hariri had no immediate comment on the walkout that brought down his year-old government. Mr. Hariri was in Washington on Wednesday to meet with President Barack Obama.

A Lebanese government official said Mr. Hariri left Washington and is heading to France to meet President Nicolas Sarkozy for consultations before returning to Beirut.

Mr. Hariri made no public comment after meeting the U.S. president, but the official said Mr. Obama offered U.S. support.

The Hezbollah walkout that caused the government to collapse followed the failure of a diplomatic push by Syria and Saudi Arabia to ease political tensions in Lebanon. There had been few details about the direction of the Syrian-Saudi initiative, but the talks were lauded as a potential Arab breakthrough, rather than a solution offered by Western powers.

"This cabinet has become a burden on the Lebanese, unable to do its work," Energy Minister Jibran Bassil said at a news conference announcing the resignations, flanked by the other ministers who are stepping down. "We are giving a chance for another government to take over."

Mr. Bassil said the ministers decided to resign after Mr. Hariri "succumbed to foreign and American pressures" and turned his back on the Syrian-Saudi efforts.

Mr. Hariri formed the national unity government in November 2009, but it struggled to function amid deep divisions. The crisis over the tribunal had paralyzed the government in recent months.

Calls to the tribunal seeking comment Wednesday weren't immediately returned.

Violence has been a major concern as tensions rise in Lebanon, where Shiites, Sunnis and Christians each make up about a third of the country's four million people. In 2008, sectarian clashes killed 81 people and nearly plunged Lebanon into another civil war.

Rafik Hariri's assassination in a suicide bombing that killed 22 other people stunned and polarized Lebanese. Mr. Hariri was a Sunni who was a hero to his own community and backed by many Christians who sympathized with his efforts in the last few months of his life to reduce Syrian influence in the country. A string of assassinations of anti-Syrian politicians and public figures followed, which U.N. investigators have said may have been connected to the Hariri killing.

Agence France-Presse/Getty Images

Lebanese leader Saad Hariri met Barack Obama in Washington Wednesday.

Pakistani leader, under pressure, plans trip to U.S.

BY ZAHID HUSSAIN

Pakistan President Asif Ali Zardari was set to leave for an unofficial trip to the U.S. Wednesday—not long after U.S. Vice President Joe Biden arrived in Pakistan—at a time when the ruling coalition is barely hanging together and a worsening security and economic situation has triggered widespread protests.

The developments signal Mr. Zardari's dependence on the U.S., even as Washington presses Islamabad to crack down on militants on their territory.

Mr. Biden on Wednesday reiterated Washington's concern about the threat from the Taliban and al Qaeda.

"A close partnership between Pakistan and its people is in the vital self-interest of the United States of America and, I would argue...in the vital self-interest of Pakistan as well," he said after a meeting with Prime Minister Yousuf Raza Gilani.

Mr. Zardari is expected to attend a memorial service Friday for Ambassador Richard Holbrooke, who was President Barack Obama's special representative for Afghanistan and Pakistan. Mr. Zardari is also expected to meet top American officials during a three-day stay in Washington. He will then go to London and Dubai, keeping him out of the country for more than a week.

Critics of Mr. Zardari in Pakistan say his travels, at a time of trouble at home shows he is out of touch with the country. The trip comes a week after the assassination of a powerful ally and days after his party's coalition collapsed, only to be restored by a decision to bow to opponents and lower fuel prices.

A spokeswoman for the president said the trip to the U.S. "will help strengthen the ties between the U.S. and Pakistan." She said Mr. Zardari's absence won't have any political fallout at home.

—Adam Entous contributed to this article.

WORLD NEWS

One year on, Haiti is at a standstill

By Ingrid Arnesen

PORT-AU-PRINCE—Last January, hundreds of thousands of Haitians lost their lives and millions lost their homes in an earthquake that flattened much of the capital. A year later, Haitians appear to have lost something else: hope.

