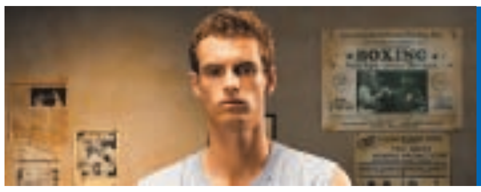

Andy Murray is unfazed by tales of the expected

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Deadly labor wars hinder economic rise of India

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THE WALL STREET JOURNAL.

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Return to Downing Street

Bloomberg News

Gordon Brown, U.K. prime minister and his wife, Sarah (left), stand with Margaret Thatcher, the former U.K. Prime Minister, center, on the steps of 10 Downing Street. Lady Thatcher returned to unveil her portrait which is to be installed at the official residence of Britain's prime minister.

IMF director says uncertainty fuels more risk-taking

By Natasha Brereton

International Monetary Fund Managing Director Dominique Strauss-Kahn warned on Monday that uncertainty over the future regulatory environment was creating perverse incentives.

"It might be encouraging a risk-taking culture—a Mardi Gras effect whereby financial institutions party now in expectation of lean times to come," Mr. Strauss-Kahn said to a conference organized by the Confederation of British Industry, a business lobby group.

He stressed the importance of spelling out the details of future requirements and the timetable for implementation at the earliest possible opportunity. "Clearly, this is dangerous, not least for emerging markets. And we may run out of time—if we wait too long to implement these reforms, it might be too late."

The head of the U.K.'s Financial Services Authority also said that regulators had dropped their view leading up to the crash that financial innovations were inherently good and capable of balancing and matching investors' varying demands for risk, liquidity and return.

"We have had to change that mindset and we have now done so," said Lord Adair Turner, pointing to requirements that more capital be set against certain kinds of trades so as to "move from a bias in favor of more trading to a bias to conservatism."

Mr. Strauss-Kahn, speaking at the conference of the U.K.'s business lobby group also warned that probably close to half of global bank losses have yet to be disclosed.

U.K. Conservative Party leader David Cameron said Monday that he believes it would make sense for the Bank of England to take control of macroprudential regulation and be given the authority to "call time" on the overall level of debt in the economy. Macroprudential policy aims to enhance the resilience of the financial system by discouraging the buildup of risk in upturns and reducing impediments to risk-taking in downturns, moderating the extremes in the economic cycle.

Responding to audience questions at the CBI conference, Mr. Cameron acknowledged that his party's reform plans would require radical changes, but he said these were necessary to bolster the financial system against future crises.

"I think the clarity of saying that the Bank of England should be put back in charge of two vital things—one is the overall level of debt in the economy, being able to call time on debt in the economy—I think that is important," Mr. Cameron said. "To actually put the macroprudential regulation of banks and financial services back in the Bank of England, I think makes sense because I think it is rather odd to have the organ of monetary policy completely disconnected from the banking industry."

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The Quirk

Those rippling muscles on TV are a pigment of your imagination Page 33

World Watch

A comprehensive rundown of news from around the world Pages 34-35

Editorial & Opinion

The truths climate scientists don't want you to know. Page 13

Hopes for Mideast release grow

By Charles Levinson

JERUSALEM—Hopes were mounting Monday that Israel and Hamas were nearing a deal to exchange Israeli soldier Gilad Shalit, captured more than three years ago along the Gaza border, for hundreds of Palestinian prisoners.

A deal to free the 23-year-old staff sergeant could have a broad impact on U.S.-led peace efforts. His continued captivity is a chief reason cited by Israeli officials for blockading the Gaza Strip by allowing a bare minimum of food and humanitarian aid into the territory, home to 1.5 million Palestinians.

But the release of hundreds of Palestinian prisoners would also be a significant political victory for Hamas, which could further weaken the

Reuters

Captured Israeli soldier Gilad Shalit is seen in an Oct. 2 photo.

U.S.-backed moderate Palestinian President Mahmoud Abbas. Mr. Abbas has faced a barrage of Palestinian criticism in recent weeks for appearing to have conceded too much to Israel with little to show for it.

A massive prisoner release could bolster Hamas claims that violent resistance—such as the June 2006 attack by militants who tunnelled under the Gaza border to attack an Israeli guard post and capture Sgt. Shalit, then a corporal—can achieve more for Palestinians than peaceful negotiations.

The arrival in Cairo Monday of senior Hamas officials from the Gaza Strip and Syria, and recent comments by Israeli and Hamas leaders have fueled expectations a deal is imminent.

On Sunday, Israeli President Shimon Peres told reporters "there is no doubt that real progress has been made on the issue of Gilad Shalit," during a trip to Cairo, the Associated Press reported.

