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THE WALL STREET JOURNAL.

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Local Battle

One Tough Mayor Shows Argentina How to Clean House

While Corruption Still Hobbles Latin American States, A Few Cities Get Results

On Web: Mr. Sabbatella's Rent

By Matt Moffett

MORÓN, Argentina—In the tax office at city hall, workers this month ripped apart cubicles widely known to residents here as *las cuevas*—or the caves. They were dark places where cashiers collected taxes and, in a more corrupt era not so long ago, bribes too, according to city officials.

Morón's 32-year-old mayor, Martín Sabbatella, redesigned the tax office so that there are no walls between cashiers and their supervisors, and no way to hide corruption. "We're trying to let light into government's dark corners," Mr. Sabbatella says.

Martín Sabbatella

Before he was elected mayor in 1999, the city's sleazy politics made Morón (pronounced more-OWN) the butt of jokes in a country where people learned long ago to expect the worst from government. Prosecutors were almost constantly investigating Morón's contracting procedures, and soccer hooligans were employed to intimidate opposition politicians. Mr. Sabbatella's predecessor built an office that resembled a scaled-down presidential country house before being convicted in 2000 of misappropriating public funds and threatening a former city official.

To clean up Morón, Mr. Sabbatella created a local anticorruption office, which brings charges against crooked cops and bureaucrats, and started a telephone hotline so residents can report dishonesty. He saved taxpayers millions by opening up city contracts to public hearings and outside oversight. Mr. Sabbatella's government even had the parallel-parking part of the driver's-license test simplified to discourage payoffs to examiners.

As a result, once-notorious Morón, a city of about 350,000 located 13 miles west of Buenos Aires, is now used as a clean-government case study by the World Bank. The anticorruption office gets calls from other cities and towns in Argentina seeking help with their own graft problems.

Mr. Sabbatella is one of a small but growing number of Latin American leaders fighting the region's deeply embedded corruption at the local level. They are achieving surprising success. In Ecuador, some villages have begun making ethics a part of grade-school curriculum. Bolivian "vigilance committees" scattered across the country oversee public spending and can call for audits of government projects.

"At the municipal level, you can attack concrete cases of corruption," says Ronald MacLean-Abaroa, a former mayor of La Paz, Bolivia's second-largest city. But it has been much harder to steer entire countries in the right direction, with many top politicians still paying only lip service to reform.

A legacy of the centralized style of government handed down by the conquistadores, corruption has undermined Latin America's potential for centuries. Graft grew more visible than ever in the past decade as the region enjoyed a huge surge in investment after embracing free markets and democracy. In Mexico, where the first opposition president in 71 years is struggling to clean things up, petty corruption amounted to about 1% of economic output in 2001, according to a study by Transparency International, a corruption watchdog group.

Many economists see graft as an underlying cause of Argentina's financial catastrophe, which culminated 18 months ago with the government declaring the largest debt default ever and devaluing its peso. The drain on government coffers from corruption contributed to Argentina's chronic budget deficits and forced the government to keep borrowing—until lenders finally cut the country off. Last year, Secretary of State Colin Powell

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What's News—

Business and Finance

INTEL LOST a closely watched cyber lawsuit. The California Supreme Court held that a former employee didn't illegally trespass on the chip maker's computers by sending e-mails critical of company practices to up to 35,000 employees. The ruling could make it more difficult for firms to block the use of their e-mail systems for messages they don't approve.

(Article on Page B1)

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■ **The industrials finished** the quarter up 12% at 8985.44, their strongest quarterly percentage gain since 2001. The Nasdaq jumped 21%; the S&P 500 rose 15%.

(Articles on Pages C1 and C11)

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■ **Boeing edged out** rival Airbus to win an order for more than 100 planes, valued at about $6 billion, from discount carrier AirTran.

(Article on Page A3)

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■ **Alstom said** it is cooperating with U.S. probes of accounting improprieties at the French concern's New York rail-car unit.

(Article on Page A2)

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■ **Vivendi's board plans** to meet today to discuss first-round bids for its U.S. entertainment assets. Six groups have submitted offers.

(Article on Page A3)

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■ **The Pentagon plans** to solicit bids this month to help rebuild Iraqi oil fields, ending its no-bid contract with a Halliburton unit.

(Article on Page A2)

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■ **SBC and Barnes & Noble plan** to offer Wi-Fi "hot spots," public locations where customers can pick up broadband signals.

(Article on Page A3)

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■ **Global securities issuance** rose 16% in the first half, but disclosed fees declined by 21%.

■ **World-wide merger activity** fell to $288.8 billion in the quarter from $328 billion a year ago.