The impoverished Caribbean nation marked the anniversary of the Jan. 12, 2010, quake on Wednesday with little to cheer. Haiti's government, which itself was hit hard by the quake, has been incapable of responding to the crisis. Foreign aid has trickled in, and a rush of well-meaning charities have led to chaos.

Piles of rubble still clog the streets; at the current rate, it will take 20 years simply to clean up the mess. Nearly a million people still live in about 1,300 makeshift refugee camps that occupy every available parking lot and open space in the capital. With each passing day, the camps take on a more permanent look.

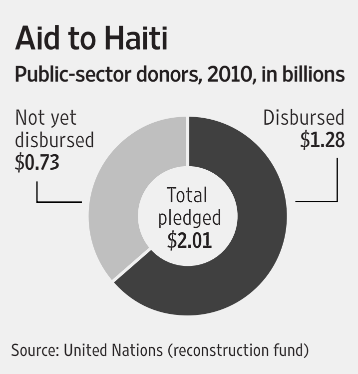
"We are just completely discouraged now," said Fai-na Bernadette, a 24-year-old nurse who has been living in a football field in Petionville, a suburb of the capital, alongside 3,000 other refugees.

A symbol of Haiti's lack of progress is the half-collapsed presidential palace, a grand, tropical version of the White House with its own majestic front lawn. During the quake, the palace's great white dome fell to one side, the portico collapsed and the walls cracked.

During a visit two months after the quake, French President Nicolas Sarkozy said France would rebuild the palace. One day in April, two cranes arrived and began clawing at the structure. That night, they left and never returned. Both Haiti and France decided the money was more urgently needed on other projects, according to France's ambassador to Haiti, Didier Le Bret.

A guard standing outside the palace gates had a different suggestion: "They should just leave it as it is, a symbol of our failed politicians."

If the past year has proved anything, economists say, it is that the kindness of strangers—either through aid from other governments or private charities—can't on its



own help Haiti create a brighter future. The only real hope, economists say, is taking steps to create jobs and build a stronger economy.

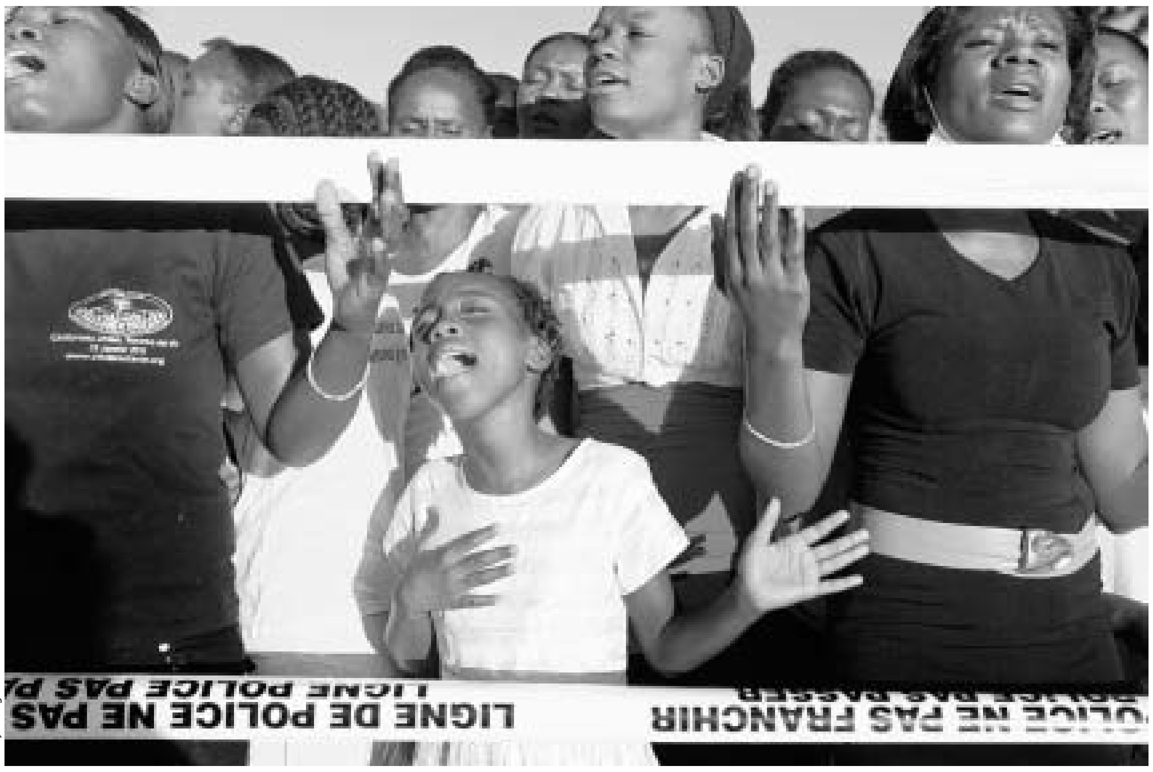
There are faint glimmers of optimism on that score. On Tuesday, Haiti, in conjunction with the Inter-American Development Bank, the U.S. and a big Korean textile firm, announced a new industrial park to be developed in the north of the country they hope will provide 20,000 textile jobs in the next seven years. The park could spur additional investment by other textile firms.