It's all change now, but how long before we're back to business as usual

[Agenda]

By Patience Wheatcroft

Business will never be the same again. That is the popular refrain that follows any great disruption. After an extraordinary period in which financial markets have been through one of their greatest ever disruptions, with a knock on effect on the wider business world, it can be heard at full volume.

It was the theme reverberating around the CEO Council hosted by The Wall Street Journal in New York last week, and it formed one of the dominant tunes played at yesterday's annual conference of the CBI, Britain's leading business organization.

To coincide with the gathering, the CBI published its thoughts on how business is going to have to evolve to respond to the changed conditions. The conclusions apply to companies throughout Europe and far beyond as they seek a recipe for survival in a hostile environment.

Part of that hostility comes from a suspicious public. The level of trust in business and markets has sunk as low as that in politicians and continues to slide. Former U.S. presidential candidate, Sen. John McCain, told the CEO Council he had never seen anything like the anger now evident: "The anger is directed at what we do in Washington and what you do on Wall Street."

The mood in the U.S. is replicated in Europe. The response to this, says the CBI, will be that businesses will have to demonstrate ethical credentials. This will mean a greater emphasis on governance and sustainability, in its widest sense. That may not be enough, however, to hold back the pressures calling for forced change in corporate behavior through regulation. Though banks are viewed as the greatest villains, the capitalist philosophy itself is being questioned more vigorously than it has been in decades, and, says the CBI, business is going to have to respond if it is to have "a licence to operate."

Associated Press

Will the bankers' merry-go-round soon be happily spinning again?

Businesses will be forced to change their financial structure. Although the banking sector is supposedly returning to a degree of normality, the CBI says debt will remain more expensive and harder to obtain than had become the norm. Lenders will be more demanding in the terms on which they will lend. The days of "covenant light" loans have long gone, along with plenty of the businesses they funded. Instead, there will be an emphasis on reducing corporate gearing that will, inevitably, reduce returns to shareholders while companies adjust to the new era.

Then there will be a hunt for different means of financing growth. There were even voices at the CBI conference raised in support of calls for the government to establish an organization to channel financial backing to smaller firms. This is dangerous talk. The real role of government should be to enable and encourage the private sector to support these businesses, not to put public finances, already in a perilous condition, at risk by backing businesses.

As unemployment rises around the western world, a trend destined to continue well into next year, there will be little comfort for politicians to be found in the CBI's prediction that businesses will rethink their operating model. Already, the recession has forced many of them to move toward a more flexible work force, putting staff onto shorter working weeks and different shift patterns. As the burdens of being an employer continue to grow, that shift is likely to be more radical, with staff numbers being permanently reduced and more use being made of outsourcing.

Fast-moving technological changes should mean geography becomes a matter of little concern for many knowledge-based businesses. Yet the ability of business to maximize the scope of the continuing technological revolution will depend upon a more highly skilled work force. This is not merely an issue in the U.K. At the CEO Council, the need to make education a top priority was placed well ahead of health care, despite the current emphasis on that in the government's legislative program. Chief executives, representing roughly $2 trillion in market capitalization, also put education ahead of climate change and financial and regulatory reform in their call for action.

The other main change the CBI predicts for business is a more collaborative approach with suppliers and customers. It reasons that the drastic shake-out of the past couple of years has left companies with a wariness about trading partners. With the cost of insurance almost prohibitively high, they might choose to collaborate with a few trusted partners with whom they grow.

The accumulation of all these trends should be 'business will never be the same again'. Yet....

The head of the IMF, Dominique Strauss-Kahn, was a key-note speaker at the London event. He offered little cheer on the subject of world economies and cautioned against any early turning off of the support machine that governments had implemented round the world.

But his most important warning was that things could be just the same all over again. The risk he said, was that if regulators did not move fast, then bankers were set for a repeat of the era of excessive risk taking.

He's right. And for all the thought that has gone into the CBI's scenario-planning, the fact is that if economies begin to return to health, many companies will be very happy to return to business as usual.

Only those with the most far-sighted management will use the shock of the last couple of years to reshape their operations in a way that will better insulate them when the next downturn comes, as it inevitably will.

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The Source

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A reader on banker reputations in "They've Always Been Vampire Squid"

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Question of the day

Vote and discuss: How high can gold prices go?

Vote online at **wsj.com/dailyquestion**

Monday's results

Q: What should be the next step for NATO in Afghanistan?