(Articles on Pages C14 and C15)

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■ **The 10 biggest U.S. airlines** increased their balance-sheet debt to $56 billion at the end of 2002, more than double the 1999 level.

(Article on Page C1)

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■ **HealthSouth and Ernst** are again at odds over auditor-fee disclosures, this time related to software-installation consulting.

(Article on Page C1)

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■ **Credit-card issuers are offering** 0% rates for life on balance transfers. But there are hitches, including late-payment penalties.

(Article on Page D1)

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■ **Corbis sued Amazon** and other retailers for allegedly selling unauthorized copies of images controlled by the photo-licensing firm.

(Article on Page B1)

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■ **The White House proposed** a range of measures aimed at reducing or eliminating identity theft and credit-reporting errors.

(Article on Page D3)

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■ **Peregrine was charged** by the SEC with being part of a "massive financial fraud." The firm has reached a partial settlement.

(Article on Page B3)

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■ **Loral received** a $55 million cash infusion due to the settlement of legal disputes with Alcatel.

(Article on Page B3)

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■ **KB Home is releasing** thousands of home buyers from a binding-arbitration provision.

(Article on Page B3)

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—Markets—

Stocks: NYSE vol. 1,589,723,280 shares, Nasdaq vol. 1,697,080,629. DJ industrials 8985.44, ▼ −3.61; Nasdaq composite 1622.80, ▼ −2.46; S&P 500 index 974.50, ▼ −1.72.

Bonds (4 p.m.): 10-yr Treasury ▲ +7/32, yld 3.513%; 30-yr Treasury ▲ +15/32, yld 4.551%.

Dollar: 119.72 yen, +0.03; euro $1.1515, +0.85 cent against the dollar.

Commodities: Oil futures $30.19 a barrel, ▲ +$0.92; Dow Jones-AIG futures 115.788, ▲ +0.500; DJ-AIG spot 146.647, ▲ +0.633.

World-Wide

■ **A MIDEAST TRUCE WAS marred by a slaying in the West Bank.** On the first full day of the cease-fire, a Bulgarian worker was killed, and a renegade branch of an Arafat-linked faction claimed responsibility. The West Bank attack underscored the fragility of the truce declared by three militant Palestinian groups. Meanwhile Israeli troops left northern Gaza and were expected to withdraw from Bethlehem tomorrow. Sharon has indicated that Israel is preparing to release some Palestinian prisoners. (Page A9)

Secretary of State Powell voiced optimism over the prospects for peace and referred to Abbas as a worthy and effective Palestinian leader.

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■ **American troops arrested** the U.S.-appointed mayor of the southern Iraqi town of Najaf, charging him with kidnapping and corruption. Also arrested were 62 of his aides.

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■ **Bush campaigned** at a senior center in Miami and sought votes by promoting his role in getting Medicare prescription-drug legislation.

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■ **The U.S. returned** five Syrian border guards wounded during a U.S. assault on the Syrian-Iraqi border. Rumsfeld said the role of the border guards in the skirmish was unclear.

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■ **The European Parliament is set** to pass legislation that will require more extensive warning labels on genetically modified foods. Among those hit hardest by the rules will be U.S. soybean farmers. (Page A2)

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■ **U.S. consumers registered** over 10 million phone numbers with the national do-not-call list in its first four days. The free service is intended to forestall most telemarketing calls.

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■ **NASA engineers still were** debating possible damage to the space shuttle on Jan. 23 when a flight director e-mailed Columbia's astronauts, saying there was "absolutely no concern" that a piece of foam that hit the orbiter might endanger it.

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■ **The Pentagon conducted** 50 secret tests between 1962 and 1973 using potentially dangerous chemical and biological agents, the Defense Department said. Many of the 5,842 military personnel involved were never told about the testing.

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■ **There isn't enough evidence** to recommend or reject use of vitamin supplements as a way to reduce the risk of cancer and heart disease, a government advisory panel said.

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■ **Chronic stress harms** immune systems of elderly caregivers, placing them at risk of various diseases, researchers found. (Page D4)

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■ **The world's deepest-diving sub** has disappeared in the Pacific Ocean off Japan, marking a setback for ocean-research efforts.

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■ **A Laotian court sentenced** two European journalists and a Hmong-American pastor to 15 years in prison for the death of a village security guard. The three had denied any involvement in the incident.

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■ **Indonesian police arrested** the key organizer of Jemaah Islamiyah, blamed for the Oct. 12 Bali nightclub bombings that killed 202 people. Intelligence officials said they are closing in on other leaders of the al Qaeda-linked terrorist group.

