

WEDNESDAY, DECEMBER 13, 2006

By Roger Cohen
Odd lift to U.S.-China ties

PAGE TWO

Big English soccer clubs
become jet-set toys

SPORTS 20

Spreading the Good News,
with Hollywood's blessing

CULTURE & MORE 10

Federal Reserve stands pat on rates, citing inflation risk

The Federal Reserve left interest rates unchanged in its final policy meeting of 2006, leaving the federal funds rate at 5.25 percent. The funds rate, the interest that banks charge each other for overnight loans, has been at that level since June, when the Fed raised rates for the 17th consecutive time in a two-year effort to combat rising inflation.

The action leaving rates unchanged had been widely expected. The Fed decision was approved on a 10-1 vote with Jeffrey Lacker, president of the Fed's Richmond, Virginia, regional bank, dissenting for a fourth time. He favored another quarter-point rate increase to

strengthen the Fed's inflation fighting efforts.

The Fed's goal is to achieve a soft landing for the economy in which growth slows enough to keep inflation under control but not so much that the country topples into a recession.

But the central bank remained upbeat about continued economic growth, saying, "Although recent indicators have been mixed, the economy seems likely to expand at a moderate pace over coming quarters."

Some economists are worried the Fed's hoped-for outcome for the economy could be jeopardized by the current slowdown in housing. *Page 12*

Moving up, not out, in India

Developers house poor in high-rises in swap for land

By Anand Giridharadas

MUMBAI: In this Indian capital of glamour and commerce, there is a city of high-rises and a city of shanties.

At one extreme is the growing number of towers like Crescent Heights and Buckley Court, housing the rich and the aspiring. At the other extreme is a multiplying labyrinth of slums, covering a third of the city and sheltering more than five million people in squalid conditions, with a shortage of water and toilets, a surfeit of disease and the constant odor of feces mixed with garbage. They are separated by the Dickensian disparities of the new India.

But now a housing boom in this fast-growing economy is entwining their destinies. To make room for more high-rise buildings, investors are doing what was once left to philanthropists: giving slum dwellers free apartments.

Under an inventive government program in Mumbai, builders raze entire slum neighborhoods and use part of the land for tenements to house the original residents. The apartments measure 21 square meters, or 225 square feet — the size of a typical shanty. In return, the developer wins the right to build lucrative towers on the rest of the land and pays nothing but the cost of the slum resettlement.

So far, 100,000 such apartments have been built in Mumbai, housing 600,000 people, said Debashish Chakrabarty, a civil servant who runs the city's Slum Rehabilitation Authority.

"Not only is there a component of providing good housing to people who cannot afford it," Chakrabarty said. "It also promises good returns to many of these big-time developers."

But in the topsy-turvy world of Indian real estate, it is the slum dwellers and their charitable backers who are tepid about resettlement, worried that horizontal slums will simply become vertical ones, without the vibrant street life and sense of community.

Wealthy investors, meanwhile, are eager to build new homes for them free.

"The moment you put them in a tower, you're releasing 90 percent of the land," said Pranay Vakil, chairman of the Indian arm of Knight Frank, a global real estate consultancy.

There are 933 million slum dwellers worldwide, according to the United Nations, and many methods of addressing their plight. A common approach for a government to sanction slum clearance and then build low-cost housing paid for by the state.

The UN is financing an alternative project to give slum dwellers small loans to improve the quality of their shacks on their own and after natural disasters, to build new homes.

What makes the Mumbai program

INDIA, Continued on Page 14

Opposition to war in Iraq takes a big jump

Bush speech delayed until New Year to get review 'done right'

By Brian Knowlton

WASHINGTON: As President George W. Bush on Tuesday continued his high-profile exploration of expert views on Iraq, several new opinion surveys showed a dramatic deepening of American pessimism about the war and the president's handling of it. The White House said Bush would delay a planned major speech on Iraq until the New Year.

The speech had been expected by the end of next week, but a White House spokesman said the delay should not be seen as a reflection of indecision or a major shift in direction.

The review and decision process "requires findings of fact, it requires tactical calculations, it involves matters of state within the region," said Gordon Johndro, a National Security Council spokesman. He added: "The key here is to get it done right."

Tony Snow, the White House spokesman, said Bush knew the general directions he would take in the speech but would need time to work out the details.

The president also wanted to give the incoming defense secretary, Robert Gates, time to weigh in, said Secretary of State Condoleezza Rice. Gates is to take office Monday.

Wayne Downing, a retired U.S. general who was one of five experts to meet Monday with Bush, said Tuesday that "the impression I had was there will be some changes."

"I think you're going to see some new things come out," he said on NBC-TV.

What those may be remains far from clear. The president has distanced himself from the bipartisan Iraq Study Group's core recommendations that most U.S. combat troops be withdrawn by early 2008 and that the United States consult with Iran and Syria on stabilizing Iraq. He has been more receptive to the call for a new push for an Israeli-Palestinian peace agreement.

The debate spread to Europe on Tuesday, where Bush's key Iraq ally, Prime Minister Tony Blair of Britain, appeared to have toughened his tone against Iran since meeting Thursday with Bush, and where Chancellor Angela Merkel of Germany said that there could be no Middle East peace without Syrian involvement.

But as Bush continued his consultations — he spoke by videoconference to American military commanders in Iraq before conferring in person with the Iraqi vice president, and he was preparing for talks at the Pentagon on Wednesday — the opinion polls underscored the urgency of his search for "a new way forward."

Public opposition to this war has edged beyond the strongest levels registered to the Vietnam War, one poll in-

IRAQ, Continued on Page 7

2 bombs in Baghdad kill scores of day laborers. *Page 4*

Goldman Sachs profit is a Wall Street record

And for employees: An average \$622,000

By John Holusha

NEW YORK: Bouyed by massive gains from trading and investments in leveraged buyouts, Goldman Sachs on Tuesday announced the biggest profit in Wall Street history, allowing it to reward eligible employees with an average annual compensation of about \$622,000.

The investment banking company that is the leading adviser in corporate mergers and acquisitions said it earned \$9.34 billion this year. In its fiscal fourth quarter, which ended Nov. 24, profit increased 93 percent over the year before to \$3.16 billion, or \$6.59 a share, exceeding most analysts' forecasts.

Goldman will set aside \$16.5 billion for salaries, bonuses and benefits, or an average of \$622,000 for each employee, although much larger payments usually go to the bankers who arrange business deals or sell corporate stock to investors than to other kinds of employees.

The bonuses at Goldman and those expected at other Wall Street companies are expected to lift the economy in the New York area, particularly in sales of high-end residential real estate, luxury cars and other pricey goods.

"When these guys learn what their bonuses are, we are among the first people they call," said Pamela Liebman, chief executive of Corcoran Group, a residential brokerage. "They call their mothers and then their real estate brokers."

Liebman said that investment bankers "work hard and want to live well" and that they were usually interested in buying a luxury apartment in Manhattan or a second or third residence elsewhere.

She said her agency was already getting calls in advance of the bonus announcements this year and that the in-

terest was not limited to the top executives of Wall Street brokerage houses.

"Even the junior guys want to spend their bonuses on residential real estate," she said.

Two years ago, BMW of Manhattan opened a showroom at 57 Wall St., so that investment bankers would not have to take the time to travel uptown to its main sales and service operation about six miles, or 10 kilometers, away.