Keep troop levels the same
5%

Withdraw forces
26.3%

Add additional troops
62.5%

Other
6.3%

What's News

■ **U.S. and European stocks** surged and gold prices hit a record as investors turned again to riskier assets. The dollar weakened after a Fed official said he would prefer to keep the central bank's extraordinary asset-buying program active beyond its current cutoff date. **19, 27**

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■ **Hopes mounted** that Israel and Hamas were nearing a deal to exchange Israeli soldier Gilad Shalit for hundreds of Palestinian prisoners. **1**

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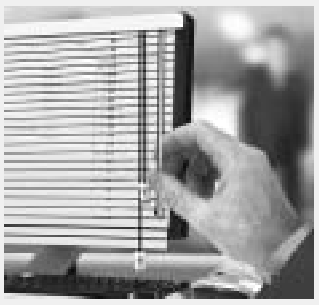

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Property sector sees more stress

Commercial units experience a rise in distressed sales

By Ilona Billington And Anita Likus

Distressed sales of commercial property continued to rise around the world in the third quarter of the year, with the U.S. reporting the second-largest quarterly increase for the second straight quarter, a survey showed Tuesday.

The Royal Institution of Chartered Surveyors said more than 80% of the 25 countries surveyed saw a rise in the number of distressed sales in the property market, with South Africa reporting the largest rise in the third quarter, followed by the U.S., Portugal and France.

The RICS said the pace of the increase in sales moderated from the second quarter in most countries but, looking ahead, Russia and the U.S. are expecting the largest number of distressed sales in the fourth quarter. "Distressed property listings are likely to become a bigger feature of the global property landscape in the coming year as loan refinancing and improved pricing in some markets provides a window of opportunity for banks to manage down some of their property-loan exposure," said Oliver Gilmartin, senior economist at the RICS.

A distressed sale is defined as a property that is under a foreclosure order or is advertised for sale by the mortgagee and is typically sold for less than market value. The rise in distressed sales suggests the property market will slow the pace of a recovery in the global economy; the latest data from the Organization of Economic Cooperation and Development showed the world's developed economies emerged from recession in the third quarter, posting combined gross-domestic-product growth for the first time since the first quarter of 2008.

Banks are generally only foreclosing on properties as a last resort, the survey found. In those cases where a borrower has technically breached the terms of a loan agreement but continued to pay interest, banks have preferred to ignore the breach rather than foreclose, which would mean adding bad debt onto their own balance sheets.

Record-low interest rates have helped many corporate tenants cover payments this year; however, concerns over funding have emerged now that more is needed to help cover manufacturing costs as the majority of firms' destocking has come to an end, the RICS said.

"Despite unconventional monetary measures across some economies, the reluctance of banks to extend lending remains one major obstacle to a buoyant occupier recovery," Mr. Gilmartin said.

Despite the lack of new lending, just two in 10 survey respondents said the speed at which banks are ending agreements because of non-repayment or changes to repayment contracts has increased.

The RICS survey also reports a further increase in interest in distressed sales from specialist funds. Surveyors in China reported the largest expected increase in interest from specialist funds in the fourth quarter, although it didn't expect a further rise in the number of distressed sales.

Mr. Gilmartin said specialist funds are expected to be more interested in China's commercial-property sector as prices have fallen steeply, representing more potential bargains.

In the U.S. and Russia, surveyors see a further steep increase in the number of distressed sales in the fourth quarter compared with the third, but a smaller level of interest expected from specialist funds in the final three months of the year.

"Although commercial-property prices have been falling in the U.S. since the beginning of the credit crunch in the second half of 2007, most agents report that the U.S. is still going through a price correction," Mr. Gilmartin said. The survey reported a smaller level of interest from funds in distressed sales in the U.S. in the third quarter compared with the second.

The RICS said the large increase in distressed sales in South Africa was likely because of a lagged reaction by the property market to the global downturn, rather than any new development there. The country's commercial-property sector outperformed other, typically stronger markets in some respects during 2008. In the U.K., the number of distressed commercial-property sales also increased in the third quarter and is expected to do so again in the fourth quarter but at a slower pace.

The RICS reported that the level of interest from specialist funds in the U.K. will likely keep pace with the number of expected distressed commercial-property sales in the country in the fourth quarter.

But while more distressed-property sales are coming to market, bargains are still hard to find. Some sales have attracted plenty of interest in the U.K. and London in particular as the weak pound has encouraged foreign buyers. Industry experts estimate that buyers outnumber opportunities three to one in central London.

"I think we are at an interesting market tipping point," said PricewaterhouseCoopers real estate partner Barry Gilbertson. PWC is administrator to **Rock Group**, the property company that went into administration in May. One of Rock's main assets, the former headquarters of fashion label Burberry, was put up for sale in October. It had received two offers "even before the bidders have been inside the building."

Mr. Gilbertson said more than 200 parties are interested in the former Burberry building, which is expected to sell for more than £20 million ($33 million), including "considerable interest from international potential buyers." There are plenty of interested buyers for properties outside London as well. Shopping center Silverburn near Glasgow, put on the market by **Lloyds Banking Group**, has received interest from more than 30 parties and more than 10 bids. British property company **London & Stamford Property** Ltd. said it was looking at Silverburn but pulled out after intense competition pushed the price too high. **Hammerson** PLC, together with a partner, is expected to buy the shopping center for more than £300 million.