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■ **The head of the U.N. nuclear** watchdog agency accepted an invitation to visit Iran to discuss implementation of nuclear safeguards.

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■ **Tens of thousands of Hong Kong** residents plan to stage a demonstration today to protest government-backed security legislation they say could erode civil liberties. (Page A9)

* * *

■ **Rebels suspended** participation in Ivory Coast's power-sharing government, saying President Gbagbo had failed to approve candidates to head the defense and interior ministries.

—Online Today—

WSJ.com

Small Screen: TV pilots are often great. But the quality of the shows can soon drop off as funding for the cast, sets and music dwindles, Joe Flint writes.

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■ **Fund Fiend:** Though mutual funds' second-quarter returns are heartening, investors shouldn't expect the pace of gains to continue.

* * *

■ **Capital Exchange:** Readers and David Wessel debate if the government really can improve Medicare.

Road to Hunger

Behind the Famine in Ethiopia: Glut and Aid Policies Gone Bad

Fledgling Free Market Failed As Surplus Battered Prices; Farmers Slashed Planting

Then the Drought Took Over

By Roger Thurow

BORICHA, Ethiopia—When peasant farmers trekked to this market town two years ago, they carried heavy sacks of grain, the fruits of the best harvest they had ever seen. This year, farmers arrived cradling emaciated children in their arms.

"He is our youngest," said Tesfaye Ketema, nodding toward his five-year-old son, Hagirso. The boy, who was on the verge of starvation, sat listlessly between his father's legs on the floor of an olive-green tent at an emergency feeding center here.

Drought is once again choking Ethiopia, leaving more than 12 million people desperate for food aid from abroad. But this food shortage began before the rains stopped.

In the 1990s, Ethiopia went through a decade of global initiatives that sought to boost agricultural production but at the same time withdrew state support for the farming sector. The government, under pressure from international lenders and aid donors, was pulling out of the grain markets in favor of an underfunded and inexperienced private sector. However, little provision was made to support this fledgling free market with storage facilities, transport and financing. When a bumper harvest came in 2001, the markets were overwhelmed. Prices collapsed, sapping the incentive for farmers such as Mr. Ketema to produce as much as they could.

After he barely covered his costs two years ago, despite his surplus, Mr. Ketema sowed cheaper, lower-quality corn seed on his three-quarters of an acre last year and didn't bother with fertilizer. He knew his harvest would be less but still hoped to have enough to feed his family. Then the drought set in and most of what he planted turned to dust. It wasn't long before he was carrying his starving boy 1½ hours from his farm to the feeding center.

Hagirso Ketema

On a mattress near Hagirso, two emaciated babies were being fed through nose tubes. In this warren of tents—one of more than 20 therapeutic feeding centers set up across the country—166 severely malnourished children battled for their lives. "We've never seen a disaster like this before around here," says Emmanuel Otoro of the government's Disaster Prevention and Preparedness Commission in Boricha's region. A few years ago, he notes, this area had declared itself self-sufficient in food. That didn't last long: "First the market failed," he says. "And then the weather."

The result is that Ethiopia's unfolding tragedy is compounded by this absurdity: While the country begs for food, great stretches of fertile land in the more-drought-resistant wheat and corn belts are lying fallow or being underworked.

"I know that when I cut the size of my farm, I'm contributing to the food shortage," says Bulbula Tulle, a commercial farmer and grain trader in Ethiopia's western highlands. "But at least I'm not losing money." In 2001, he planted 2,700 acres of corn, reaped one of his best yields ever and lost nearly $200,000 because prices fell below his costs for labor, seed, fertilizer and fuel. The next year, to reduce his costs and his exposure to the market, he planted only about 500 acres. The rest of his land has gone to grass and is feeding grazing cows rather than hungry people.

Meanwhile, more than 1.5 million tons of food aid has been rushed into the country by international donors.

The roots of the current food shortage stretch back to 1984, when an epic famine hit the country and nearly a million people died. In the aftermath, the government and international relief organizations—such as the U.S. Agency for International Development and the United Nations' World Food Program—pledged that such starvation would never again afflict Ethiopia. They came up with a two-pronged solution that involved boosting production and building an early-warning network.

To improve production for a population of about 67 million, including five million chronically in need of food aid, Ethiopia expanded its rural extension service to teach farmers new tilling tech-

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In Corporate Crime, Paper Trail Leads To Ink Analyst's Door

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Mightier Than Broker's Word, 2 Ballpoints Could Land Martha Stewart in the Pen

By Mark Maremont

Will Martha Stewart be undone by a blue ballpoint pen?