"This is how things should work and seldom do," said Paul Collier, an Oxford University development economist. Mr. Collier said that through building up a robust textile industry, Haiti could provide as many as 200,000 jobs and eventually pull itself out of poverty.

But the country's economy still has a long way to go. Haiti scores below the world average in freedom for business, investment, property rights and freedom from corruption, according to the World Bank. Starting a business takes four times as long as the world average.

In the months that followed the temblor, many Haitians latched on to the hope that in largely destroying the country, the earthquake might have created an opportunity to build something better in its place, particularly with an outpouring of foreign money on its way.

That hope now seems naïve. "It's a country falling apart, and it's difficult to see what can be done to change the current situation," said Robert Fatton, a Haiti expert at the University of Virginia.



People pray during a service near Haiti's presidential palace in Port-au-Prince on Wednesday, a year after the earthquake.

Even before the quake, Haiti was already the poorest country in the hemisphere. "The combination of the earthquake and poverty took the country back to a level that is unimaginable," Carlene Dei, the Haiti director for USAID, the U.S. government development agency, told reporters last week.

Another key factor in the short term is whether Haiti can create a legitimate government. Urged on by the foreign community, the country held a chaotic presidential election in December, the results of which are still not known. Any political unrest or lack of legitimacy for the eventual winner would undermine reconstruction efforts even further.

The experience of the past year sheds light on why there is such pessimism about Haiti's future.

The international community pledged $12 billion in March to help rebuild Haiti. Just $2 billion of that figure was slated to arrive this past year. Of that, only $1.3 billion actually arrived and much of that in recent weeks.

Due to concerns about Haitian corruption, most of the money is handled by international agencies like the United Nations and charities rather than Haiti's government. Haitian officials say this means they have little control over the money, yet have to face an angry populace that demands progress.

"To continuously reduce us to being corrupt and inefficient means that nothing is going to work," Haitian Prime Minister Jean-Max Bellerive said in an interview.

The multitude of actors in Haiti, from charities to multilateral agencies like the U.N., makes coordination difficult. "It's sheer chaos. Nobody knows who is in charge of anything," Mr. Fatton said.

In the months after the quake, charities often bumped up into each other trying to help those displaced by the quake. Haiti's government, meanwhile, was supposed to start relocating them into more permanent settlements. But it seemed there was little land that had clear title or could be used. The government was also wary of facing off against powerful land owners.Some people at the camps gave up hope on getting helped and started returning to their damaged homes. The government published a pamphlet with construction tips to help ensure people make repairs safely, but until now the pamphlet is only available in French and not creole, the language all Haitians, especially the poor, speak.