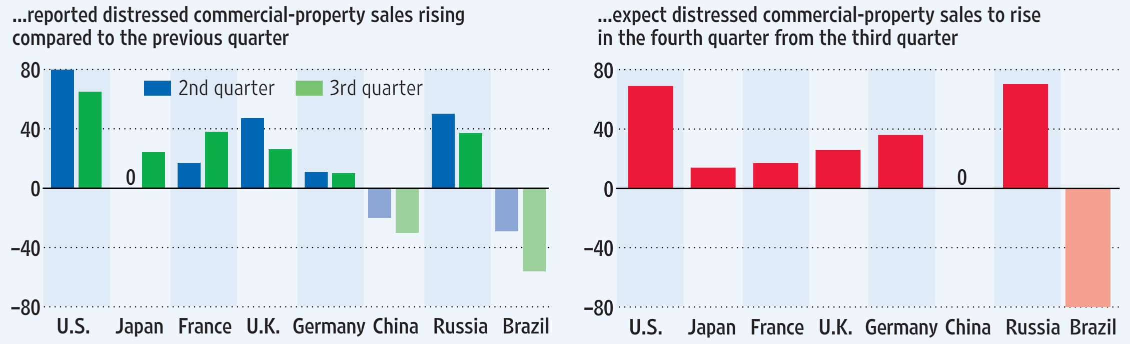
Jones Lang LaSalle

Distressed sales of commercial properties haven't led to many bargains in the U.K. since the buildings, such as the former headquarters of Burberry, have attracted a lot of interested buyers.

Under pressure

The results of surveys of real-estate executives asked to estimate the volume of distressed sales in the commercial property market.

Balance* of real-estate executives in select countries who...



*The number that estimate a fall is subtracted from those that expect a rise

Source: The Royal Institution of Chartered Surveyors

EUROPE NEWS

OECD exits recession amid warnings

IMF chief Strauss-Kahn advises caution in recovery, telling governments to be wary about dropping stimulus measures

By Paul Hannon
And Natasha Brereton

LONDON—New data show the world's developed economies emerged from recession in the third quarter, but International Monetary Fund Managing Director Dominique Strauss-Kahn said further stimulus steps are needed before governments can let down their guard.

In a speech, Mr. Strauss-Kahn said governments should err on the side of caution, "as exiting too early is costlier than exiting too late."

Figures released by the Organization for Economic Cooperation and Development showed economic output in its 30 members in the third period was up 0.8% from the second quarter, although it was 3.3% lower in annual terms.

The OECD said the combined gross domestic product of the 30 members grew for the first time since the 2008 first quarter. The combined GDP of the Group of Seven largest developed economies rose 0.7% from the second quarter, but was also down 3.3% from the third quarter of last year.

OECD members account for 61.3% of world GDP. With large developing economies like China also growing, the third-quarter figures indicate that the world economy has emerged from its deepest recession since World War II.

Mr. Strauss-Kahn said conditions in the global economy remain highly vulnerable and are threatened by undercapitalized banking systems, weak household finances, high unemployment and large public deficits.

He added that designing and communicating plans for fiscal consolidation—cutting budget deficits—should be the top priority, especially for advanced economies, where there is "little sign" of inflationary pressures and monetary policy can afford to stay accommodative for "some time."

"I think it is still too early for a general exit. Exit should instead await a sustained recovery in private demand, as well as entrenched financial stability—a key litmus test," Mr. Strauss-Kahn said.

Separately, at an event in Madrid, European Central Bank President Jean-Claude Trichet said the ECB has a strategy to exit its stimulus measures and urged euro-zone governments to come up with strategies to withdraw their own stimulus programs once the crisis has passed.

"When the appropriate time comes, there should be no concern about the ECB's determination and ability to exit," Mr. Trichet said.

Last week, Mr. Trichet oversaw what was widely seen as the ECB's first step to withdrawing its banking support programs, tightening requirements for asset-backed securities, a class of investment underpinned by income from loans such as credit cards, auto and student loans and mortgages.

Also Monday, Markit's flash composite purchasing-managers index for the euro zone—a gauge of private-sector activity—rose to a two-year high of 53.7 in November from 53.0 in October.

That reflected a rise to 51.0 in the manufacturing index from 50.7 in October, while the PMI for the services sector increased to 53.2 from 52.6. A level above 50 signals an expansion in activity, while a level below 50 signals a contraction.

"The November survey suggests that the euro zone continued to expand at a robust pace," said Chris Williamson, chief economist at Markit. "However, we also saw the first signs of growth peaking."