In the case against Ms. Stewart, a key piece of evidence is a tiny, handwritten notation made by her stockbroker on a trading worksheet filled with similar scribbles. Prosecutors claim the broker belatedly inserted the note to help cover up Ms. Stewart's improper stock trading. Their support: Laboratory analysis showing that the blue ballpoint ink he used is different from ink elsewhere on the document.

Forensic ink analysis, a little-known crimefighting tool, is suddenly in the spotlight in several high-profile business scandals. In Harrisburg, Pa., federal prosecutors pursuing accounting fraud at Rite Aid Corp. used ink analysis to help show that certain documents were backdated. And in San Francisco, the CEO of Aptix Corp. has been indicted on federal charges that include perjury, after ink analysis and other evidence indicated he had fabricated a notebook to help win a patent lawsuit. He has pleaded not guilty.

Scrutinizing ink is on the rise, in large part, because investigators are spending more time chasing corporate officials for crimes that can be difficult to prove or that are mind-numbingly complex. In many cases, it can be easier to demonstrate a coverup than the underlying crime. For example, the government charged Ms. Stewart and her broker, Peter Bacanovic, with perjury and obstruction of justice, not insider trading. And what better way to prove a coverup than with scientific evidence of fabricated or altered documents?

"The issue in a lot of these white-collar cases isn't the substantive offense," says Nick Theodorou, a former federal prosecutor now at Foley Hoag LLP in Boston. "It's when they panic, especially control freaks, and they alter things. That's when you get into obstruction-of-justice problems."

Ms. Stewart and Mr. Bacanovic have pleaded not guilty. Ms. Stewart's attorney declined to comment. Mr. Bacanovic's attorney, Richard Strassberg, said,

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Most Workers Are In Dark on Health Of Their Pensions

US Airways Killed a Plan That Pilots Had No Inkling Was in Financial Danger

By Ellen E. Schultz And Theo Francis

For millions of American workers, few retirement issues are more vital than the health of their pension plans. But companies have waged a successful battle to keep crucial information about their plans a secret.

The fight comes amid rising alarm about the fate of pensions. Some employers, notably steelmakers, have killed decades-old pension plans. Many other companies have reduced pension benefits by restructuring their plans. And employers are now lobbying Congress for formula changes that would let them make smaller pension contributions and smaller payouts when people retire.

Yet employees and retirees have almost no way to find out how financially sound their own pension plan currently is—in part because companies have long resisted attempts to let them have more up-to-date information. The result is that employees are hard-pressed to find out if their pensions are in any current danger.

Two Risks

One source of pension information, company filings to the Securities and Exchange Commission, is of little use to employees. That's largely because most big companies have several different pension plans and lump them all together in their filings.

Without access to accurate data, employees and retirees face two risks. One is that employers can mask the deteriorating health of a pension plan, and then take steps to cut benefits or kill the plan. Paradoxically, the other risk is that employers can exaggerate the ill-health of the pension plan, to justify reductions in retirement benefits.

Consider the fate of a pension plan for pilots at US Airways Group. On March 31, the airline, operating in bankruptcy protection, extinguished a plan covering more than 7,000 active and retired pilots. It said the plan was so underfunded that keeping it going would drive the airline into liquidation.

Retired pilots suspected the airline was exaggerating the pension plan's ill health, and thus the need for future contributions, in order to justify dumping it. The company said that wasn't true. But the pilots say they couldn't get their hands on the data they needed to pursue this argument, even when the plan's life or death depended on it.

A bankruptcy judge rejected the pilots' protest and let the airline kill the plan—citing, in part, the pilots' lack of current data about the plan's health. Retired pilots now contend the airline's estimate of the burden of keeping the plan alive was based on unlikely scenarios.

Left to the PBGC

Termination will leave pilots to collect diminished pensions from the Pension Benefit Guaranty Corp., a quasipublic insurer that assumes some of the obligations of failed plans. The PBGC places limits on pension payouts. Pilots expect to see their pensions drop to 30% to 70% of what they had expected.

Disabled retirees will be among the hardest hit, because they lose supplemental disability payments linked to their pensions. Hugh Greenwood, who retired in 1997, has lost a $2,000 monthly disability check that was supplementing the pension he took as a lump sum. Mr. Greenwood's wife has returned to work, and the former pilot, 67 years old, will likely do the same. Meantime, he is painting the house in Denver in case they have to put it up for sale. US Airways says it did its best to preserve disability payments.

The airline, struggling because of the slow economy and impact of the Sept. 11 terrorist attacks, entered Chapter 11 last August. Aware of its bind, pilots agreed to steep cuts in their pension benefits in 2002. But they had no reason to think the pension plan itself was in jeopardy.