At the time, Jeffrey Falk, the president of the dealership, said the intention was to get physically closer to potential customers.

"This is part of a strategy we have been developing over the past two years to make it more convenient for our demographic," he said.

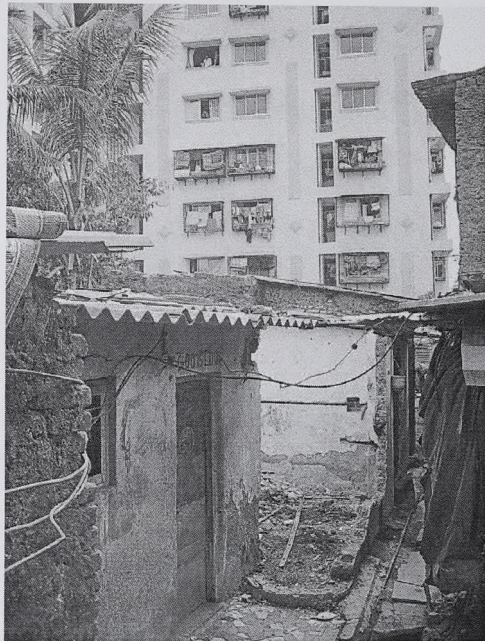
Speaking Tuesday, he said there had been an increased level of what he called "pre-shopping" at the Wall Street showroom, based on anticipated bonuses.

"They are shopping now and talking to salesmen based on what they think their bonus will be," Falk said. "Then in January and February, we'll get the orders."

This was the third consecutive year of record-breaking earnings for Goldman, which is the world's largest securities company as measured by the total market value of its stock. And the company appears positioned to continue growing in its crucial investment banking business.

The company said its backlog of merger and underwriting deals was larger at the end of November than it was at the end of August.

Rising stock prices generally, an active market in fee-generating business deals and gains on investments, many of them in Asia, are expected to make this year exceptionally profitable for many other Wall Street companies as well.



Apartment erected in a redevelopment project in Mumbai, top, are offered free to residents of the next-door slum before it is razed. Two women passed other projects.

Russia defiant on energy

No foreign access to pipelines, official says

By Judy Dempsey

BERLIN: In a new signal that Russia has toughened its position on energy sales to Europe, an adviser to President Vladimir Putin said Moscow had no intention of observing guidelines in the EU's energy charter that would allow non-Russian companies access to the country's vast pipeline network.

"We will not ratify the energy charter," the adviser, Sergei Yastrzhembskiy, Putin's special envoy to the European Union, told a small group of reporters Monday night. "It would be damaging for Russia if we ratified it."

Energy analysts said Putin was determined to prevent any kind of third-party access to the pipelines because it would lead to competition.

"A few years ago, Russia was about to ratify the energy charter, but then came the big jump in energy prices," said Iwona Wisniewska, an expert on Russian energy at the Center for Eastern Studies in Warsaw. "Today, the transit protocol is very problematic for Russia. It would mean competition for Russia's state-owned energy monopolies. The monopolies would shrink."

Russia's insistence that it will not ratify a set of common rules giving European and other foreign companies access to the pipelines could pose the first challenge for Chancellor Angela Merkel when Germany takes over the

EU's rotating presidency on Jan. 1. Russia, energy security, global warming and the Middle East will dominate her foreign policy agenda.

Merkel said Tuesday that she would like Russia to ratify the 1994 energy charter. "But wanting it to do so and hoping it will do so are two different things," she said at a presentation of Germany's program for the EU presidency to the foreign news media.

During Germany's six-month presidency, Merkel will be faced with trying to persuade Russia to ratify the energy charter as well as negotiating a new EU economic and trade accord with Mos-

RUSSIA, Continued on Page 7



In England, a search for victims of serial killer
Police divers examined a stream in Washbrook in Suffolk on Tuesday, looking for a possible victim of a killer who is preying on prostitutes. Detectives discovered two more bodies Tuesday, bringing to five the number of women found dead this month.

In this issue No. 38,496

Books	10	Opinion	8
Business	12	Sports	20
Crossword	4	Stage & Entertainment	11
Culture & More	10	Technology	15

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Newsstand prices

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Nasdaq starts the clock in its bid for the LSE

Nasdaq officially announced its \$5.3 billion hostile bid for the LSE on Tuesday in a deal that would create the first trans-Atlantic bourse. Investors face an initial deadline of Jan. 11 to tender shares. The New York exchange already holds 28.75 percent of its London counterpart. *Page 12*

EADS offices raided in trading inquiry

The French police on Tuesday searched the Paris headquarters of European Aeronautic Defense & Space and its shareholder, Lagarce, in connection with an insider trading investigation involving top managers at EADS, the parent company of Airbus. *Page 12*

CURRENCIES | New York

	Tuesday 4 P.M.	Previous
€1 =	\$1.3281	\$1.324
£1 =	\$1.9708	\$1.9567
¥1 =	¥116.798	¥116.98
₱1 =	₱119.999	₱120.28

Full currency rates | Page 17

OIL | New York

	Tuesday 4 P.M.	Change
Light sweet crude	\$61.02	↓ \$0.20

STOCK INDEXES

	Tuesday	Change
The Dow 4 P.M.	12,315.58	↓ 0.10%
FTSE 100 close	6,156.40	↓ 0.06%
Nikkei 225 close	16,637.78	↑ 0.66%

Move by EU is called 'unfair' by Turkey

Turkey reacted angrily Tuesday to a decision by the European Union to impose a partial freeze on membership talks and said relations were going through a difficult test. The freeze set the scene for a European summit meeting Thursday where EU enlargement will figure prominently. *Page 3*

UN report links slaying of Hariri to 14 others

The head of the UN inquiry into the killing of Rafik Hariri, the former Lebanese prime minister, said his probe had reached a "complicated phase" and that it had found "significant links" between the Hariri killing and 14 other political assassinations. *Page 7*

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Roger Cohen

Globalist

The Iraqi silver lining: Closer U.S.-China ties

BEIJING The best thing that happened to Chinese-American relations was the Iraq war. It distracted the Bush administration's attention from China rising, absorbed the confrontational energy of the neocrons, and left ties with Beijing to be handled by pragmatists more interested in deeper links than future conflict.

The result has been a broadening of dialogue to the point that there's very little — from African politics to space travel — that China and the United States don't talk about these days. North Korea tends to grab the headlines, followed by China's undervalued yuan, but the Washington-Beijing relationship is now as deep as any America has.

One illustration of that is the large American delegation, headed by Treasury Secretary Henry Paulson Jr., that is in China this week. The Chinese trade surplus hit \$23.37 billion in November, an indication of why congressional pressure to impose tariffs on Chinese goods is increasing in the United States.

Paulson wants the yuan to rise further against the dollar — more than the 5.7 percent it has gone up since July 2005. He may or may not get concessions during his visit. In the end, it will not really matter. China does not seek major confrontation with Washington; it will ultimately do what's necessary to avoid that.

Stability in its region is what enables China to focus on maintaining an annual growth rate of close to 10 percent. With China needing to create an estimated 24 million jobs a year to absorb newcomers to the work force, high growth is a prerequisite for the endurance of the ruling Communist Party, whose attachment to power is one of the few nonnegotiable things in the country.

