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THE WALL STREET JOURNAL.

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Land Rush

In Brazil, the Poor Stake Their Claim On Huge Farms

Thousands of Squatters Seek Faster Government Action; Ranchers Bear Arms

Crucial Test for New President

By Matt Moffett

PRESIDENTE EPITÁCIO, Brazil—Outside of this central cattle town, activists have built a massive squatter camp, with 3,500 families who say they won't leave until the government gives them property. In other places, protesters demanding land have looted food trucks, seized toll roads, and taken over government agricultural offices. Last week, the nation's president convened an emergency meeting with the group's leaders, who refused to halt their protests.

The Landless Workers Movement, the largest social movement in Latin America, is agitating for sweeping change in a country with one of the world's most inequitable land distributions. "Nobody wants to break the law," says Antônio Carlos Santos, 38 years old, who moved to the camp with his wife and three children last month, after losing his job at a slaughterhouse. "But we'll do what we must to survive."

Antônio Carlos Santos

The rural unrest is shaping up as a critical test for the six-month-old government of President Luiz Inácio Lula da Silva, Brazil's first elected leftist leader. Peasant protests and land occupations are also threatening to disrupt thriving agribusinesses that have turned Brazil into the world's largest exporter of raw sugar, second-largest exporter of soybeans and third-largest exporter of beef. The clash underscores Mr. da Silva's dilemma: Is it possible to impose both economic efficiency and social equity in Latin America's most-populous nation?

"The government plays on our team," said João Pedro Stédile, the movement's leader, shortly before meeting with the president. Mr. da Silva added fuel to the fire by briefly donning a red cap bearing the landless movement's logo—a man and woman standing side-by-side, the man hoisting a machete. That prompted an agribusiness leader to condemn him as "servile" to landless interests.

Government officials said it's Mr. da Silva's custom to banter with a wide array of groups and that the meeting helped cool tensions.

The U.S. has an important stake in Brazil's continued economic stability. U.S. financial institutions hold a sizable chunk of Brazil's $260 billion public debt, and the nation's 170 million consumers represent a key market for corporations such as General Motors Corp., Whirlpool Corp. and Citigroup Inc.

The Landless Movement was founded in 1984 with the goal of winning land for impoverished Brazilians. In a country blessed with an abundance of resources—and cursed with poverty—the movement has successfully pressed the argument that the government owes people a plot of their own. "Land is as basic of a need as air or water," says Edi Ronan, an organizer of the Epitácio encampment.

Polls have shown most Brazilians to be overwhelmingly sympathetic with the aims of the landless, especially after massacres of peasants by police and landowners in the mid-1990s. But some have flinched at the movement's increasingly bold tactics, such as the brief takeover last year of a ranch owned by the family of the then-president. Throughout Brazil, which is larger than the continental U.S., landless groups have launched 128 "land occupations" this year—in which members march onto property owned by someone else and stay for anywhere from hours to weeks.

About half of Brazil's arable territory is held by just 3% of all landowners, according to government statistics.

In recent years, the Brazilian govern-

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What's News—

Business and Finance

U.S. COMPANIES contributed to the problem of underfunded pension plans by siphoning off billions of dollars during the past decade to pay for severance and health benefits. Many employers have been putting less money into pension plans because they adopted structural changes that made the plans appear better-funded on paper.

(Article in Column 6)

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■ **U.S. prosecutors offered** to settle a fraud investigation of Crédit Lyonnais if the French bank pays a fine of up to $600 million and agrees to a guilty plea.

(Article on Page A3)

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■ **Nike will pay** about $305 million to acquire Converse, a 95-year-old company known for its inexpensive canvas sneakers.

(Article on Page A3)

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■ **Yahoo said** quarterly net more than doubled on higher revenue from advertising and fees. The company raised its 2003 sales forecast.

(Article on Page B5)

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■ **The SEC staff plans** to recommend that shareholders be given more power in nominating and electing company directors.

(Article on Page A2)

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■ **Microsoft and other firms** that retreat from issuing stock options may find it harder to attract entrepreneurial staffers.

■ **DaimlerChrysler is exploring** alternatives to stock options as a way to compensate executives.

(Articles on Pages B1 and D1)

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■ **An FDA panel recommended** approval of AstraZeneca's Crestor cholesterol drug, setting the stage for a marketing battle with Pfizer.

(Article on Page D2)

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■ **The Dow Jones industrials** pulled back after their recent advances, easing 66.88 to 9156.21. The Nasdaq edged up to 1747.46.

(Article on Page C1)

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■ **Genentech swung** to a second-quarter profit on a 28% jump in revenue, boosted by strong sales of its primary cancer drugs.

(Article on Page B4)

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■ **Mexican officials extradited** former construction mogul David Peñaloza Sandoval from Spain and charged him with fraud.

(Article on Page A3)

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■ **Pechiney rejected** Alcan's $3.85 billion takeover offer and signaled that it will court white knights to thwart the hostile bid.

(Article on Page B2)

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■ **Oracle insisted** that it is committed to a PeopleSoft acquisition but said the deal isn't critical for its applications business.

(Article on Page B5)

* * *

■ **Kraft said** two top U.S. executives resigned. The concern's domestic business has been hurt by competition from private-label brands.

(Article on Page B7)

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■ **MCI has** enough House panel votes to block an effort by rivals to bar the telecom firm from an extension of federal contracts.

(Article on Page B2)

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■ **Iraq plans to ship** its first oil produced since the war, perhaps as early as today. Buyers include BP, ChevronTexaco and Shell.