The smaller-than-forecast manufacturing PMI gain of just 0.3 point, as well as the slower pace of gains across the subsectors, reinforce economists' views that the European Central Bank should keep interest rates at the current accommodative level of 1% well into 2010.

"While the November euro-zone purchasing managers surveys suggest that euro-zone growth in the fourth quarter may well outstrip the 0.4% GDP expansion achieved in the third quarter, there are warning signs within the surveys that the recovery may lack stamina and could well slow early in 2010," said Howard Archer, chief euro-zone and U.K. economist for IHS Global Insight.

"Consequently, there is a compelling case for the ECB to only very gradually withdraw its emergency liquidity measures, and to keep interest rates down at 1% until deep into 2010," he said.

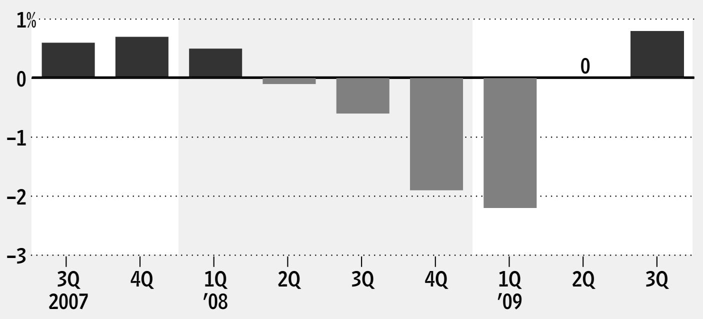
—Ilona Billington and Jonathan House contributed to this article

Agence France-Presse/Getty Images

International Monetary Fund Managing Director Dominique Strauss-Kahn, speaking Monday in London, said the world economy remains vulnerable.

End of recession

Developed economies expanded in the third quarter for the first time since early 2008. OECD's gross domestic product, quarterly percentage change



Source: Organization for Economic Cooperation and Development

Rival U.K. parties vie to shepherd economy

By Natasha Brereton
And Terence Roth

LONDON—The two chief rivals in the U.K. election struggled for the high ground, competing to see who would be faster to restart the economy and close the widening deficit.

Prime Minister Gordon Brown and Conservative Party leader David Cameron, speaking at a conference here, gave few specifics on how to revive business activity without worsening public-sector red ink.

The government, in its Dec. 9 pre-budget report, will detail how it plans to put the U.K.'s finances on a sustainable path, Mr. Brown said in a speech at the Confederation of British Industry annual conference. "I believe that people need the certainty of knowing what we are determined to do," Mr. Brown said, noting that the government aims to put its pledge to halve the fiscal deficit by 2014 into law.

Mr. Brown emphasized the need for caution in withdrawing economic stimulus.

"Choking off recovery by turning off the life support for our economies prematurely would be fatal to British jobs, British growth and British prosperity for years," he said.

Ratings firms have threatened to remove the U.K.'s AAA rating if the party that wins a general election due to be held by June doesn't set out plans to cut debt more rapidly.

Business leaders question whether the next government realistically can spur the economy while reducing the U.K. budget deficit, which—at more than 12% of gross domestic product—is one of the widest in the developed world.

"We have to learn a new trick as an economy," said Stephen Hester, chief executive of Royal Bank of Scotland Group PLC, who attended the conference. "And that is how to expand safely without huge budget deficits, without an unsustainable house-price boom, without consumers taking out equity from their houses and using it to sustain their lifestyle."

Mr. Cameron, the opposition leader, renewed his pledge to cut the small-companies tax rate to 20% and the main rate of corporation tax to 25% to spur business investment. He also said he would trim spending by implementing a one-year salary freeze for higher-paid government workers, increase the retirement age and cut certain welfare benefits.

His speech provided no more details about his promise Sunday to introduce an emergency budget within 50 days if the Conservatives win the election.

Mr. Cameron's Conservatives lead most opinion polls, but a new survey published Sunday in the Observer newspaper showed the gap between the two main parties has narrowed to its smallest since December 2008.

The voters poll, conducted by Ipsos MORI, gives the opposition Conservatives a 37% share of the vote with the governing Labour Party taking 31%.

On other issues, Prime Minister Brown said the U.K. will build 16 gigawatts of new nuclear-energy capacity—more than previously planned.

This month, the U.K. government laid out plans to expand nuclear power significantly over the next 15 years, following the publication of its National Policy statements on energy and related infrastructure. Mr. Cameron pledged an overhaul of the U.K. financial regulatory system.

In a speech Tuesday, Conservative Treasury spokesman George Osborne will try to outdo the government on its much-vaunted green credentials.

Mr. Osborne will say that if his party won an election a Tory Treasury would take the lead in environmental policy, including setting up a "green investment bank" to help finance environmentally friendly technologies and businesses, "rewarding" households for recycling, and a range of investment funds to help the public invest in the "green revolution."