So China does not want to challenge the United States — not now, and probably not for a very long time — because Beijing benefits economically from Pax Americana. If the American market closes, China wobbles. If the United States were not an Asian power, China's rise would look a lot more menacing to countries including Japan, Singapore and Australia.

"China welcomes the American presence in Asia," Ye Yafei, an assistant foreign minister, said in an interview. "We welcome the United States to play an important, positive and constructive role in the peace, stability and economic growth of Asia."

There's a school of thought in the United States that scoffs at such talk. John Mearsheimer of the University of Chicago has been a forceful proponent of the view that, as the current hegemonic power, America will strive to keep China down and "behave toward China much the way it behaved toward the Soviet Union during the Cold War." China, in turn, will follow an Asian Monroe Doctrine and attempt to push American forces out of Asia.

That view misses the way the world has changed since 1989. A degree of interconnectedness exists between the United States and China that would have been unthinkable between Washington and Moscow. America buys Chinese goods, China buys American debt: that's the oil greasing the global economy.

"Like it or not, the United States has to accept China's peaceful rise," said Jia Qingguo, the associate dean of Peking University. "The utility of force has declined because we live in a world of interconnection. China and the United States are not two separate entities. They are intertwined."

Jia continued: "It's very difficult to adopt a policy that is only harmful to the other side. What U.S. sanctions would not also hurt America's own companies?"

Look at the Chinese today — building bigger and higher in a ramshackle way, constructing bridges, boring tunnels, doing deals, hustling to get richer, perhaps even rich enough to join the golf club, thirsting for brand names, going nuts for new movie and Internet stars, opening giant eateries with TV screens everywhere. They're not Americans, far from it, but they're not alien to the United States either. Casual, brash, money-minded, they look across the Pacific for inspiration.

Which is not to say that China and the United States always see eye to eye or that tensions will not flare. He, the assistant foreign minister, bristled when it was suggested to him that China does business with tyrants in places like Myanmar or Zimbabwe.

"You're right in saying that our assistance to these countries has no political conditions or strings attached and in the future we will continue to do so," he said. "Our assistance to these countries is based on the interests of the peoples in these countries."

Opposition to interference in the internal affairs of other countries was a core principle of the Chinese foreign policy. He added, explaining, "We ourselves suffered bitterly from aggression and invasion in the past. We will not do what we ourselves don't like and other peoples don't like either."

Other major powers in history had grown through "colonization and exploitation and invasion and aggression, but these methods go nowhere in the current world," he said without ever mentioning Iraq by name. The minister urged the United States to be "transparent and reasonable" in its strengthened military cooperation with other Asian countries, including Japan and Australia.

"The security concerns of other countries including China should be taken into consideration," he said.

Those concerns, and the existence of a hard-line Chinese school that sees conflict with the United States as inevitable, explain China's heavy military spending as it tries to make its armed forces more mobile and technologically adept. Aggressive, so would say. A reasonable form of hedging would be a better description. Chinese-American relations have

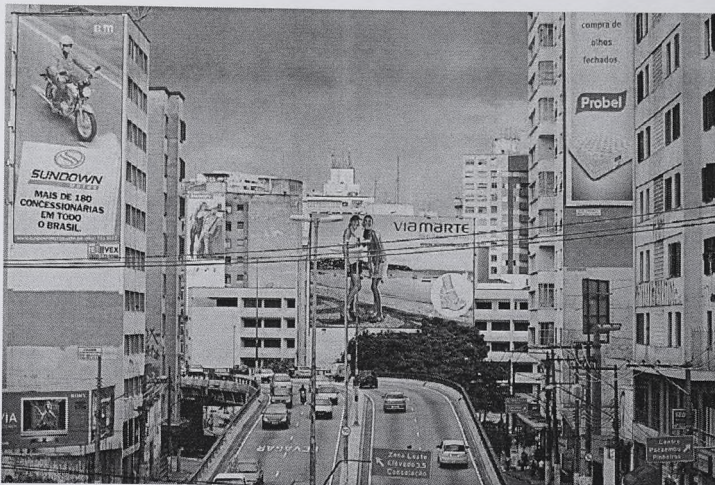
The Washington-Beijing relationship is now as deep as any America has.

quietly moved beyond the ability of the yuan's exchange rate or Taiwan tensions or strategic disagreements to bring major confrontation. There are too many links. A possible deal on North Korea before the end of the month may well illustrate the new effectiveness of those ties.

The other face of President George W. Bush's ideological fervor in Iraq has been pragmatism toward China. With the Middle East absorbing the neocrons' testosterone, reason has held sway. That's been good for the world.

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Tomorrow: Alan Riding examines Mexican democracy's growing pains.



A ban on outdoor advertising in São Paulo, which includes billboards, neon signs and electronic panels, takes effect Jan. 1.

São Paulo halts neon's red glare

New 'clean city' law angers advertising and business groups

By Larry Rohter

SÃO PAULO: Imagine a modern metropolis with no outdoor advertising: no billboards, no flashing neon signs, no electronic panels with messages crawling along the bottom.

Come the new year, this city of 11 million, overwhelmed by what the authorities call visual pollution, plans to press the "delete all" button and offer its residents unimpeded views of their surroundings.

But in proposing to transform the landscape, officials have unleashed debate and brought into conflict sharply differing concepts of what this city, South America's largest and most prosperous, should be.

City planners, architects and environmental advocates have argued enthusiastically that the prohibition, through a new "clean city" law, brings São Paulo a welcome step closer to an imagined urban ideal.

"The law is a rare victory of the public interest over private, of order over disorder, aesthetics over ugliness, of cleanliness over trash," Roberto Pompeu de Toledo, a columnist and author of a history of São Paulo, wrote in the weekly newsmagazine *Veja*. "For once in life, all that is accustomed to coming out on top in Brazil has lost."

But advertising and business groups regard the legislation as injurious to society and an affront to their professions. They say that free expression will be inhibited, jobs will be lost and consumers will have less information on which to base purchasing decisions. They also argue that streets will be less safe at night with the loss of lighting from outdoor advertising.

"This is a radical law that damages the rules of a market economy and respect for the rule of law," said Marcel Solimeo, chief economist of the Commercial Association of São Paulo, which has 32,000 members. "We live in a consumer society and the essence of capitalism is the availability of information about products."

The statute's most visible impact promises to be at eye level and above. The outsized billboards and screens that dominate the skyline, promoting everything from automobiles, jeans and cellphones to banks and sex shops, will

have to come down. All other forms of public art in open spaces, like distribution of fliers, will also stop.

The law also regulates the dimensions of store signs, and will force many well-known companies to reduce them substantially by a formula based on the size of their facades. Another provision, much criticized by owners of transportation companies, outlaws advertising of any kind on the sides of the city's thousands of buses and taxis.

The law, as passed, also applied to advertising banners trailed by airplanes and ads on blimps. But in the first of what promises to be a long series of legal challenges, a court ruled the clause unconstitutional on the grounds that the federal government, not the city, controls airspace.

"What we are aiming for is a complete change of culture," said Roberto Tripoli, president of the City Council and one of the main sponsors of the legislation. "Yes, some people are going to have to pay a price. But things were out of hand and the population has made it clear it wants this."