Signs that it might be were absent. For one thing, the company hadn't noti-

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INSIDE TODAY'S JOURNAL

The Quest for No Snooze, No Lose

The demands of parenting, studying and high-stress jobs have Americans getting less sleep than ever. Drug makers hope you'll turn to both new sleeping pills and "wake agents." **Page D1**

Congress Shrugs at a Menace

Everyone in Washington agrees the alternative minimum tax is hurting more and more taxpayers and has to go. But agreeing on how to fix it is a different story. **A4**

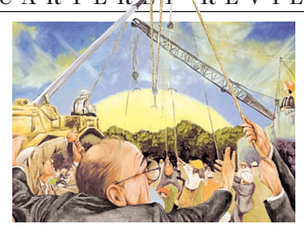
A Jazz Lover Cries, 'Retire to WHAT?'

Marian McPartland, the 85-year-old host of "Piano Jazz" on NPR, has no plans to give up her mission: "I just want jazz to be heard." **Leisure & Arts, D8**

Thriving Without a Degree

Chad Toulouse, the son and grandson of blue-collar workers, always thought he'd finish college. But the high-paying, high-skilled life of the modern machinist has him hooked. **B1**

STOCK MARKET QUARTERLY REVIEW



A New Dawn for Stocks?
Global Markets Revive
A Review of the Quarter
In Wall Street Underwriting

Review Begins on C11

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Workers Are in Dark on Health of Pension Plans

Continued From First Page

fied them it was underfunded. Nor did US Airways have to make minimum contributions to the plan, as is required when plans are significantly underfunded. Serious underfunding also obliges companies to pay special premiums to the PBGC, and US Airways hadn't had to do so.

The latest filings to the SEC showed that US Airways' pensions, as a group, were almost fully funded in 2000. They were underfunded by $2.3 billion on Sept. 30, 2001, but this was mainly because the airline had changed some assumptions, such as the size of future pay increases.

These filings give a company's shareholders a general impression of how much its pension obligations are likely to affect earnings. But employees rarely can use the filings to learn whether the company is making regular contributions to their pension plan, or how their plan's investments are doing.

Companies may have several different pension plans—for salaried workers, for those subject to collective bargaining, for oversees employees—plus plans for top executives. US Airways had seven, all lumped together in its SEC filings.

The SEC filings told the pilots that as of Sept. 30, 2001, the seven plans' stock and bond investments had lost a collective $614 million in 12 months, reducing total assets to $3.1 billion. The filing showed that US Airways had contributed $38 million to its pensions. But it gave no indication of whether the pilots' particular plan had investment gains or losses, nor of whether their plan had received an infusion of cash from the company.

It had not, a US Airways spokesman confirms. The spokesman says the airline hadn't made any contributions to the pilots' pension plan for three years "because none were needed or required by law."

Muddying the Waters

Making SEC filings especially opaque are executive pensions. Companies usually include these in total pension liabilities, even though these aren't paid from the pension funds for regular employees. They're instead paid from general assets of the company, or in some cases special trusts. So including IOUs for executives generally makes employee pensions look less well-funded than they really are. For this reason, securities analysts' reports mentioning how much companies' pensions are "underfunded" or "overfunded" are usually misleading.

For example, General Electric Co.'s pension plan is more overfunded than it appears in its SEC filings. In 2002, GE had pension assets of $37.8 billion and liabilities of $33.3 billion, so it was overfunded by $4.5 billion. But unlike most companies, GE discloses the amount it owes executives for their special pensions. When the $1.5 billion executive liability is subtracted, it shows that qualified pension plans for GE workers are overfunded by $6 billion.

At US Airways, the SEC filing for 2001 mentioned, without elaborating, a pension plan in which "the aggregate accumulated benefit obligations and plan assets were ... $184 million and zero ...." This referred to executive pensions, a spokesman confirms. Such murky disclosures—common to most companies—leave most employees in the dark about the health of their pension plans.

It used to be easier for workers to keep abreast. In 1995, Congress began requiring companies to provide more details to the PBGC. But in exchange, the PBGC had to agree to keep this additional pension information confidential—even from requests made under the federal Freedom of Information Act.

As part of the deal, companies agreed to notify participants if their pensions became underfunded by a worrisome amount. But the requirement has so many exceptions that, as the US Airways case shows, employers rarely have to issue a notification. Even a company as hard-pressed as Bethlehem Steel, whose assets have been liquidated, never had to warn employees or retirees that their plans were underfunded—before it moved to kill the plans.