(Article on Page A8)

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■ **The broadcasters' trade group** is reversing course and opposing a bill to reduce the number of TV stations one company could own.

(Article on Page D3)

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—Markets—

Stocks: NYSE vol. 1,569,571,320 shares, Nasdaq vol. 2,097,266,338. DJ industrials 9156.21, ▼ −66.88; Nasdaq composite 1747.46, ▲ +1.00; S&P 500 index 1002.21, ▼ −5.63.

Bonds (4 p.m.): 10-yr Treasury ▲ +8/32, yld 3.694%; 30-yr Treasury ▲ +9/32, yld 4.704%.

Dollar: 117.77 yen, −0.46; euro $1.1347, +0.33 cent against the dollar.

Commodities: Oil futures $30.88 a barrel, ▲ +$0.66; Dow Jones-AIG futures 118.265, ▲ +1.037; DJ-AIG spot 149.647, ▲ +1.177.

World-Wide

■ **BUSH DEFENDED his war rationale as Rumsfeld priced occupation.** The president, questioned in Africa on his erroneous assertion that Saddam Hussein tried to buy uranium from Niger, said he remained "absolutely confident" that his decision to invade was right. Rumsfeld said he'll look into how false information made its way to the president. He told a Senate panel the U.S. will spend $3.9 billion a month for the foreseeable future to maintain current troop levels, and that the Third Infantry Division will be home soon. (Page A4)

U.S. forces in Iraq captured the ex-interior minister and a senior Baath official. In the U.S., federal agents charged a Chicago Arabic newspaper publisher with being an unregistered intelligence agent for Hussein.

* * *

■ **Bush conferred** with Mbeki on a range of issues, and the South African leader suggested African troops should shoulder most of the burden for Liberian peacekeeping. The U.S. is sending more military-assessment experts. The head of Zimbabwe's opposition criticized Mbeki for suggesting his political group was engaged in a dialogue with Mugabe's regime.

■ **Hundreds of Liberians burst** onto an airport runway to try to reach a U.S. military reconnaissance team, chanting that they wanted U.S. soldiers to be sent to save them from the rebels advancing on the capital.

* * *

■ **U.S. and Egyptian mediators met** with Israeli and Palestinian officials as Hamas said a truce will unravel unless Israel frees prisoners. The U.S. cleared $20 million in direct aid to the Palestinians to bolster Abbas.

* * *

■ **The Senate courted** a veto threat as it voted to overturn Bush's order blocking funding of aid to overseas clinics that do abortions. Also, Democrats killed Bush-backed legislation to cap medical-malpractice awards.

■ **The Senate returned** to wrangling over Bush judicial nominees as Republicans inveighed against Michigan Democrats for blocking four appellate candidates with "blue slips."

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■ **South Korean intelligence believes** the North has processed a "small number" of spent fuel rods to extract weapons-grade plutonium and has tested bomb triggers. (Page A8)

* * *

■ **Thousands of Iranians fought** police and government-backed thugs in Tehran on the anniversary of 1999 unrest, but students stayed away after three of their leaders were picked up.

■ **The U.N. nuclear chief began** talks to persuade Iran to accept tougher inspections to help quiet fears that it is developing atomic weapons. Some diplomats saw reasons for optimism.

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■ **Hong Kong demonstrators marched** to demand officials be elected and that the city's Beijing-installed chief quit. Attendance has fallen since an antisubversion bill was pulled back.

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■ **A Bangladeshi ferry sank** late Tuesday, and more than 500 people are missing and feared dead. Monsoon rains have swollen rivers, and the vessel was believed overcrowded.

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■ **The Sept. 11 commission took** testimony from terrorism experts who say the U.S. has become more vigilant, but has struck an international posture that helps al Qaeda recruit.

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■ **The Phoenix suburb of Gilbert was** the fastest-growing community in the past two years, the Census Bureau said, as the Southwest grew and Northeast and Midwest cities shrank.

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■ **Prescription prices rose** more than three times the inflation rate in 2002 for the best-selling drugs, according to a study released amid the Medicare debate in Congress. (Page D2)

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■ **A better diagnostic test has been** developed for multiple sclerosis, and that should help doctors time drug treatment more precisely. (Page D2)

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■ **Milosevic accused** Chirac of shielding war-crimes fugitive Mladic from arrest to win two hostages' release in 1995. The French president denies it.

* * *

■ **Canada's government will sell** marijuana to sick people to comply with a court order, but plans to get out of the business if it wins an appeal.

—Online Today—

WSJ.com **Best Practices:** Doctors aren't technophobes, but they do need incentives to encourage them to adopt information technology, Laura Landro writes.

* * *

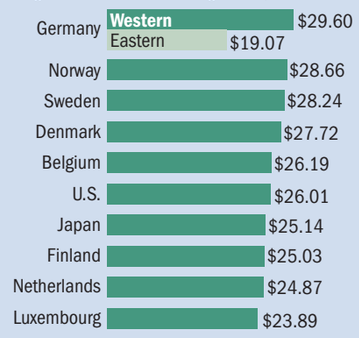
■ **Media Marriage:** Reality dating shows are hot. So is online dating. Now the two are getting together.

* * *

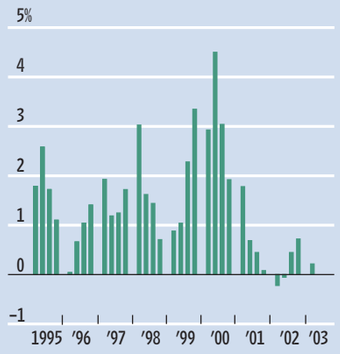
■ **Stat Snapshot:** Fox's broadcast of the 1996 action blockbuster "Independence Day" is a ratings hit. Plus, more Media & Marketing news.