The law, approved by a vote of 45 to 1 in September, goes into effect on Jan. 1. Opponents complain that the date does not allow enough time for merchants to comply, that fines of up to \$4,500 for violations are extreme and that the result will inevitably be a diminishing of urban life — "like New York without Times Square or Tokyo without the Ginza," Solimeo said.

"I think this city is going to become a sadder, duller place," said Dalton Silvano, who cast the sole dissenting vote and is in the advertising business. "Advertising is both an art form and, when you're in your car or alone on foot, a form of entertainment that helps relieve solitude and boredom."

This is not the city's first effort to regulate outdoor advertising. A few

years ago it was prohibited in the historic downtown area. But there have been complaints about inspectors taking bribes and advertisers simply flouting the law.

"All our efforts to negotiate have had no effect because none of the accords and agreements we reached with the advertising sector were ever complied with," Mayor Gilberto Kassab said in an interview. "A billboard that was forced to come down would be back up a week later in a different spot. There was a climate of impunity."

Since "it is hard in a city of 11 million to find enough equipment and personnel to determine what was and wasn't legal, we decided to go all the way, to zero things out," Kassab said. "When you prohibit everything, society itself becomes your partner in enforcing the law" and reporting violations.

Popular reaction has largely been supportive. "I'm in favor of anything that improves the way this city looks, and this law will definitely make things better," said Fernando Gil, 25, a student interviewed on Avenida Paulista, the main street in the heart of the financial district. "All that neon and bright lights, it just doesn't fit here."

Advertising companies generally acknowledge that abuses of public space have occurred and that a majority of the city's estimated 13,000 outdoor billboards have been installed illegally. But they also complain that they are being made scapegoats, and that the real problem lies elsewhere.

"It is not politically correct to talk about the million-plus posters and signs that small businesses and mechanics' shops have up all over the place, because they are poor," said Francisco Petit, a prominent advertising executive who has spoken out against the law. "It's easier to attack McDonald's and Coca-Cola and the banks, because that doesn't offend anybody."

Kassab said that once the situation is under control he hopes to allow limited, strictly regulated advertising at bus stops, newsstands, outdoor street clocks and public bathrooms.

But some residents who support the new legislation hope that day never comes, even if it were to profit the city's coffers.

Afghan leader issues a dire warning

By Carlotta Gall

KANDAHAR, Afghanistan: In strikingly strong language, President Hamid Karzai warned Tuesday that a failure to bring peace to Afghanistan would destroy the whole region, and he laid blame squarely on neighboring Pakistan.

As if to underscore his warning, as Karzai arrived here, a suicide bomber blew himself up in the neighboring province of Helmand, narrowly missing the provincial governor but killing eight people in his office.

"Afghanistan either has to be fixed and be peaceful or the whole region will run into hell with us," Karzai told a small group of journalists during a visit to this southern city, his hometown, which has been reeling from almost daily suicide bombings in the last 10 days.

"It's not going to be like the past, that only we suffer. Those who cause us to suffer will burn in hell with us. And I hope NATO recognizes this."

Karzi said that elements of the Pakistani government were still supporting Islamic militants, as they had in the past, and that if such sources of terrorism were not defeated now, Afghans and international soldiers would continue to die.

"The state of Pakistan was supporting the Taliban, so we presume if there is still any Taliban, that they are still being supported by a state element," he said.

"In Afghanistan we are fighting the symptoms of terrorism, not the roots of it," he added. "We feel we should go to the sources of terrorism and fight it there, or we'll keep losing men, Afghan and international, in a vicious circle."

The charge that Pakistan is supporting extremists to destabilize Afghanistan is an old and contentious one between the two countries. The Pakistani intelligence agency has long used Islamabad militant groups as a tool to put pressure on rival governments in Afghanistan and India.

Islamic militant groups as a tool to put pressure on rival governments in Afghanistan and India.

The Pakistani government says it has ceased that support, though mounting evidence shows that hundreds of suicide bombers and other militants — from Pakistan, Afghanistan and Central Asia — are being recruited and trained in Pakistan's tribal areas, along the Afghan border. Allied Qaeda commanders are believed to be sheltering in the same area.

Karzi also criticized NATO for the behavior of some of its troops, who have fired on civilians in the aftermath of suicide bomb attacks on their convoys.

"After all, they are here to fight terrorism and bring protection to the Afghan people," Karzi said at a news conference earlier. "We are extremely worried, it hurts us, it hurts Afghan civilians. We are worried by it and NATO is also worried by it and we are working together to reduce such casualties."

IN OUR PAGES | 100, 75 & 50 YEARS AGO

1906: Separation Law

PARIS: Now that the French Government, according to M. Clemenceau's phrase, has "fired the first gun," State and Church are holding their positions in readiness for the next move. Yesterday (Dec. 12) the Prime Minister, the Minister of Public Worship, the Minister of Justice and the Public Prosecutor held a consultation with regard to the application of the Separation Law. It seems probable that nothing more will be done before to-morrow, when the Cabinet meets to take final decisions before placing the question before Parliament. At the residence of the Archbishop of Paris the Pope's decision forbidding compliance with the law referring to public meetings is explained by the absence of guarantees on the part of the Government that it will not change its opinions in the near future.

1931: Hoover Debt Moratorium

WASHINGTON: The Government, in the face of uncertainty as to how great the opposition to ratification of the moratorium will develop, announced today (Dec. 12) that no debt payments will be expected by the United States on Dec. 15, the date due, and that the moratorium could be considered as being in force. The announcement was taken to mean that Under-Secretary of the Treasury Ogden L. Mills was able to win over a number of senators to this program. At the same time it is understood that at least five senators refused tacit consent to such a step, while Senator William E. Borah (Rep., Idaho) went as far as to declare the moratorium would not be passed at all if the administration insisted in mixing it up with the further reduction of all allied war debts.

1956: Irish Nationalist Raids

BELFAST: Irish nationalists launched a dozen attacks against national installations and police early today (Dec. 12) in the worst outbreak of anti-British violence since Southern Ireland won nationhood 34 years ago. At least two persons were wounded and five arrested in a two-hour flurry of bombing and gun battles shortly after midnight. The targets included a North Atlantic Treaty Organization radar station, a British Army regimental headquarters and a National Guard armory. Some 12,000 police and reserves, wearing steel helmets and armed with rifles and submachine guns, sealed the border with Ireland to the south. A special force of 3,000 surrounded a ten-mile stretch of lonely moorland of North Antrim. Most of the terrorists appeared to have escaped the manhunt.

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UN links Hariri killing to 14 others

Head of inquiry says
Syria is cooperating

By Warren Hoge

UNITED NATIONS, New York: The head of the United Nations inquiry into the assassination of Rafik Hariri, the former Lebanese prime minister, said Tuesday that his probe had reached a "sensitive and complicated phase" but that he could not discuss it for fear of endangering investigators and witnesses.

The official, Serge Brammertz, who delivered a report to the Security Council on Tuesday, also said that the breakdown of security in Beirut was making witnesses reticent and undermining his ability to recruit and retain staff.

The UN commission he leads also found "significant links" between the Hariri bombing and 14 other political assassinations in Lebanon that the Security Council asked it in June to review. In all the cases, the attacks were conducted with "a high standard of operational capacity and capability," Brammertz said.