Top-50 List

The PBGC used to publish an annual list of the 50 companies with the most-underfunded pension plans. But in 1997, under pressure from companies, the PBGC stopped publishing the lists. The lists "unnecessarily alarmed employees ... when the plan funding in fact presents no danger to workers' pensions," said a statement at the time from the president of the ERISA Industry Committee, a lobbying group for large employers.

On that last top-50 list were US Airways, Northwest Airlines and UAL Corp., companies that today have underfunded plans. Many other companies on the last list later reduced the level of their pension benefits by freezing the plans or converting them to a hybrid known as a cash-balance plan. A few on the last list—Anchor Glass and steelmakers LTV, Bethlehem and National Steel—have since had their pensions taken over by the PBGC, a move that limits how much pensioners can receive.

The employer-group president who said the top-50 list was unnecessarily alarming, Mark Ugoretz, couldn't be reached for comment.

Last December, with US Airways' pilots still assuming that their pension plan was in tolerable health, the airline asked them for another round of pension cuts. They agreed. A few weeks later, to their dismay, US Airways stated that the pilots' pension plan was seriously underfunded. On Jan. 30, the airline filed with the bankruptcy court an intention to kill the plan. US Airways estimated it would have to put $1.7 billion into the plan over seven years, a burden it said would force the airline into liquidation.

Few challenged the estimates. Among those who took the airline's word were the creditors' committee; the Air Transportation Stabilization Board, which was poised to guarantee loans to the carrier; and the airline's main bankruptcy lender, Retirement Systems of Alabama, which stood to gain a large equity stake in US Airways if it emerged from Chapter 11.

All acknowledge they didn't examine the plan's financial health or have up-to-date pension-liability figures, but rather accepted US Airways' analysis and backed its request to kill the plan. Such a move stood to benefit most of them. It would wipe out a liability and make the company more likely to emerge from Chapter 11 in a position to pay its debts and provide a return to new owners.

Only the retired pilots questioned the company's estimate of how much it would have to contribute if it kept the pension plan alive. But they said they had insufficient information.

The Form They Needed

The data the pilots needed is in a form companies file to the Internal Revenue Service for each pension plan. Form 5500 shows how much money is in the pension plan; how well the stocks or bonds it holds have performed over 12 months; and company contributions to the plan. Most important, it shows the plan's "current liability." This determines how much cash, if any, a company is required by law to contribute to the plan in the succeeding year.

The problem is, this information is largely inaccessible to employees until it's old. Companies have seven to nine months to file the data with the IRS. It then takes 12 to 18 months before the information has been processed and could be obtained by an employee requesting it from the Labor Department.

Companies are supposed to make Form 5500 data available to participants within nine months, if they ask for it in writing. But they may require employees to travel to certain locations, such as company headquarters, to see the data.

The US Airways pilots had only a Form 5500 for the year 2000. It showed their plan as adequately funded. The information was more than two years old.

An actuary hired by the retired pilots asked the airline for the data it was putting in its latest Form 5500, for 2002. The just-hired actuary, James Kinney, had only four days to get this before he was to testify. The bankruptcy court had set a hearing date for less than one month after receiving the termination request.

Mr. Kinney says US Airways sent him 5500s for all of its pension plans except the one that mattered, the one for the pilots' plan.

He quickly renewed his request. This time Mr. Kinney did receive a Form 5500 for the pilots' plan, a single day before he was to testify. However, he says, it was the Form 5500 for 2001. Not until after his testimony, the actuary says, did he obtain the up-to-date pension information that the airline and its consultant, Towers Perrin, were using to prepare US Airways' own testimony.

Too Late

By the time he got it, it was too late. "Had I had the real information, I could have testified more completely and precisely that the company's estimates about its contributions requirements were too high," Mr. Kinney says.

A spokesman for US Airways initially said several times that the airline had provided all the requested information. Subsequently, the spokesman said that "the company could not confirm or deny" Mr. Kinney's version of events. He added that a "tremendous amount of information was exchanged among all parties in the course of the case."

On March 1, the day after Mr. Kinney testified, the bankruptcy judge accepted US Airways' position that the pilots' pension plan was so underfunded that making the minimum required contributions in the future would force the company to liquidate. Judge Stephen Mitchell let the company terminate the plan.

Part of his reasoning came as a bitter pill for the pilots after their futile attempt to get up-to-date information from the company. Judge Mitchell said the pilots' actuaries had "based their calculation on rules of thumb and rough estimates while [US Airways'] actuary based his on the actual computer model used for administration of the plan." The judge didn't respond to requests for comment.