Expensive Manpower

High labor costs...
Countries with the highest average hourly gross wage* in the manufacturing sector, in 2001



Hobble Germany Inc.
Year-over-year percent change in gross domestic product, quarterly figures



*Figures are converted from euros to U.S. dollars at current rate
Sources: Institut der deutschen Wirtschaft Köln, Haver Analytics

In Deep Crisis, Germany Starts To Revamp Vast Welfare State

By Christopher Rhoads

ESSEN, Germany—Four years ago, the German social-welfare system rescued Renate Franke.

Soon after her mother died of cancer that year, her son was diagnosed with the same disease. Emotionally drained, Ms. Franke, then 48 years old, quit her job at an electronics company. The state stepped in, sending her to a spa for three weeks and paying her jobless benefits that were close to 60% of her former wage.

But last year, the state got tough with Ms. Franke. It cut her unemployment aid after she refused to take full-time jobs. It told her to sell her car, as a condition for receiving any further social assistance.

Sitting one recent morning in her one-bedroom apartment on the outskirts of this industrial city, she said: "I began to fear for my future."

So, too, does Germany. Faced with its worst economic slump since World War II, Germany is beginning to broach some long-held taboos as it comes to terms with a cold reality: The country's economic system doesn't work anymore. The world's third-largest economy after the U.S. and Japan has slid into its second recession within the past three years—making it the weakest of the world's major economies. Unemployment is hovering at nearly 11%.

The dire conditions are prompting an unprecedented rethinking of the paternalistic role of the state in the country's economic life. In the decades since the war, West Germany and then united Germany had to deal with a catastrophic legacy of military and moral defeat. One source of pride, however, remained constant: the country's economic power tethered to a strong social-welfare system.

Now, the country's downward spiral has made this model no longer affordable. Social spending has reached close to 30% of gross domestic product, the most of any country in the world except for Sweden and more than twice that of the U.S. The national deficit has shot well above limits allowed by the European Commission. In years past, German governments—on both the left and right—raised payroll taxes to support the mounting costs. But as companies continue to flee Germany for countries with lower labor costs, the nation's high-cost model of doing business seems to have hit a dead end.

Within the past few months, Berlin's center-left government has proposed reducing unemployment benefits, opening the public health-care system to private insurers, cutting hundreds of millions of dollars of subsidies and easing laws that protect workers from being fired. Late last month, the government brought forward by a year a planned tax cut. Some ministers even want to cut back on the country's famously large amount of free time—30 vacation days on average, compared with 12 in the U.S.

Renate Franke

While Germans are traditionally change-averse, more than 70% of them now acknowledge there is an "urgent need for reform," according to a recent survey of 356,000 Germans conducted by McKinsey & Co., the German weekly newsmagazine Stern and Internet service provider T-Online. Metalworker strikes in eastern Germany to shorten the workweek sparked such virulent criticism from across German society that they collapsed suddenly late last month—the first defeat for the powerful IG Metall engineering union since 1954.

Some unions are trying to adapt to the changing times. "Before we had growth, and there was enough to share," says Huburtus Schmoldt, head of the Mining, Chemical and Energy Union. But now, Germans must "reconsider which responsibilities lie with the state and which with individuals."

Such talk would have been heretical not long ago. The governing center-left Social Democratic Party used to point fin-

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For Aging Knights Of College Chess, Endgame Is Near

* * *

At 42, Mr. Morrison Ponders His 8 Years on Scholarship; Checked by New Rules

By Ann Zimmerman

After years of playing his heart out in a New York City park, William "The Exterminator" Morrison caught the attention of a college recruiter, who offered him a scholarship and a shot at a college diploma.

The chance to study and to play his "sacred game" was too good to pass up, he says. So Mr. Morrison took off for the University of Maryland, Baltimore County, where he has helped capture trophies for his college team.

Eight years later, he is still a student there. Mr. Morrison is 42 years old and has no plans to quit the team.

But the onetime street chess whiz of Washington Square Park and current collegiate player just might have no choice but to leave the team. A growing number of collegiate chess players and advisers are looking to tighten the lax rules governing player eligibility, believing they've been rooked by competing college teams that buy their way to victory.

Mr. Morrison's college and the University of Texas at Dallas are the only schools that offer major scholarship packages to top talent, including grandmasters, the game's most elite players. There are just 700 of them world-wide. As a result, these two teams have dominated college tournament ranks for years, elevating the profile of college chess and winning plaudits for financially rewarding brains over brawn. But the scholarships also have helped underwrite seemingly endless careers in college chess—one sport in which age is no handicap and earning a living as a professional is next to impossible.

This year, the Baltimore team had four grandmasters getting full tuition and a $15,000 housing stipend. The team, whose top six players had an average age of 29, is partially sponsored by Coca-Cola Co.

Tim Redman, professor of literary studies at UT-Dallas and the chess-team adviser, says he and others have tried to strengthen the U.S. Chess Federation's guidelines for college players to level the

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Coming Up Short

Firms Had a Hand In Pension Plight They Now Bemoan

Relying on Arcane Rules, Some Have Drawn Down Assets For Corporate Purposes

Now, Asking Congress for Relief

By Ellen E. Schultz

A lot of big companies call it a looming crisis: They suddenly need to pour millions of dollars into their pension plans, because there isn't enough cash in them to meet the legal requirements. Now Congress is moving to offer companies relief, and the White House is planning a remedy of its own.