Also Tuesday, anti-government protesters were spending their 12th consecutive day camped out in central Beirut in a campaign they say is designed to bring down the anti-Syrian government of Prime Minister Fouad Siniora. Government leaders have charged that their real aim is to derail plans for an international tribunal where Brammertz could try the killers of Hariri, a Lebanese politician opposed to Syrian domination of his country.

Hariri was killed along with 22 others in February 2005, when a bomb exploded as his convoy was moving along a central Beirut street. The subsequent public outrage and mass street demonstrations forced Syria to give into a Security Council demand that it withdraw its troops from Lebanon after a 29-year presence in the country.

Early reports last year from the commission when it was led by the predecessor of Brammertz, Detlev Mehlis of Germany, implicated high-level Syrian intelligence officials in the assassination and accused Syria of obstructing the investigation.

But the report Tuesday from Brammertz, a Belgian on leave as deputy prosecutor of the International Criminal Court, said that Syria was providing "generally satisfactory" cooperation and was complying with requests by the commission for information and assistance in a "timely and efficient" manner.

"The commission will continue to request Syria's full cooperation, which remains crucial to the swift and successful completion of its work," Brammertz said.

Brammertz said his strategic objective remained compiling evidence against the conspirators suitable for admission to court, but he shed no new light on who they might be.

The commission's work "can only be undertaken with confidentiality in order to create a secure environment for its witnesses and staff," he said.

He said that new evidence supported his earlier conclusion that the operation was a highly sophisticated one conducted by people who demonstrated "a high degree of security-aware behavior" to hide their identity and purpose.

The report repeated earlier findings that the explosion, which left a crater in the street and damaged surrounding buildings, was the work of a suicide bomber in a Mitsubishi van that had been parked along the route, he said.

Working from fragmented remains and a tooth from the suspect, investigators determined that he was likely not Lebanese but had been in the country in the months preceding the attack.

Brammertz said the commission had also given technical assistance to Lebanese authorities investigating the Nov. 21 killing of Pierre Gemayel, the Lebanese Minister for Industry, who was asked to do so by the Security Council last month.

Gemayel was killed in his car in the midafternoon in central Beirut by gunmen who leapt out of another vehicle, opened the front door of his car and fired 49 shots at close range.



A Lebanese woman holding a photo of the slain former prime minister, Rafik Hariri, during protests in central Beirut on Tuesday.

Ethiopia convicts former leader

Mengistu, in exile, may never be punished for genocide

By Jeffrey Gettleman

NAIROBI: An Ethiopian court convicted Mengistu Haile Mariam of genocide Tuesday, but the former dictator may never actually face punishment because he remains in exile in Zimbabwe.

It was a marathon case, beginning 12 years ago, and, along with Mengistu, more than 70 other high-ranking suspects were found guilty of genocide. The trial, held in Ethiopia's capital, Addis Ababa, was one of the rare instances of an African country trying its own former leader.

Mengistu, 69, ruled Ethiopia from 1977 to 1991, which included some of the darkest days of the country's history, when government soldiers rounded up tens of thousands of students and intellectuals and brutally killed them in a campaign called the "Red Terror." Human Rights Watch labeled it "one of the most systematic uses of mass murder by a state ever witnessed in Africa."

Mengistu is thought to have killed many of the victims with his own hands, including Ethiopia's last emperor, Haile Selassie, who was strangled in bed.

He was also, in a way, responsible for the extended famine in 1984-85 that claimed one million lives and a poor and desperate country. He first denied the famine was even happening and flew in planeloads of whiskey while his people starved.

He was ousted by a guerrilla move-

ment in 1991 and escaped to Zimbabwe, where he lives in a fancy — and heavily guarded — villa. The Zimbabwe government has indicated no intention of extraditing him.

According to Reuters, Ethiopia's High Court decision said that Mengistu and his top officers "have conspired to destroy a political group and kill people with impunity."

The statement added "they set up a hit squad to decimate, torture and destroy groups opposing the Mengistu regime."

Mengistu is scheduled to be sentenced later this month and could face death by hanging.

Despite the magnitude of his crimes, many people in Addis Ababa seemed unfazed by the guilty verdict on Tuesday.

"We're more concerned with the new people in jail, the political prisoners, than with these old cases," said Addis Adugna, an architect.

Somalia is another distraction. In the past several months, Ethiopia has stepped up its military support of the weak transitional government of Somalia, which is being threatened by Islamist forces on all sides.

Islamist cleric took Mogadishu, Somalia's capital, in June and has been steadily expanding their territory, which worries Ethiopian officials.

The two neighboring nations have been rivals for years, partly because of their religious differences, with



The Ethiopian court case of genocide against Mengistu Haile Mariam, shown here in 1990, began 12 years ago.

Ethiopia having a strong Christian identity and Somalia being overwhelmingly Muslim.

On Tuesday, the Islamists forces in Somalia gave the Ethiopians an ultimatum, with the Islamist defense chief, Yusuf Mohamed Siad, saying in Mogadishu that "starting today, if they don't leave our land within seven days, we will attack them and force them to leave our country."

Pope pushes the 'ecology of peace'

By Ian Fisher

VATICAN CITY: Pope Benedict XVI on Tuesday challenged the world to find greater peace through a deeper respect for human rights, as he lamented terrorism, civilian deaths in the war this year in Lebanon and the further spread of nuclear weapons.

In an annual message for peace, Benedict strongly emphasized a theme rarely taken up in his nearly two years as pope: what he called the "ecology of peace," the idea that protecting the environment and finding alternative energy sources could also reduce conflict.

"In recent years, new nations have entered enthusiastically into industrial production, thereby increasing their energy needs," the pope wrote in a 14-page address. "Meanwhile, some parts of the planet remain backward and development is effectively blocked, partly because of the rise in energy prices."

"What will happen to these peoples?" he asked. "What kind of development or nondevelopment will be imposed on them by the scarcity of energy supplies? What injustices and conflicts will be provoked by the race for energy

He sees environment
as a key to ending war

sources?"

This was Benedict's second message for peace, a yearly forum for the pope's broad concerns about the state of world. This year, Benedict argued for a stronger conception of the "inalienable" rights of human beings, including their right to life, and he thus repeated the church's opposition to abortion and euthanasia. He spoke also of the full right to freedom of religion, casting blame both on authoritarian countries as well as modern, western secular ones.

"There are regimes that impose a single religion upon everyone, while secular regimes often lead not so much to violent persecution as to a systematic cultural denigration of religious beliefs," he wrote.

As is practice, the message spoke generally, not blaming individuals or nations, but the context often seems clear. Church officials have, for example, often criticized Saudi Arabia for banning public worship for any faith but Islam. In a year when North Korea tested

nuclear weapons, and Iran stands accused of working toward them, the pope worried about "widespread climate of uncertainty and fear of a possible atomic catastrophe." He said that while the end of the Cold War held hope for a reduction of the threat of nuclear war, "threatening clouds continue to gather on humanity's horizon."

He also spoke with worry about "the new shape of conflicts, especially since the terrorist threat unleashed completely new forms of violence."

He urged a greater respect for humanitarian law, saying that in the war in Lebanon "the duty to protect and help innocent victims" and to avoid involving the civilian populations was largely ignored.