Adding to a sense of dissatisfaction with reconstruction efforts, few reconstruction contracts handed out so far have gone to Haitian companies. Few charities are hiring Haitians, either. One nonprofit coordinating refugee camp management for all humanitarian agencies said it's faster to build shelters with imported labor than Haitian workers. After protests from Haitians, a deal was struck to give 25% of the jobs to locals.

Ms. Bernadette, the nurse, said she and others living on the Petionville football field have been told by Haitian authorities to clear out within weeks so the grounds can be used for sports again. "We have nowhere to go," she said.

Bangladesh will investigate microlender

By Arlene Chang

MUMBAI—Bangladesh's government said it would probe **Grameen Bank** for possible misappropriation of aid funds, more than a month after a documentary film alleged that the microfinance provider illegally diverted funds in the 1990s.

Lamiya Morshed, executive director at the Yunus Centre, a resource center for Grameen group's nonprofit businesses, said the bank hadn't received any official correspondence about the probe.

"We welcome a review and, as long as it's legal and fair, we will be fully supportive," Ms. Morshed said. "We want and hope to get back to our business of serving the poor."

The documentary, which premiered on the Norwegian State TV Channel NRK on Nov. 30, raised doubts about where aid money raised in Norway and given to the bank had gone.

Grameen Bank denied the allegations in a statement last month, calling them "a total fabrication and baseless."

Following the telecast, Norwegian Minister for Environment and International Development Erik Solheim asked the agency responsible for development cooperation to prepare a report on its transactions with Grameen Bank. The report absolved Grameen Bank of any wrongdoing.

In a news release in December, Mr. Solheim said, "According to the report, there is no indication that Norwegian funds have been used for unintended purposes, or that Grameen Bank has engaged in corrupt practices or embezzled funds."

Despite the vindication, Grameen Bank, which was founded by 2006 Nobel Peace Prize winner Muhammad Yunus, finds itself in trouble with Bangladesh's government. The government has created a committee to review the bank's financial transactions and its dealings with sister organizations.

While industry insiders say the Grameen investigation may just be another way of targeting microfinance institutions, Finance Secretary Mohammad Tareque has denied the government was planning to suspend the bank's operations or take control of it.

"We have only constituted a review committee to look into the issues raised by the film," Mr. Tareque said. "The review is well within the legal framework of the country."

The five members of the review committee, chaired by A.K.M Monowaruddin Ahmed, a professor of economics at Dhaka University, were told about their task Tuesday night and have three months to present a report on their findings.

"The committee will focus on all activities of Grameen Bank since the time it was established—its transfer of funds, transactions with other arms," Prof. Ahmed said.

Prof. Ahmed said while the committee is an independent body, it would consult with other arms of the government—such as the Micro Credit Regulatory Authority, a body set up by the government to regulate the microfinance industry—to help better examine the activities of the bank.

M. Mosharrof Hossain, chairman of the Credit and Development Forum, an industry body in Bangladesh, said the current situation in the country isn't conducive to microfinance.

"The Grameen Bank investigations show that the government is just targeting microfinance institutions unnecessarily," said Mr Hossain.

Last November, the Micro Credit Regulatory Authority issued a circular asking microfinance providers to cap their interest rates at 27%, which would mean a cap of 13.5% on the flat rates they offer to borrowers.

"We ourselves borrow from commercial banks which charge us 12.5% to 13% flat rates," Mr. Hossain said. "How can we function at a rate of 13.5%?"

Grameen Bank has been providing small loans to millions of poor people for several decades now.As of December, the bank had 8.34 million borrowers and 2,565 branches spread across 81,376 villages in Bangladesh. It has provided more than $10 billion in small loans to Bangladesh's poor—mostly women—to fund small-scale enterprises and children's education.

The tightening of controls on Bangladesh's microfinance institutions follows a similar crackdown on the industry in neighboring India.

In October, the southern state of Andhra Pradesh, which is home to India's largest microfinance lenders and accounts for as much as 35% of the Indian industry, introduced an ordinance that required microfinance institutions to register all their members with the government and lower their interest rates.