But what companies aren't saying is that some of them contributed to the problem themselves. They did so through a variety of strategic moves to plump up earnings or cut costs, at the price of reduced funding for their pension plans.

Over the past decade, U.S. companies have siphoned off billions of dollars in assets from their pension plans. They've used the cash to pay for retirees' health coverage, the costs of laying off workers and even fees to benefits consultants.

Meanwhile, many employers have been putting less money into pension plans in the first place, because they adopted structural changes that made the plans appear better-funded on paper. Converting to a hybrid known as a "cash balance" plan, for example, reduced the sums that companies needed to put into the plans, or even were permitted to.

Hidden in the Arcana

All of these maneuvers were legal, grounded in arcane and little-known provisions of U.S. pension law, and buried in the minutiae of corporate filings. The moves became available to employers thanks to a thriving industry of benefits consultants, which guided companies through the labyrinth to find ways to tap the huge pension surpluses the bull market wrought.

Today, those giant surpluses are mostly gone, thanks in part to a long bear market in stocks and historically low interest rates. Some companies that haven't poured any cash into their pension plans for years face a legal obligation to do so. They are asking Congress for relief—new rules that would reduce funding requirements, yet make pension plans appear healthier to both shareholders and the government. They also seek permission to reduce pension payouts to certain departing employees.

One way some companies eroded or reversed their onetime pension surpluses was by tapping the pension assets to pay for staff reductions. Lucent Technologies Inc., the big maker of telecom gear, used about $800 million in surplus pension assets to pay termination benefits as it cut 54,000 employees from its payroll in 2001 and 2002. The Lucent pension plan, meanwhile, went from having $5.5 billion more funds in it than legally required on Sept. 30, 2001, to being $1.7 billion "underfunded" on Sept. 30, 2002.

Retiree Health Costs

Employers have also used pension assets to pay for retirees' medical expenses. Lucent withdrew $1.2 billion from its pension plan for this purpose between 1999 and the end of 2002. Chemical giant DuPont Co. withdrew more than $1 billion from its U.S. pension plans for retiree medical costs between 1997 and 2000.

A spokeswoman for Lucent says its strategic moves had less impact on pension funding than investment losses and the decline in interest rates. She adds that the pension plan is still healthy. At DuPont, the global benefits director says that the retiree medical benefits went to people who benefit from the pension plan, and that DuPont stopped making such transfers when it no longer had a pension surplus.

Many companies tapped pension assets both for severance and for retirees' health benefits. SBC Communications Inc., the big telephone company, withdrew $286 million from pension-plan assets in 2001 to pay for retiree health costs. And from 2000 to 2002, while 14,000

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INSIDE TODAY'S JOURNAL

Too Early for Sunblock

Economic forecasters say skies are clearing and the pace of the long-awaited rebound is quickening, but many workers and companies still wonder, "Where's the sunshine?" **Capital, Page A2**

Pipeline on a Shoestring

The ingenuity with which Iraqi oil-field workers have kept their industry patched together may now hinder U.S. efforts to modernize it. **A8**

The Terrible, Evil Truth About That Tiny Morsel

The doughnut-chip-cookie-fries culture that we savor will get a dollop of reality. Food labels will be required to reveal the amount of artery-clogging trans fats in a product. **D1**

U.S. as Colonialist

Humanitarian intervention in Liberia entails a major commitment by Washington. We can't assume our soldiers can do the job alone, writes David Rieff. **Opinion, A10**

Underwater Options And the Ripple Effect

Microsoft employees would get a payout for worthless stock options under a plan with J.P. Morgan. Now more bankers may take a plunge into these largely uncharted waters. **C1**

A Doctor Gains in Polls, Making Rival Democrats Queasy

Dean has amassed a healthy war chest. Other presidential hopefuls are taking the pulse of their campaigns and pondering how to attack him. **A4**

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SEC May Give Investors More Power

Plan Allows Shareholders To List Board Nominees On Official Company Proxy

By Deborah Solomon

WASHINGTON—The Securities and Exchange Commission staff plans to recommend that the agency move to give shareholders more power in nominating and electing corporate directors, according to people familiar with the matter.

In a report to be delivered to the SEC next week, the staff plans to recommend that companies be required to lift some of the obstacles that prevent shareholders from nominating and electing directors. While details still are being hammered out, the report is likely to suggest that, in limited circumstances, companies should have to place a shareholder-selected board nominee on a company's official proxy material.

Under current SEC rules, shareholders elect directors and they also can nominate candidates, but they can't include a nominee's name in the official proxy material, which lists the company's candidates. The SEC has been considering revising the rules because of concern that shareholders face barriers in nominating and electing directors.

Options under consideration include allowing shareholder nominees on the company ballot when a certain percentage of shareholders support a candidate or when a "majority of shareholders" express serious concern about the board's makeup.

Although it isn't clear what the SEC's final rules will look like, people familiar with the matter said there is a desire within the commission to open the process to allow for greater corporate democracy.

"Something measured has to be done to make it possible for significant shareholders who are not simply intrusive and disruptive to be involved in the process," one SEC official said. In April, SEC Chairman William Donaldson said the "time has come" for a thorough review of the proxy rules to "ensure that they are serving the best interests of today's investors."

The five-member commission is scheduled to get the report Tuesday and will then work with the staff to issue proposed rules. An SEC spokesman declined to comment.

Any proposal to give shareholders greater access to corporate proxy material likely will be met with fierce opposition from the business community. Many large companies have told the SEC that allowing shareholder nominees on the proxy statement could be harmful and asked the agency to uphold the status quo.

