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THE BIG READ 18-19

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Addressing a cause overshadows a court date



Reuters

Italy's Silvio Berlusconi attends the Food and Agriculture Organization Food Security Summit in Rome. Meantime in Milan, the prime minister's trial on a tax-fraud charge reopened Monday.

Bernanke moves to defend dollar

Fed chief says strength of U.S. economy will aid currency

BY LUCA DI LEO

The U.S. economy will continue to grow in 2010, and the underlying strength of the world's largest economy will help ensure the dollar stays firm, Federal Reserve Chairman Ben Bernanke said Monday.

In a rare move, the Fed chairman spoke about the dollar, which has fallen in value recently as financial markets have improved and investors no longer sought the safety of dollar assets.

"Our commitment to our dual objectives [of maximum employment and price stability], together with the underlying strengths of the U.S. economy, will help ensure that the dollar is strong and a source of global financial stability," Mr. Bernanke told the Economic Club of New York.

Mr. Bernanke said the central bank would keep a close eye on the dollar's recent slide, but at the same time reiterated that the key federal-funds target rate is expected to remain at record lows for some time amid the fragile recovery.

To lift the dollar's value, the Fed would need to raise rates, thereby increasing the

return investors get on dollar assets. However, that could hurt the economy's recovery, which Mr. Bernanke cautioned was threatened by weakness in the labor market and tight bank lending.

"I expect moderate economic growth to continue next year. Final demand shows signs of strengthening, supported by the broad improvement in financial conditions," Mr. Bernanke said.

Giving his first official speech since the Fed voted Nov. 4 to hold interest rates at a record low in a range from zero to 0.25%, Mr. Bernanke said jobs are likely to remain scarce and inflation low for some time.

The central bank said it expects to keep rates close to zero for an "extended period" in the face of high unemployment and low inflation.

For the first time, the Fed's rate-setting committee earlier this month spelled out the three key indicators it would be looking at to set rates: unemployment, core inflation and inflation expectations.

"Both the decline in jobs and the increase in the unemployment rate have been

more severe than in any other recession since World War II," Mr. Bernanke said.

The U.S. economy is slowly recovering from its worst recession since the Great Depression. Although the economy expanded in the third quarter for the first time in more than a year, the recovery remains fragile, with unemployment at a 26-year high of 10.2% in October.

Data released Monday showed some signs of economic improvement. U.S. retail sales increased 1.4% in October on stronger demand for cars. Sales of autos and parts rebounded 7.4% in October, after a September drop of 14.3% as a result of the expiration of the government "cash for clunkers" incentive program.

But September sales were revised down, to a 2.3% decrease from a previously estimated 1.5% fall. And aside from automobiles in October, sales rose just 0.2%. It was the third increase in a row, yet smaller than the 0.4% climb predicted by economists.

Another report said U.S. business inventories in September fell 0.4%, less than the 0.8% drop expected.

—Jeff Bater
contributed to this article.

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Jordan JD 2 - Kuwait KD 1 - Oman OR 2
Qatar QR14 - Saudi Arabia SR 14

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Osborne targets pensions

BY ALISTAIR MACDONALD

If it wins the election next year, the U.K.'s opposition Conservative Party would seek to tackle the country's large, unfunded public-pension liabilities and doesn't "feel bound" by the agreements made between the Labour government and unions to protect these pensions, Shadow Chancellor, George Osborne, said in an interview Monday. At the same time, Mr. Osborne said it will likely be "some years" before the U.K. can realize any windfall from selling its stake in bailed-out banks such as Royal Bank of Scotland Group PLC and Lloyds Banking Group PLC.

Mr. Osborne said that deficit reduction is at the top of the Tories' list, should it prevail in a general election that



Martin Simka for The Wall Street Journal

George Osborne says he "has not ruled out tax increases."

must be held by June. "I regard it as an absolute and urgent priority of any new government that we set out a

credible plan to deal with the deficit, and I don't think that credible plan exists at the moment," he said. The man who would be Treasury chief if the party wins an election says the bulk of savings will come through reducing government spending.

The party is in the process of going through individual government departments to see where savings can come from. Still, Mr. Osborne says that he "has not ruled out tax increases."

Mr. Osborne also said he would reorganize the Treasury, narrowing its remit, and could support any international push to make banks pay an insurance levy that would create a fund to help troubled banks. (See interview on page 14.)

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