Both major parties have announced how they would lower Britain's carbon emissions and help U.K. firms exploit the market for green technology and energy.

—Alistair MacDonald contributed to this article.

EUROPE NEWS

EU nations try to avoid subsidy war

In meeting with GM, commission, governments worried about job losses agree to hold off on individual aid to Opel

BRUSSELS—Quarrelling European Union governments agreed Monday to hold off striking individual deals with **General Motors** Co. for aid to its Adam Opel GmbH unit, and instead to coordinate their spending plans.

By ***Peppi Kiviniemi, Adam Cohen*** *and* ***Matthew Dalton***

Monday's meeting between the countries' economy ministers and GM was refereed by the European Commission, which is intent on preventing governments from escalating a subsidy war to preserve jobs.

GM had negotiated to sell Opel and its sister British brand, Vauxhall, to Canadian auto-parts company **Magna International** Inc. and Russia's **Sberbank**, with the help of €4.5 billion ($6.7 billion) in restructuring funds from the German government. But the U.S. auto maker recently decided to keep the unit, prompting Germany, home to Opel's headquarters and four plants, to reconsider the aid.

Opel also has operations in the U.K., Belgium, Spain and Poland. Some of these states are worried that a large German bailout package could pressure the company to lay off workers in their countries, instead of in Germany.

The commission reiterated Monday that aid-for-jobs deals violate EU law meant to ensure a level playing field for companies in the common market.

The EU's competition commissioner, Neelie Kroes, last month helped to open the door to GM's dropping of the Magna deal, by insisting that the German government make explicit to GM that its aid wasn't conditioned on the choice of Magna as a buyer. That gave GM the opportunity to scrap the deal.

Now, GM wants EU governments to help provide €3.3 billion it says is needed to restructure Opel. GM itself will put up at least some of the money.

The governments want to see full details of the Opel restructuring before making any decisions on aid.

Agence France-Presse/Getty Images

EU competition commissioner Neelie Kroes, left, and Flemish leader Kris Peeters, center, speak ahead of Monday's meeting between GM and European economy ministers.

GM's president of international operations, Nick Reilly, said he presented the ministers Monday with a "broad" restructuring plan. He added that more details will be provided when the company talks to Opel workers in the coming days.

Mr. Reilly noted that GM's restructuring plans won't be altered by EU states' financial help. "The plan that we have is already in place and will not be influenced by any particular governments giving particular money," he said.

The leader of Flanders's regional government in Belgium, Kris Peeters, said the governments concerned have agreed to work together to decide how to help restructure Opel. Opel has a plant in the Flemish city of Antwerp.

Representatives from the EU governments will meet Dec. 4 to discuss the issue, Mr. Peeters told journalists after Monday's meeting. Until then, "all the member states present agreed that there will be no more individual meetings with GM," he said.

Asked if he thought there would be a race among EU states to give GM subsidies, German Deputy Economy Minister Jochen Homann told journalists: "I have the impression we are avoiding that."

The commission, the EU's executive arm, said it was essential that countries avoid a subsidy race. According to the commission, the EU economy ministers on Monday agreed that they wouldn't make formal aid commitments to GM before holding another meeting to discuss the Opel restructuring plan.

"It was agreed that any financial support by one or more [EU country] should be based strictly on objective and economic criteria, and not include noncommercial conditions concerning the location of investments or the geographic distribution of restructuring measures," the commission said.

Israel raises rates amid a strong comeback

BY CHARLES LEVINSON

JERUSALEM—Israel's central bank raised its key interest rate to 1%, amid signs that the country is rebounding from the global economic crisis quicker and stronger than expected.

The bank said the move comes as it pegged inflation in October at 2.9%, and said the inflation rate is expected to exceed its target of 1% to 3% in coming months.

The inflation numbers and the quarter-percentage point rate increase are the latest signs that Israel is quickly shedding the dismal economic outlook that haunted it just a few months ago.

In August, the Bank of Israel became the first major central bank to increase rates in response to indications that the global economy was in recovery. Since then, the Reserve Bank of Australia and Norway's Norges Bank also raised their key rates.

Last week, the Israeli government reported that the economy grew for the second consecutive quarter, with third-quarter growth coming in at 2.2%. Exports and tourism have rebounded. Barclays analysts recently called Israel "the strongest recovery story" in Europe, the Middle East and Africa.

The economic good news is a boon for Prime Minister Benjamin Netanyahu, who came into office with a reputation for economic know-how: During his first term as prime minister in the 1990s, and during his stint as finance minister from 2003 to 2005, he won praise for economic policies.

He came to power again earlier this year amid dire economic prospects. Israel's export-driven economy looked especially vulnerable to the global crisis. The economy had been contracting for 11 straight months. Unemployment had jumped to 8% from 6% in the six months before Mr. Netanyahu took office. Exports, which account for 45% of Israel's economic output, were falling.