In a letter to the SEC last month, the Business Roundtable, a trade group representing large corporations, said investors "may nominate directors for self-serving reasons, such as personal gain or to further a political agenda." Intel Corp., in a letter last month, said giving investors access would "turn the proxy statement into a municipal or state voter's handbook" and confuse shareholders with too many candidates.

Shareholder advocates long have pushed for rules that would ease the process of allowing investors to elect directors of their choice, rather than picking candidates selected by the company. The issue gained steam following scandals at companies such as Enron Corp. and WorldCom Corp., where directors were criticized for either ignoring or not spotting red flags.

Sarah Teslik, executive director of the Council of Institutional Investors, an organization of labor and corporate pension funds, said shareholders aren't trying to declare "open season" on directors but want the right to nominate board members in certain circumstances, such as when there are "worrisome" problems at a company.

Firms Had a Hand in Pension Woes They Bemoan

Continued From First Page

SBC employees took voluntary separation, SBC paid them enhanced pension benefits in lieu of cash severance.

"Using these surplus pension assets to pay for retiree medical expenses makes good business sense," says an SBC spokesman. "The retirees' medical benefits paid with the funds from [the pension] are the same retirees that are in the pension plans, so the same group of retirees receives benefits either way."

Since the SBC pension plan had a surplus at the time, "it made sense to use those assets rather than pay out cash severance," says the spokesman. "We did not know then that the market's weakness would continue."

In the 1990s, many employers began offering departing employees their pensions in lump sums instead of monthly payments. Some used this to spur staff reductions, giving workers who weren't planning to retire the option of a lump-sum pension, but only if they left early. But thanks to the abstruse economics of pensions, lump sums could sometimes have the effect of eroding pension funds—even as they helped companies boost their bottom lines.

Many big companies restructured pensions in a way that made them look better-funded, thus instantly reducing the companies' obligations to pour more cash into their pension plans.

Employers say they offered lump-sum pensions to please employees. And indeed, given a choice, employees overwhelmingly choose the lump sums. But companies offered lump sums for a pragmatic reason as well: Doing so cost them less. Although few workers realize it, when an older person at some companies takes a lump sum, the payout costs the employer 10% to 20% less than if the retiree had chosen monthly checks.

This isn't just the normal discount imposed when taking a future stream of income all at once, like a lottery winner who elects cash value rather than annual payments. The pension lump sum totals less than cash value. Thanks to a little-known provision, when an employee voluntarily retires early and chooses a lump-sum pension, employers can strip out certain early-retirement subsidies the employee would get if he or she took the pension in monthly payments. The subsidies are intended to encourage early departure of workers over age 55.

In these cases, the payout of lump sums can help boost corporate earnings. The employer is paying out less than the liability it had been recording for that employee. So the company is entitled to reverse part of the liability it has already recorded—resulting in an actuarial gain that helps the bottom line.

But lump sums can lead a pension plan to become less well-funded. That's because employers have been paying out greater lump sums than they have set aside money for.

It has to do with interest rates. Employers must use the 30-year Treasury rate to calculate lump-sum payouts. But many have used a higher interest rate to calculate their current liability for future payouts. This higher rate has the effect of making the current liability lower, and thus reducing a company's need to pour money into the plan.

An employer might have a pension liability of $500,000 on the books, and might have been contributing to the pension plan as if the liability were $500,000, yet pay out a lump sum of $700,000 because of the difference in interest rates, explained David Gustafson, chief policy actuary at the Pension Benefit Guaranty Corp., in recent public presentations.

Also contributing to consumption of pension assets was a step hundreds of large employers took during the 1990s: conversion to cash-balance plans. The move changed the formula for figuring how big a pension an employee would eventually be owed. Instead of the traditional formula—which multiplies final salary and years of service—a cash-balance plan gives each employee a theoretical "account balance" that grows by a certain percentage each year.

The change reduced the rate at which many employees' pension entitlements grew, so it cut companies' pension liabilities. Thus, it instantly made the plans look better-funded. That meant that many companies didn't have to contribute as much, or in some cases anything, to their pensions for a period of years.

But the byzantine accounting of cash-balance plans has a striking consequence: They tend gradually to become underfunded. That's because companies calculate their pension liability using an interest rate that makes this liability lower than the sum the company would need to pay the benefits. For instance, a company with a cash-balance plan might credit employees' pension "balances" 3% a year, but calculate its current liability for future payouts using a rate that made the liability appear smaller. That would reduce the company's need to pump money into the plan.

"This would reduce the contribution requirement," says Thomas Lowman, a research actuary with Bolton Offut Donovan Inc., a Baltimore consulting firm. Mr. Lowman says that if the cash-balance pension were terminated, it might not have adequate assets to pay out the promised benefits, because companies would be putting in too little, hoping to make up the difference in investment returns over time.

In the worst case, such a plan might have to be bailed out by the PBGC. So far, this quasi-public agency has taken over fewer than 15 cash-balance plans, a PBGC spokesman says. "That's not to say certain funding methods for cash-balance plans couldn't present difficulties for the PBGC," the spokesman adds, "but those difficulties are speculative at this point since cash-balance plans are a relatively recent phenomenon."

In many cases, conversion of a traditional pension plan to the cash-balance variety initially renders the plan in surplus. That makes it possible for the employer to draw out some pension assets for another corporate purpose. With consultants' help, companies found myriad ways to tap pension surpluses during the late-1990s bull market.