He did not mention by name the Lebanese guerrilla group Hezbollah, which often fired rockets from near houses, or Israel, which bombed civilian areas.

Even faced with what he called the "scourge of terrorism," he said, states could not react with unrestrained force if doing so would endanger civilians. He called for "a profound reflection on the ethical limits restricting the use of modern methods of guaranteeing internal security."

Russians defy EU over access to pipelines

RUSSIA, From Page 1

cow. Berlin will be chairman of the G-8 group of industrialized countries during the same period.

The trade accord is supposed to replace the Partnership and Cooperation Agreement that expires next year. Finland, current holder of the EU presidency, had hoped to start formal negotiations last month. But Poland blocked them, insisting that Russia first lift its embargo on imports of Polish meat.

Russia wants the new accord with the EU to focus more on technical and economic issues rather than specific items addressing human rights and the rule of law, according to experts involved in drafting a new accord.

The Kremlin also wants only general references to energy security and no mention at all of the EU's energy charter, which Russia signed but never ratified in the late 1990s before the rapid rise in energy prices.

The European Commission, the EU's executive, said the goal of the charter was to establish a set of common rules for the trading and transit of energy across Europe as well as energy efficiency. "The European Commission is in favor of the ratification by Russia of the EU energy charter," said Ferran Tarradellas i Espuny, spokesman for the energy commissioner, Andris Piebalgs. "It would be positive for both parties to have a stable, legally binding set of rules."

Despite years of erratic negotiations, the commission said Tuesday that it would continue to persist. "We are still eager to get Russia to ratify the treaty," Tarradellas i Espuny said.

Without Russia's ratification, the charter would be severely weakened because Russia is one of Europe's most important suppliers of gas as well as one of the biggest transit providers for other forms of energy. Over a quarter of the EU's energy needs and a third of Germany's are supplied by Russia.

One of Russia's main objections to the charter is the transit protocol, which discusses how foreign energy companies could obtain "third-party access." In practice, third-party access would allow companies to use Russia's pipeline network to transport, for example, gas purchased in Central Asia via Russia to markets in Europe.

At the moment, the only way companies can deliver gas to Europe is by selling it to Russia, which then transports it to Europe. An alternative would be to construct costly new pipelines that would bypass Russia by crossing some Central Asian countries and terminating in Turkey.

Several EU countries, particularly the new member states of Eastern Europe, say the charter is also about reciprocity. "While Russia stops foreign companies from gaining access to the energy grids, Gazprom is not stopped from distributing its gas in EU countries," Wisniewska said. "Where is the reciprocity?"

Yastrzhembsky, who was in Berlin to discuss Germany's EU and G-8 presidency with officials of the Chancellery and the Foreign Ministry, said Russia would never give up control of its pipelines.

Yastrzhembsky's statement coincides with increasing pressure from the Kremlin on foreign energy companies to reduce their stakes in Russia's energy sector.

After months of pressure from Russian regulatory officials, Royal Dutch-Shell this week offered a stake in its \$20 billion Sakhalin Island project to Gazprom, the state-owned energy monopoly, in what was seen as a further sign of the Kremlin's efforts to tighten its control of the oil industry.

In October, Gazprom reversed a major policy decision by announcing that it would develop the Shtokman gas fields without any foreign investors. The Shtokman fields have reserves estimated at 3.7 trillion cubic meters of gas. Until October, Gazprom had a controlling stake of 51 percent, while the remaining 49 percent was to have been divided among two or three foreign energy companies.

ihnt.com/europe

Text of the European Union's energy charter of 1994, which Russia has signed but not ratified.

BRIEFLY INTERNATIONAL

BAIDOA, Somalia Islamic militants plan to attack government

Thousands of Islamic militants have surrounded the only town that Somalia's government controls, Prime Minister Ali Mohamed Gedi said Tuesday, as a top Islamic official said his forces would attack within a week unless troops from neighboring Ethiopia left the country.

The surrounded town of Baidoa was teeming with soldiers Tuesday. Ethiopian troops supporting the Somali government are believed to be based around Baidoa, but were not immediately identifiable. Many Ethiopians are ethnically Somali and government troops in both countries wear the same uniforms.

Ethiopia acknowledges sending military advisers to help Gedi's internationally recognized government but denies sending a fighting force. A confidential UN report obtained by The Associated Press in October said up to 8,000 Ethiopian troops were in Somalia or along the border. (AP)

ABIDJAN, Ivory Coast Army asserts soldiers were organizing a coup

Ivory Coast's armed forces said Tuesday that they had evidence that a group of soldiers and civilians was plotting to assassinate the West African state's president and several military officials.

They said the coup, planned to take place between Dec. 12 and 17, was organized by a militant for an unnamed political party, which was now protecting the individual.

"For several weeks, officers, sub-officers and soldiers from the ranks of the defense and security forces have been approached by civilians and soldiers, with a view to their participation in a coup d'état," an army spokesman, Babri Gohourou, said in a statement. He said the army possessed "irrefutable proof" that a coup was being prepared and said it was continuing to investigate.

The world's top cocoa grower has been divided into a rebel-held north and a government-run south since a civil war in 2002 and 2003. About 11,000 French and UN peacekeepers man a cease-fire line. (Reuters)

MILAN Former top spy arrested in surveillance case

A former spy chief was arrested Tuesday on suspicion of involvement in an illegal espionage ring that prosecutors say snoopied on members of the Italian elite, including Prime Minister Romano Prodi.

Marco Mancini, former head of counterespionage at the Sismi military intelligence agency, already faces possible indictment on separate charges of helping the CIA kidnap a Muslim cleric in Milan.

Prosecutors said they suspected the illegal spy group was led by the former security chief at Telecom Italia, Giuliano Tavaroli. They say it illegally gathered sensitive data from telephone records of politicians and others. (Reuters)

HOBART, Tasmania Firefighters struggle with dozens of blazes

Dozens of wildfires burning Tuesday across southern Australia destroyed more than a dozen homes and a popular ski lodge, while residents in a suburb of the western city of Perth were urged to flee an approaching blaze.

More than 3,000 firefighters were working to contain the fires in four states, with the worst centered in Victoria and Tasmania. A ski lodge in the Snowy Mountains was destroyed after firefighters failed to fend off the blaze, according to media reports.

Smaller fires were burning elsewhere in New South Wales and Western Australia. Wildfires are a regular feature of summer in Australia, but the danger has been heightened this year by the country's worst drought in more than a century. (AP)

As opposition to Iraq war mounts, Bush delays speech until New Year

IRAQ, From Page 1

dicated. Another survey pointed to a stunning collapse in support among the president's fellow Republicans for his conduct of the war.

The continuing violence in Iraq, victories by Democrats in the Nov. 7 elections and the grim description by the study group of a "grave and deteriorating" situation in Iraq all appeared to play a role.

Seventy percent of Americans told pollsters for CBS that the war was going badly — the largest percentage ever in that survey — and only 4 percent said the United States should stay with the same tactics. Half of those surveyed said the administration should move to end U.S. involvement altogether.

Sixty percent told Washington Post-ABC News pollsters that the war was not worth fighting. Last month, 70 percent of Republicans approved of Bush's handling of the war. Now, CBS found, only 47 percent do.

But 75 percent of respondents of a USA Today/Gallup poll supported the key proposals of the Iraq Study Group.