"The atmosphere was very dark and gloomy," says Yuval Steinitz, a former philosophy professor, whom Mr. Netanyahu tapped as finance minister.

Israel's recovery coincides with a broader global turnaround. But the country's economic team, including independent central-bank governor Stanley Fischer, is also getting credit for taking a series of unusual measures to head off the storm.

The good news is a boon for Prime Minister Netanyahu, who returned to office amid gloomy economic prospects.

In late April, just a few weeks after taking office, Mr. Netanyahu made a controversial decision: No government bailouts for banks or the corporate-bond market. (Israel's conservatively managed banks ended up weathering the financial crisis better than most.)

Facing recession, governments can be tempted to temporarily cut taxes to put money into consumers' pockets. Israel, which went into the crisis carrying a hefty debt load, did the opposite.

Mr. Netanyahu's government increased value-added taxes and raised taxes on cigarettes, gasoline, and social security. But the government pledged a long-term plan to lower taxes later on.

"We wanted to create expectations and send the message that although now it's difficult, later it will be better," says Mr. Steinitz. "We expect to come out of the crisis with an advantage over the rest of the Western world."

Government economists also decided early on that traditional stimulus measures wouldn't work for Israel's economy. Putting more money in consumers' pockets would have done little for the country's core industries—high tech, pharmaceuticals, and weapons manufacturing.

Instead, the government fast-tracked large infrastructure projects and pumped cash into private-sector research and development programs.

Meanwhile, Mr. Fischer had been slashing interest rates. He was among the first central bankers in the world to act as the crisis hit, cutting rates from 4.25% in October 2008 to 0.5% early this year.

The central bank also intervened in currency markets, its first such intervention in a decade. By buying dollars to keep the shekel down, the move kept Israeli exports attractive.

Critics say the moves risk higher inflation. Even after the August rate increase and Monday's shift, some critics say Mr. Fischer hasn't gone far enough.

"I think the interest rates in Israel are too low," said Vered Dar, chief strategist and economist at Psagot Investment House of Tel Aviv.

In its statement Monday, the bank said Israel's still-low interest rate is "intended to support further economic recovery."

—Sara Toth Stub contributed to this article.

Reuters

Seamen walk past France's Mistral carrier as it docks on the Neva River in St. Petersburg on Monday. The 299-meter vessel is able to carry more than a dozen helicopters.

French warship on Russian sales call

Neighboring countries fear implications of purchase as 'Swiss Army knife' of military vessels arrives in St. Petersburg

Associated Press

ST. PETERSBURG, Russia—A cutting-edge French warship sailed into St. Petersburg on Monday to show off its capabilities to potential buyers in the Russian Navy, whose pursuit of an amphibious assault capacity is frightening some neighboring countries.

Russia's once-mighty navy was severely degraded after the fall of the Soviet Union and it currently has no big ship with the power to anchor in coastal waters and deploy troops onto land.

Russian officials said this year that they were planning to make their first arms deal with a member of the North Atlantic Treaty Organization by buying a French vessel like the Mistral, a 299-meter ship able to carry more than a dozen helicopters, which would in turn be able to haul hundreds of troops into enemy territory.

The head of the Russian Navy has said a Mistral-class vessel could put as many troops in Georgia in 40 minutes as the Russian Black Sea Fleet landed in 26 hours during the nations' August 2008 war. Moscow declared the Russian-allied breakaway Georgian territory of Abkhazia an independent nation after the war and sent thousands of troops there.

Russia, Georgia and Ukraine all have Black Sea coastlines, as does Abkhazia.

The Mistral docked Monday on the Neva River, about a kilometer from the Hermitage museum.

"We strongly oppose the sale of such ship to Russia," said Nika Laliashvili, a member of the Georgian parliament's defense-affairs committee. "It poses a serious danger to Georgia."

The Mistral, which was launched in 2006 and first saw service in a Lebanon refugee operation, is one of the two ships of that class in the French Navy.

Bruno Daffix, a spokesman for the French Defense Ministry's export and sales agency, described the ship as a "Swiss Army knife" of military ships—able to carry helicopters, land forces, hospitals or refugees, among other things.

NATO officials in Brussels declined to comment Monday on the possible sale.

The Kremlin has increasingly sought in recent years to reaffirm Russia's global reach and prestige in world affairs. It has sent its warships to patrol pirate-infested waters off Somalia and dispatched a navy squadron to the Caribbean, where it took part in joint maneuvers with the Venezuelan Navy and made several port calls in 2008.

The Caribbean mission, aimed at flexing military muscle near the U.S. in the months after the Russia-Georgia war, was the most visible Russian Navy deployment since the Soviet era.