US Airways is turning over its responsibility for pilot pensions to the PBGC. The insurer is obligated to pay no more than $28,585 of the annual pensions that pilots earned, a figure held down by pilots' retirement age of 60. Some will get more, though, if the plan turns out to be well-funded enough.

Jerry Vaughn, a 52-year-old pilot, estimates his retirement income will fall 50% as a result of the plan's termination.

The PBGC and US Airways are haggling over how much pension money the airline has to hand over to the insurer. US Airways has agreed to set up a 401(k) savings plan for the pilots. An airline spokesman says some active pilots could even end up with more money than under the pension, if they get really high returns in their 401(k).

Fighting the Ruling

Retired pilots, however, have no chance to build up any retirement savings in the new 401(k). The retired pilots appealed the termination decision to a federal district court in Alexandria, Va. They alleged that US Airways had exaggerated the future burden of contributing to the pension plan. For instance, they said US Airways had used improper mortality assumptions, had assumed a very low discount rate (which produces a greater liability), and was assuming that over seven years, interest rates will remain about the same. In short, the appeal asserted, US Airways adopted extreme assumptions to make the projected liability look as burdensome as possible.

The pilots said their inability to get up-to-date data had made it impossible to challenge the airline's claims. "US Airways' actuary, on the other hand, had full access to the plan's data and ... was able to rely on information the [pilots] had never seen and had no time to review," the suit said.

In a written statement, US Airways said, "The company did not exaggerate the funding requirements of pension plans. US Airways used reasonable actuarial assumptions." It added that the bankruptcy judge's decision "was quite clear that we had made reasonable assumptions and the lack of credibility of the plaintiff's witnesses were obvious."

Federal Judge Leonie Brinkema dismissed the appeal on May 27. She didn't address the merits. She simply ruled that "revisiting this issue at this late date, after US Airways and its other creditors have proceeded with numerous transactions pursuant to the current reorganization plan, is wholly impractical." The retired pilots have filed a further appeal.

Owners of the airline, which emerged from bankruptcy March 31, would indeed find it unpalatable to see the pilots' pension plan restored. In its first quarter filing with the SEC, US Airways disclosed that even after taking into account claims from the PBGC, the airline gained $387 million from killing the pilots' pension plan.

Tough Mayor Shows Argentina How to Clean House

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bluntly urged Argentina, the third-largest economy in Latin America, to address "institutional flaws that encourage excess public sector borrowing, corruption, politicized judicial systems and a lack of transparency in government activities."

That's why people consider Morón "a very, very important example," says Luis Moreno Ocampo, an Argentine human-rights lawyer sworn in last month as chief prosecutor of the International Criminal Court at the Hague, a new court for war crimes and crimes against humanity. Mr. Sabbatella "makes life complicated for other mayors, because the cost of public contracts is so much less in Morón, and everyone can see how much is stolen elsewhere," Mr. Moreno Ocampo adds.

Mr. Sabbatella says Morón's formula for squeaky-clean government is so simple that it could be copied anywhere. "It's just a question of political will," he claims. So far, though, few other Argentine cities have followed. Part of the problem is the country's dominant Peronist party, which relies less on ideology than populist rhetoric and old-fashioned patronage. Its roots run so deep in Argentina that many leaders aren't willing to abandon the spoils system, despite its evils. Mr. Sabbatella was the only one of 40 mayors to take up Transparency International on its offer three years ago to oversee municipal contracting procedures.

Fighting corruption also can be hazardous to a politician's health. While on Morón's city council, Mr. Sabbatella says he was threatened frequently and roughed up once by Peronist activists. His anticorruption office was pelted last year with garbage by an angry mob. Cesar Mariano Albistur Villegas, head of inspections and transit police in Morón, doesn't keep pictures of his wife and children on his desk because he worries that visitors might try to harm them.

The biggest test of Morón's progress will come when Mr. Sabbatella seeks re-election in September. His main opponent is a Peronist candidate who could offer easier access to public-works projects and unemployment benefits that the party-dominated government is doling out at the federal level. For some voters, those handouts could be more appealing than four more years of Mr. Sabbatella.

For most of the 1990s, Morón's mayor was Juan Carlos Rousselot, a smiling, white-haired radio and TV announcer and Peronist stalwart. First elected in 1987, he was forced out of office by the city council two years later over alleged irregularities in a proposed sewer project. Mr. Rousselot says he didn't do anything wrong. Voters re-elected him in 1991 partly on the strength of his friendship with Carlos Menem, who led Argentina through a gaudy era of prosperity in the early 1990s but left a host of corruption scandals in his wake.