A Plan Withdrawal

Midland Co., a Cincinnati insurer, had a pension plan with a $6 million surplus at the beginning of 2000. It then gave employees the option of switching out of the pension into a savings plan. If they did, their pension entitlement would no longer grow, but they would begin to accumulate benefits in the savings plan. Many employees took the option.

Because those employees' pensions were no longer growing, Midland was able to reverse part of its pension liability for them. Doing so swelled its income by $6.8 million.

Meanwhile, Midland withdrew $3.6 million in pension-plan overfunding, a move a company is allowed to make when it terminates all or a portion of a pension plan. After paying income and excise tax, and transferring a portion to the savings plan as required by law, the company netted $1.2 million in cash.

The changes left Midland employees with a pension plan that has become increasingly underfunded. Although Midland poured $3.6 million into the pension plan in 2002, the plan ended the year underfunded by $4.4 million.

A spokesman for Midland says there are many ways to calculate liabilities, and the way it prefers to do so—using a measure that excludes future salary increases—shows that the plan is currently "slightly overfunded."

He adds that withdrawing surplus assets actually made the pension plan better-funded over the long run, because had the assets remained in the plan, they would have lost value over the past three years. "Having withdrawn $3.6 million from the plan in 2000 and then subsequently contributing $3.6 million back to the plan in 2002 actually resulted in an increase in the plan's asset value today," the spokesman says.

Changing the Rate

Employers also contributed to today's underfunding by lobbying successfully to ease funding rules a decade ago. Then as now, they fretted that their pension liabilities were made high by a combination of low interest rates and a weak stock market. Congress in 1994 softened funding requirements so company pension plans needed to be funded at only 90% of government-required levels, not 100%.

Voilà: Many companies' underfunded pension plans suddenly appeared better-funded, and the companies were able to pour less cash, or none, into their plans.

And they were able to avoid using the rate on 30-year Treasury bonds to calculate their pension liabilities, which companies have to do when their funding falls below 90%. That T-bond rate was lower than the rates that healthier pension plans could use. This was a disadvantage. A lower rate produces a higher pension liability, because if you assume assets will earn less money over time, you need to set aside more cash today.

Now the 30-year T-bond rate is even lower, and companies want it replaced. It needs replacement anyway, since the U.S. is no longer issuing 30-year bonds. But there's much wrangling on what rate should replace it.

Employers favor a corporate-bond rate—which, being higher, would make pension plans look better-funded right away. One such proposal is included in a House bill sponsored by Republican Rep. Rob Portman of Ohio and Democrat Benjamin Cardin of Maryland.

The Bush administration is proposing to extend an existing funding-relief provision, set to expire this year, for two more years. This provision lets badly underfunded plans use a corporate-bond rate.

In addition, companies seek extension of a provision that lets them withdraw pension assets to pay for retirees' medical benefits. And they want the right to use more of their own stock when making pension contributions, in lieu of cash.

The only provisions employers seek that would preserve pension assets would work to the detriment of some employees. Employers want Congress to let them change the way they calculate lump-sum pensions, using a rate that would result in smaller payouts. They're seeking, as well, the right to stop offering lump-sum payouts at all if their pension plans become underfunded.

Besides other ways companies have tapped surplus pension assets, they've used some assets to hire the very consultants who taught them how to tap. For instance, Internal Revenue Service filings show that International Business Machines Corp. used $18.4 million of pension assets in 2001 to pay fees to Watson Wyatt, a consulting firm that helped it convert to a cash-balance plan. This was seven times the fee Watson Wyatt got when it first began working for IBM in 1995. In comparison, investment-management fees paid out of IBM pension assets declined about 5.5% over the period.

An IBM spokeswoman says the higher fees paid to the consulting firm didn't reflect just its work in converting the pension plan, but also an increase in administrative functions the consultants did for the plan. The fees are "reasonable and necessary," she says.

—Theo Francis contributed to this article.

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CORRECTIONS & AMPLIFICATIONS

KAREN PATTON SEYMOUR, head of the criminal division at the Manhattan U.S. Attorney's Office, was born in Big Spring, Texas. A Money & Investing page article Monday incorrectly referred to the town as Big Springs, Texas.

CAPITAL ◈ By David Wessel

Americans Wonder When Sun Will Rise on Economic Recovery

LIKE TV METEOROLOGISTS blissfully announcing sunny skies while it's raining, economic forecasters are declaring that the moment of rebound is at hand. That has a lot of umbrella-carrying workers and executives wondering, "So where is the economic sunshine?" It's a good question.

For the past two quarters, the U.S. economy grew at an annual rate no better than 1.75%, so slowly that the unemployment rate kept rising. But forecasters say the pace of growth is quickening now. They predict the U.S. will grow at a 3.5% or 4% annualized pace in the second half, or even better, enough to bring down unemployment. If only the economy would cooperate.

The forecasters story has some logic. The Federal Reserve has cut interest rates, making borrowing cheaper. The latest tax cuts are swelling paychecks this summer, adding oomph to consumer spending. The dollar is weakening, aiding exports. The stock market is rising, a big plus to spirits and spending.

"We've applied every macroeconomic policy tool in the kit to get this economy to do better," says Richard Rippe of Prudential Securities Inc., who foresees growth of 4.4% in the second half. Economists believe this stimulus will show results soon.

Consumer spending is holding up well, despite a disappointing job market. Auto makers' production plans for coming months are promising. And the housing market just won't quit.

So surely, the argument goes, businesses are about to increase production to build inventories in anticipation of rising sales and to increase spending on computers, equipment and new buildings. Modest increases in sales and orders will boost corporate profits and cash flow significantly. Perhaps companies won't add workers readily, but they'll start spending again. Combine that with steady increases in consumer spending and continued strength in housing, and, voila, a happy ending (and a huge sigh of relief from President Bush's re-election campaign strategists).