Sixty-two percent of respondents in the CBS poll said that sending troops to Iraq had been a mistake. Gallup polls in the early 1970s found 60 percent saying that sending troops to Vietnam had been a mistake.

Just as Bush has appeared skeptical of the study group's call for an early 2008 pullout and talks with Iran and Syria, the five experts invited Monday to meet with him also disagreed with those goals, The Washington Post reported.

While the president welcomed the bipartisan report, his public tone and language appear to have shifted little. He still speaks of a long-term struggle and a commitment to Iraq. The worldwide fight against extremists and radicals, he said Monday, "is really the calling of our time." Bush faces an intensely complicated, high-stakes juggling act in Iraq. He is pressed at home to find better approaches quickly — if not withdrawing, then threatening withdrawal to goad the government of Prime Minister Nuri Kamal al-Maliki to more decisive action.

Some of his military and political advisers — seconded by many Ameri-

can conservatives — have called a hasty withdrawal a recipe for disaster, and engagement with Iran and Syria pointless.

During Bush's meeting with Vice President Tariq al-Hashimi of Iraq, neither man used the word "victory" to describe his goals. The president said his objective was "to help the Iraqi government deal with the extremists and killers" and "to help your government be effective." Hashimi, a Sunni who has criticized the inability of the Shiite-led government to control violence, said he shared the president's view that "there is no way but success in Iraq."

"There is," he said, "a light in the corridor."

Meantime, debate on the call for talks with Iran and Syria — received coolly by the administration — was getting started in Europe.

Blair, who had advocated such talks before his Oval Office meeting Thursday with Bush, appeared Tuesday to have hardened his stance, at least on Iran.

"Iran is deliberately causing maximum problems for moderate governments and for ourselves in the region — in Palestine, in Lebanon and in Iraq," he



Bush conferred with the Iraqi vice president, Tariq al-Hashimi, on Tuesday.

said. Blair said there was "little point" in involving Iran or Syria "unless they are prepared to be constructive," the BBC reported.

But in Berlin, Merkel said that it would

be impossible to forge Middle East peace without involving Syria, Reuters reported. The chancellor spoke a week after sending Foreign Minister Frank-Walter Steinmeier to Damascus for talks.

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America in the Gulf • By Eugene Gholz, Daryl G. Press and Benjamin Valentino Station those troops offshore

The Iraq Study Group's recommendation that the United States withdraw combat forces from Iraq reflects a growing consensus that the U.S. military cannot quell the violence there and may even be making matters worse. Although many are hailing this recommendation as a bold new course, it is not bold enough. America will best serve its interests by withdrawing its ground-based military forces not only from Iraq, but from the entire region.



Guy Billout

Maintaining a large military presence in the region has been the cornerstone of American policy since the 1991 Gulf War, and remains so today. With the Iraq war, America now has tens of thousands of troops elsewhere in the neighborhood.

But this strategy is flawed. In fact, many of the same considerations that led the Iraq Study Group to call for withdrawal of combat forces from Iraq suggest that the United States should withdraw its troops from neighboring states as well — leaving only naval forces offshore in international waters. As in Iraq, a large U.S. military footprint on the ground undermines American interests more than it protects them.

There are, of course, other threats to American interests in the region. Terrorists could damage key oil fields and ports, or friendly governments in the Gulf could be toppled by anti-American extremists. These concerns, however, do not justify peacetime forward deployment. U.S. allies play the primary role in defending their own oil fields and safeguarding their internal security, and their forces are better suited for the job. If anything, the presence of "infidel" soldiers nearby increases the likelihood of terrorist attacks and political upheaval.

This does not mean America can withdraw all its military power from the region tomorrow. As the Iraq Study Group persuasively argued, forces will be needed in Iraq during a transition to train Iraqi troops, to guard against threats to topple the government in Baghdad, and to strike at any newly discovered Qaeda threats. But these missions can be conducted from a small number of temporary Iraqi bases in remote parts of the country, where the American soldiers would be less visible and less vulnerable.

The Iraq war is now a painful failure for the United States. One silver lining brightens that gray backdrop: The Iraq debacle creates an opportunity to reassess long-standing policies that would otherwise be too difficult to change and prompts us to rethink the premises of U.S. military policy toward the Gulf region. The best way to increase America's security and the stability of that troubled region is, paradoxically, to drastically reduce America's military presence there.

Eugene Gholz is a professor of public affairs at the University of Texas. Daryl G. Press and Benjamin Valentino are professors of government at Dartmouth.

Fighting drug fakes

Tempted to buy cheap medicines from a pharmacy Web site? Think twice. If the Web site shows no verifiable street address for the pharmacy, there is a 50 percent chance the drugs are counterfeit.

In rich countries, fake medicines mainly come from virtual stores. Elsewhere, they are on the pharmacy shelves. In much of the former Soviet Union, 20 percent of the drugs on sale are fakes. In parts of Africa, Asia and Latin America, 30 percent are counterfeit. The culprits range from mom-and-pop operations processing chalk in their garages to organized-crime networks that buy the complicity of regulators, customs officials and pharmacists.

In Panama, dozens of people died after taking counterfeit drugs made with an industrial solvent. Often counterfeiters put in real ingredients for their smell or taste, but heavily diluted. This has sped the emergence of resistant strains of infections, and is probably a big reason some malaria drugs and antibiotics have lost their power.

Drug counterfeiting can be fought. Five years ago, the majority of Nigeria's drugs were fakes, and the country was a major source of counterfeiters abroad. When the Nigerian government donated 88,000 doses of

meningitis vaccine to Niger during an epidemic in 1995, the vaccine turned out to be a fake — causing more than 2,500 children to die.

Now the possibility that a drug is fake in Nigeria has dropped to 17 percent, according to the World Health Organization. Nigeria's drug control agency is informing people through radio and television jingles about fake medicines. It has also fired corrupt officials, hired a fleet of inspectors to drop in on pharmacies, banned imports from 30 companies, and begun prosecuting counterfeiters.

One of the problems Nigeria still faces is that the penalty for counterfeiting medicine is as little as a \$70 fine — a small price to pay for a crime that can reap a fortune. All over the developing world, governments treat falsifying medicines as a mere copyright infringement, rather than potential murder.

The WHO has recently set up a task force that brings together many groups that work on counterfeit drugs. It is a start. Multinational drug companies — which have been reluctant to report fakes lest they erode consumer confidence in all drugs — need to do more. An international convention is also needed to establish stiffer penalties for counterfeiting drugs, and marshal more funds and support to fight this deadly crime.

Consumption gap

Conservative economists often argue that wage stagnation and income inequality are not as big a threat to Americans' standard of living as they've been made out to be. In their view, how much one buys — rather than how much one makes — is a better measure of economic well-being.

In a recent article in The National Review, researchers at the American Enterprise Institute asserted just that, saying that when you look at how much the middle class is consuming, they're "even doing better than the upper crust."

Why make a fuss over other grim economic statistics if everyone manages to keep buying things?

Here's why. The assertion — that the middle class has out-consumed the "upper crust" during the Bush years — is false, the result of rosy assumptions that turned out to be wrong.