Mr. Rousselot's government was immersed almost constantly in controversy. A 1993 investigation by Morón city-council members found that the city paid twice the going rate for basic supplies such as lime and antibiotics. Almost all street-repair bids in 1997 were won by two contractors with the same president, and the bidding process seemed skewed in their favor, another city-council report concluded.

Mr. Rousselot's spending habits also raised eyebrows. The mayor's job paid about $2,600 a month in salary and expenses. But Mr. Rousselot's Visa card statements, published by the local newspaper, El Diario, in 1998, showed him spending $25,972 one month and $27,919 the next.

In an interview, Mr. Rousselot says he was doing broadcasting work to supplement his pay. He blames all the controversies on rivals who were jealous of his ambitious agenda, claiming he was "doing public works that no president in Argentina had dared to do."

Mr. Sabbatella, then a city-council leader, pressed an investigation of the mayor. In 1999, Mr. Rousselot was arrested on charges of embezzling funds from a hospital project. A provincial court sentenced him to a three-year ban from public office on a lesser charge than prosecutors had sought and a one-year suspended prison sentence for the threat against a former city official.

Mr. Rousselot denies any wrongdoing and is appealing the conviction. He says the arrest was part of a plot orchestrated by political enemies, including Mr. Sabbatella and Eduardo Duhalde, a former governor of Buenos Aires who was Argentina's president from January 2002 to May. Mr. Sabbatella's administration has asked the court to throw Mr. Rousselot in jail for several years.

Mr. Sabbatella's style was different from what locals were used to. After finding out that city officials hadn't kept a promise to repave a downtown street, Mr. Sabbatella gave back part of residents' taxes. His predecessor's showy office was converted into a museum honoring victims of Argentina's military dictatorship, which ran a torture center nearby in the 1970s.

After Morón instituted competitive-bidding processes for public contracts, the city's printing costs tumbled 75%, while hospital maintenance expenses fell 35%. Oscar Becerra, a local print-shop owner, says government contracts were so murkily managed while Mr. Rousselot was mayor that he seldom bothered to bid and had trouble getting paid when he did win work. Under Mr. Sabbatella's government, Mr. Becerra says, "I don't always win, but I know that if I lose the process was honest."

For Morón's trash-collection contract, a huge expense that was a frequent source of controversy, Mr. Sabbatella asked for help from Transparency International. The group oversaw public hearings and made all government officials and prospective bidders sign antibribery pledges. The result: The garbage-collection fee was cut 35% and is now lower than that of any other nearby city.

When questions have emerged about his own administration, Mr. Sabbatella has worked to get to the bottom of them. A couple of years ago, his former director of public income, who had overseen taxes and other revenue, faced accusations from a city councilman that he had undercalculated a debt owed to Morón before he left office. Mr. Sabbatella shook up his economic team and brought charges against the former director for abuse of authority. The case hasn't been decided.

To show that there should be no secrets in his administration, Mr. Sabbatella posts personal financial information on the city's Web site, including his bank-account and credit-card balances. (His household furnishings, TV and computer are worth less than $4,000, according to the listing.) He is paid about $1,300 a month, has cut his salary since taking office and lives with his wife and daughter in a house they rent for less than $175 a month. Mr. Villegas, the Morón inspection chief, doesn't hand out business cards because they could be waved under a traffic cop's nose by someone trying to wiggle out of a driving violation.

Mr. Sabbatella put the new anticorruption office a few blocks away from city hall so residents wouldn't feel inhibited about denouncing wrongdoing. The office's three staff members keep mug shots of local cops handy to aid citizens trying to identify any crooked ones. So far, about 20 workers implicated by the office were fired or didn't have their job contracts renewed, and 15 more were moved to different jobs.

When health inspectors went to a grocery store in late 2001 and asked for a bribe of 50 pesos, a clerk paid them, according to Mariela Sabio, a lawyer in the anticorruption office. But then the clerk called the office and the police. When the inspectors came back, they were caught trying to collect another bribe and wheel away shopping carts full of groceries. The inspectors were fired.

For all the progress in Morón, the city's determination to fight corruption hasn't spread to the national level. The political coalition that helped put Mr. Sabbatella in office unraveled shortly after he was elected, and President Fernando de la Rua quit amid violent street protests and economic chaos in 2001.

With no political machine left to support his re-election push, Mr. Sabbatella is going it alone, and has launched his own fledgling party. Winning again won't be easy. The Peronist party remains the leading political brand name in Argentina, and it plans to oppose Mr. Sabbatella with a fresh-faced city-council member who claims he would continue Morón's corruption-fighting efforts.