But as the second half commences, the economy doesn't yet feel like it's taking off. "The data hasn't provided any confirmation of the forecast," says former Fed board member Laurence Meyer. "We're not getting quite the start that I'd anticipated."

Business-confidence surveys show an encouraging improvement, and recent corporate takeover moves suggest a possible end to boardroom paralysis. But business spending is showing only the slightest signs of an upturn, and employers still are cutting payrolls.


Michael Sloan

"Businessmen are unwilling to get out in front," says Mr. Meyer, who works with Macroeconomic Advisers LLC of St. Louis, which sees 4.5% second-half growth. "There is this lingering doubt that they know something we don't know."

ECONOMISTS ARGUE BUSINESS has run out of excuses. "We felt like we were in this situation a year ago, and then came the accounting scandals and the stock-market selloff. We felt like we were in this situation six months ago, and then came the war with Iraq," says Robert Melman of J.P. Morgan Chase & Co., which expects 3.75% growth in the second half.

But executives don't need to justify their caution to economists. Nothing about this business cycle has obeyed forecasters' computer models so far. If business decides not to come to the party, there won't be a party. "Businesses want to see stronger demand for their products, and they don't see it," says Bank of America's Mickey Levy, whose relatively pessimistic forecast is for 2.9% growth for the rest of the year. "What's going to lead businesses to want to build inventories in the current environment?"

Then there are American consumers, stalwarts of the global economy. The optimistic consensus expects consumer spending to grow a bit faster in the second half than in the first.

But why is that likely? Auto makers find consumers less responsive to zero-rate loans. The cash-generating mortgage-refinancing boom may be ending. And employers aren't adding many new workers yet, and are squeezing health-care and pension benefits for existing workers.

"Any newfound optimism will quickly fade unless the job market soon rights itself," admits Mark Zandi of Economy.com, a West Chester, Pa., forecaster that sees 3.5% second-half growth. "It's unlikely that consumers will ... continue to shrug off the mounting job losses and rising unemployment for much longer." That concern is precisely what has many businesses holding back.

The federal government has done all it's going to do to help the economy, its efforts partly offset by tax increases and spending cuts by states and localities. The drooping dollar will give exports some help, but sorry economies outside the U.S. aren't very good customers.

Forecasters figure that if consumers keep borrowing and buying a bit longer, business spending—and eventually hiring—will kick in and the U.S. will enjoy a self-reinforcing cycle of growth.

It's a nice story. It might even come true. But risk of an unpleasant cycle—in which the economy stalls as businesses and workers eye each other anxiously and put off spending for a while—is too big to ignore.

E-mail me at **capital@wsj.com**.
WSJ.com subscribers can see Q&A Tuesday at **WSJ.com/CapitalExchange**.

Brazil's Landless Seek More Pieces of the Nation

Continued From First Page

ment has expropriated millions of acres it deems unproductive, paid compensation to owners and turned it over to thousands of landless families. Yet the plots are often so small that they can't be nearly as productive as the nation's large farms.

Meanwhile, landowners are digging in. "Anyone stepping on private property is inviting big trouble," says Luiz Antonio Nabhan Garcia, leader of the Democratic Ruralist Union, a group of farmers and ranchers. Indeed, Brazilian TV stations last week went on a local ranch and filmed gunmen, their faces covered in ski masks, preparing to defend their land.

Agriculture—so critical to the nation's economy that it is known as "the green anchor"—accounts for about 10% of Brazil's $500 billion gross domestic product. When related industries are included, the rural sector represents nearly 30%.


Luiz Inácio Lula da Silva

Operating without the huge subsidies enjoyed by major European or U.S. farmers, Brazil's growers have used the vast scale of their farms and the latest technology to help attain an agricultural trade surplus projected at $23 billion this year.

"When people talk about the need for land reform, I ask, 'Why reform the one sector of the economy that is working?' " says Guilherme Coimbra Prata, a cattle rancher and farmer who lives near a squatter camp. Simmering conflicts in the area around Presidente Epitácio have already hurt the local economy, ranchers say. This was once the center of the country's meat-packing industry. But over the past several years, a dozen or so packing houses have left for areas where the landless movement has less of a presence.

Brazil's lopsided land distribution, with some owners in the Amazon claiming tracts the size of European countries, is a legacy of its colonization by a Portuguese monarchy. Later laws enshrined the inequities. While the U.S. Homestead Act of the mid-1800s granted frontier land to anyone who would settle it, Brazil's law from about the same period made settlers buy their land, notes a study by Tulane University scholar Anthony W. Pereira. Brazilian landholdings were never broken up by a revolution, like the one that rocked Mexico early last century.

The land-ownership issue faced its first strong challenge with the emergence of the Landless Movement, whose ideology mixes Socialism and Roman Catholic liberation theology, with a dash of Brazilian mysticism.

Pressured by the movement, Brazil's last president, Fernando Henrique Cardoso, undertook one of the most ambitious land-distribution programs ever seen in the developing world. From 1995 to 2002, he handed out 44.5 million acres, an area about the size of Missouri, to more than 600,000 families.

But Mr. da Silva's government has stumbled badly on the land issue. So far this year the federal land office has settled only 5% of the 60,000 families for which it aimed to find land in 2003. Government agrarian officials say Mr. da Silva wants to emphasize the quality of the agrarian settlements—with good farmland, strong infrastructure and technical support—rather than just the quantity. Agrarian officials also say they are laboring under tough budget cuts.