Researchers at two other think tanks, the Center on Budget and Policy Priorities and the Economic Policy Institute, reworked the figures, including newly available spending data for 2005. There is no dispute among the various researchers over the new findings. Over all, consumption

is growing. But the growth is unbalanced, consistent with the wide disparity in wages and income that has characterized the Bush years.

Consumer spending by low-income households is way down since 2001. Over the same period, spending by high-income Americans has been robust, supported, in part, by generous tax cuts. In 2005, the top 20 percent of households made 39 percent of all consumer expenditures, the highest share since the government started keeping track in 1984.

The information on middle-income households is mixed, with some data showing a decline in their spending during the Bush era and some showing an increase. But there is no question that spending by the middle class has been weaker in the current economic expansion than in previous recoveries.

It would be nice if by some magic Americans could spend their way out of today's economic woes. But the gathering evidence shows that growing income inequality has fostered consumption inequality as well. It's time for policy makers to acknowledge that such inequality is an economic and social ill — and to start finding cures.

Royalty rip-off

The U.S. treasury is already short more than a billion dollars because of the Interior Department's failure over the last decade to collect all the royalties owed from oil and gas producers in the Gulf of Mexico. The new Congress needs to fix the problem, or persuade a sluggish Bush administration to do so.

This failure — and how much it is costing the U.S. taxpayer — has been richly detailed over the last year by Edmund Andrews of The New York Times. The problems are twofold. The first is a loophole in leases signed by the Clinton administration in 1998 and 1999 to encourage deep-water exploration at a time when oil and gas prices were relatively low. The leases gave companies a break on royalty payments, but did not include a standard escape clause that would have restored full royalties when prices went up. The loophole has already cost the taxpayers \$1.5 billion and, if not corrected, could cost \$10 billion more over the course of the leases.

A bill that would have forced companies to renegotiate these

flawed leases before being granted new ones failed by only two votes in the House on Friday. Unless the Interior Department succeeds in renegotiating the leases quickly, the new Congress should pass the legislation.

The more serious problem involves royalty collection, which is the responsibility of the department's Minerals Management Service. Whistleblowers have testified to the service's shortcomings, and last week, the Interior Department's inspector general said that the service relied too heavily on statements by oil companies, instead of independent audits.

Officials say they are trying hard to renegotiate the flawed leases. As for the broader management failures, they have hired new people and begun an internal review. This is all to the good, but the Interior Department has a long history of accounting failures and a more recent history of giving the oil and gas industry much of what it wants on public lands. When Congress summons Secretary Dirk Kempthorne to testify, it will want more promises.

With a strong naval presence, America could thwart an invasion of any Gulf oil producer.

at any newly discovered Qaeda threats. But these missions can be conducted from a small number of temporary Iraqi bases in remote parts of the country, where the American soldiers would be less visible and less vulnerable.

The Iraq war is now a painful failure for the United States. One silver lining brightens that gray backdrop: The Iraq debacle creates an opportunity to reassess long-standing policies that would otherwise be too difficult to change and prompts us to rethink the premises of U.S. military policy toward the Gulf region. The best way to increase America's security and the stability of that troubled region is, paradoxically, to drastically reduce America's military presence there.

Philip Bowling It's not just China, Mr. Paulson

HONG KONG candidate for financial center status. Or perhaps Paulson could have stayed at home and studied some numbers on how much of China's accumulation of foreign exchange reserves — now more than \$1 trillion — was the result of net trade surplus but the inflow of capital.

That, in turn, has been the result of the very liberalization that China has been urged to adopt, and the huge sums that banks — not least Paulson's old firm Goldman Sachs — have been prepared to pay for positions in China.

Paulson could equally have asked the Federal Reserve chairman, Ben Bernanke, who is also traveling to Beijing this week, to explain why they should be so fussed about China when the biggest surplus countries by far are now the oil exporters, such as Saudi Arabia and Russia.

Or he could ask another member of the team, Commerce Secretary Carlos Gutierrez, why he is so concerned about China's current account surplus when it is of roughly the same magnitude as those of its Asian neighbors who mostly enjoy big trade surpluses with China — which is often just an assembler of their products.

The U.S. trade representative, Susan Schwab, could explain why she is so keen on signing up bilateral trade deals that undercut the nonpreferential basis of the World Trade Organization at the same time that China is being accused of failing to live up to its WTO obligations. Or why getting some help from China on saving the current global trade negotiations does not seem high on the list of U.S. trade priorities.

Paulson could ask Labor Secretary Elaine Chao, also going on the trip, why economies that had far more job losses to China than the United States has suffered — such as Taiwan and South Korea — still have healthy trade balances.

Or he could ask almost any corporate analyst for a breakdown of the profits made by non-Chinese companies from their manufacturing or buying operations in China. In Beijing — or Tokyo, Seoul or Singapore — Paulson would find a ready audience for a good old-fashioned U.S. moralistic lecture on carbon emissions and environmental concerns. But Asia is not going to hear it — yet.

Good can only come out of this bilateral economic summit if both parties recognize that the major issues they both face are multilateral ones. The bilateral issues are side-shows — just as Iraq should have been.

Paulson and his team should extend their tour to other East Asian capitals.

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OTHER VIEWS | Opinions from around the world

Pinochet's divisive legacy

SYDNEY: The images from Santiago attest to Augusto Pinochet's bitterly contested legacy: jubilant critics celebrating his death in the central plaza, sobbing supporters outside the military hospital where he died. Less visible SYDNEY will be many millions of Chileans MORNING divided in their own feelings: content with the vibrant economy he created, or heralds who have replaced the hyperinflation of Salvador Allende's attempts to emulate Cuban communism; but uneasy, if not guilty, at the brutality of Pinochet's seizure of power and 17-year rule. Allende may or may not have drifted into communist dictatorship if left unchecked. It can be argued whether a democratic Chile could have administered free-market shock treatment to itself. But no economic reforms justify the kind of cruelty that Pinochet and the military brought to the task.

North Korea's stance on nuclear arms

SEOUL: The six-party talks to resolve North Korea's nuclear crisis are expected to resume soon, one year after they stalled. Washington has recently said that it would provide Pyongyang with economic aid, establish a system for peace on the Korean Peninsula and begin talks aimed at normalizing ties. All on the condition that North Korea abandons its nuclear weapons and technology within 18 months. North Korea needs to pay attention to these changes in Washington's policies. But judging by the way North Korea has played its hand so far, positive results are unlikely. For example, North Korea now claims, absurdly, that nuclear weapons have been installed in South Korea. Thus, the logic goes, Pyongyang must maintain a nuclear weapons program. It seems Pyongyang now wants to make the six-party talks a forum for justifying its nuclear armament.

Gulf states examine nuclear power

DOHA, Qatar: The decision by Gulf leaders, meeting at the Gulf Cooperation Council summit, to draw up a plan for the establishment of a joint nuclear power program is likely to send a shock through the international community. One GULF of the first questions that will be asked is why do six oil- and gas-rich nations need to turn to nuclear technology to meet their power needs? Washington's troubled regional policy has persuaded some Arab states that the United States cannot be relied upon as a permanent guarantor of stability in the Gulf. Indeed, it has been responsible for much of the current instability. In view of that, the GCC states need to try to become more self-reliant in security matters. Developing nuclear power plants will send a message about the region's technical competence and will mean that, should the need ever arise, a nuclear defense program would be easier to develop.

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