The Landless Movement now claims 1.5 million members, and it has grown increasingly sophisticated. It boasts a school system with 3,900 educators working in squatter camps and settlements. They teach not only math and writing, but also politics and "values of the new man and the new woman." Through its Web site and a retail outlet in São Paulo, the movement sells products ranging from wine and cheese and organic seeds to T-shirts and desk calendars. A Friend of the Landless affiliate in San Francisco accepts donations and helps organize tours for U.S. students.

Some say the landless have been more efficient at acquiring land—and government aid—than cultivating their new properties. A recent University of São Paulo study on properties ceded to the landless found less than 10% had organized into cooperatives or partnerships. About 60% of the settlements were organized to seek credit or services from the government.

In 2001, the 60,000-acre Itamarati farm was turned over to landless and other leftist groups, and held up as a showcase of Brazil's democratic agricultural model. Its previous owner had been Olacyr de Moraes, once Brazil's richest man and a legendarily efficient soy grower. Itamarati's new managers aren't enjoying similar success: production has fallen by one-third and many of the 1,100 families barely have enough to eat, despite government assistance.

While the landless were gaining property, if not prosperity, Brazil's agribusiness was taking a leap into the major leagues. It benefited from big investments in technology, as well as its competitors' misfortunes, including bad weather and disease. For instance, Brazilian beef exports doubled over the past three years. Brazilian beef is now used in most TV dinners consumed in the U.S.

Francisco Jacintho, who raises several thousand cattle on the Santa Irene Ranch, says he maintains an uneasy peace with landless activists who obtained titles abutting his property. Several years ago, the landless tried seizing Santa Irene. Mr. Jacintho and a dozen farm hands greeted 50 activists and a convoy of nine tractors with a hail of pistol fire. No one was seriously injured. "The landless movement is a cancer," says Mr. Jacintho.

While Brazil has lots of land, much of it is in the inhospitable Amazon or arid Northeast. Some of the most intense conflicts have played out in rural areas such as Presidente Epitácio, which has roads and utilities and attracts unemployed laborers from nearby cities.

The Epitácio camp's leader is José Rainha, a charismatic organizer who has been at the center of several violent conflicts. (In 2000, a state court acquitted him of charges of having incited the murder of a landowner.) He has referred to the Epitácio shantytown as "New Canudos," an allusion to the site of a bloody, century-old peasant revolt instigated by a bearded mystic.

Outside many huts flies the Landless Movement's flag, with the machete-wielding man on a bright red background. Inside every shack is a different story of frustration. Mr. Santos, the man who lost his slaughterhouse job, tried to get a parcel through official channels at the government land office. "I filled out the forms, went for the interview and never heard from anyone again," he says.

Ronaldo Moraes, 25, a second-generation landless activist, knows the stakes are high. In one land occupation he participated in, eight landless were wounded by gunfire from ranch security guards. While his wife, Lúcia, nurses his 10-month-old daughter, Mr. Moraes cooks beans over an open fire. A couple of yards away, a hole in the ground serves as a toilet. Mr. Moraes says he hasn't been sleeping well, anticipating the action ahead. "The troops are always tense before the battle," he says.

Once the shantytown reaches 5,000 families, Mr. Rainha has said he'll lead a march into the nearby city of Presidente Prudente, where some ranchers have homes. The mayor of Presidente Prudente says he'll block the entrance into the city.

The tension is agonizing for ranchers such Caio Morelli, 38, who raises 5,500 head of cattle a few miles from the camp. The landless recently swarmed a neighboring ranch and killed a bull owned by Mr. Morelli that was grazing there. Afterward, he obtained a court order against trespassers. "There are other ranchers getting guns," he says.

Mr. Morelli, who has a degree in animal sciences, has invested heavily in genetic technology to speed his herd's maturation. Now, as he mulls investment to fertilize and fence pasture land, he finds himself in a dilemma: Ranchers who don't invest risk having their land deemed unproductive and expropriated by the government. But upgrades make the land more attractive for squatters, he says.

He thinks the solution may only come in the long term. He persuaded the municipality to open a school on his property for children of ranch hands and local farmers—and, against some opposition, children of the landless too. "Maybe the next generation will learn to get along better," he says.

Mortgage Market Cools a Bit

Dow Jones Newswires

WASHINGTON—The red-hot mortgage market cooled a touch in early July as long-term interest rates drifted higher.

The Mortgage Bankers Association of America said its weekly mortgage loan application index fell by 17.7% in the week ended July 4 to a level of 1346.3, on a seasonally adjusted basis. The association's index for refinancing fell by 21.3% and its index of home purchases fell by 5.5%.

"The number of refinance applications fell back to the levels we saw at the beginning of May . . . it was a decline from unbelievably high levels to merely extraordinarily high levels," said Jay Brinkmann, an association economist.

Meanwhile, U.S. inventories at the wholesale level unexpectedly fell in May, suggesting companies were waiting to see stronger economic growth before rebuilding their stocks of goods. Wholesale inventories fell 0.3% to a seasonally adjusted level of $289.3 billion, the Commerce Department said. The drop followed a revised 0.3% decline in April, which had been previously reported as a 0.1% decrease.

Reductions in inventories are a short-term drag on overall economic output, because it corresponds with less production by manufacturers. However inventory cuts also help to keep manufacturing operations lean. The annualized growth rate of gross domestic product during the second quarter was "well south of 2%," said Drew Matus, an economist at Lehman Brothers. "May was really a bad month for the U.S. economy."