But despite the Kremlin's ambitions, the post-Soviet economic meltdown has left the Russian Navy with only a handful of big ships in seaworthy condition and badly crippled the nation's shipbuilding industries.

Russia has only one Soviet-built aircraft carrier, the Admiral Kuznetsov, which is much smaller than the U.S. aircraft carriers and has been plagued by mechanical problems and accidents.

Russian shipbuilders have opposed the Mistral deal, saying the government should invest in domestic production instead. Navy officials have argued that license production of Mistral-class ships would help modernize Russia's aging industries.

The French Defense Ministry's arms acquisition and sales agency has reported that French exports rose 15% in 2008 to €6.4 billion ($9.52 billion), thanks in part to sales of the French-Italian built FREMM multipurpose frigate to Morocco and the EC725 Cougar tactical transport helicopter to Brazil.

French military exports are expected to rise to €6.7 billion this year.

Among France's recent big sales deals, Brazil has agreed to buy five French Scorpene submarines, one of them with nuclear propulsion, and 50 Cougar helicopters for about $12 billion. All would be assembled in Brazil.

U.K. MPs may face charges over expenses

By Alistair MacDonald

Four British politicians may face criminal charges over alleged abuses of Parliament's expense-reimbursement system, extending an embarrassing scandal that has already wreaked havoc on the U.K.'s political establishment.

British police referred cases involving the four politicians to the Crown Prosecution Service, which now has to decide whether it will prosecute, a process that can take as long as six months. Neither police nor the CPS revealed the names of the lawmakers, whose identities won't be disclosed unless prosecutors bring charges.

The cases stem from revelations last spring that the body's expense system had been used to reimburse politicians for everything from toilet seats and dog food to house furniture.

"The files relate to four people, from both the House of Lords and the House of Commons and will now be subject to CPS consideration on whether there should be any charges," the Metropolitan Police Service. Police and prosecutors said "a small number of cases" remain under investigation.

White-collar crimes such as fraud can lead to lengthy jail sentences in the U.K. with false accounting carrying a maximum jail sentence of seven years.

The expenses scandal has already effectively ended the political careers of around 20 politicians who either resigned or said they wouldn't seek re-election next year.

Two of the most-discussed claims involved two members of Parliament who sought reimbursement for interest payments on mortgages that no longer existed. In May, David Chaytor was suspended from the Labour Party—but retained his seat in Parliament—after the Daily Telegraph newspaper reported that he claimed almost £13,000 ($21,465) in interest payments for a mortgage he had already paid off. Mr. Chaytor, who has admitted to what he calls a mistake, said at the time he would clear his name. He didn't return a phone call on Monday.

Fellow Labour MP Elliot Morley was also suspended from the party after admitting to revelations that he claimed £16,000 in expenses for a mortgage he had already paid off. Mr. Morley said Monday that he knew nothing of a police investigation and declined to comment. In the past, he has described the situation as an "unforgivable error" in "accounting procedures."

Messrs. Chaytor and Morley remain MPs, but neither will stand for re-election next year. Both remain suspended from the Labour Party.

The Metropolitan Police's Economic and Specialist Crime Unit has been working on the investigation since June. In recent years, high-profile police attempts to prosecute U.K. lawmakers haven't yielded charges.

Getty Images

Job seekers at a career fair in Long Beach, Calif., on Friday. The U.S. has lost more than 7.3 million jobs since December 2007.

Weighing jobs and deficit

White House, Democrats in Congress differ on how to boost employment

By Elizabeth Williamson

WASHINGTON—The White House is lukewarm about proposals by congressional Democrats to introduce broad legislation to create jobs, instead favoring targeted measures that would be less likely to inflate the deficit, administration officials said.

There is as yet no agreement within the White House or in Congress on how to try to curb the U.S. jobless rate. But the differences in opinion suggest that rifts could emerge among Democrats as they wrestle with how to beat back the highest unemployment rate in a generation.

The jobless rate, which hit 10.2% in October, has continued to climb despite the implementation of a $787 billion stimulus package in February.

Democrats' fates in 2010 midterm elections could hinge in part on the success of their efforts to curb unemployment. Recessions historically have cost incumbents in an election year. Heavy losses could threaten Democratic majorities in the House and Senate, and affect the party's chances of passing legislation addressing President Barack Obama's priorities.

A survey of economists released Monday by the National Association for Business Economists suggested that a solid recovery in the U.S. economy should ensure that jobs would be created beginning in the second quarter of 2010.

"While the recovery has been jobless so far, that should soon change. Within the next few months, companies should be adding instead of cutting jobs," said NABE President Lynn Reaser.

According to the survey conducted Oct. 24-Nov. 5, the recovery, fueled by rising business investments and a continued increase in stock prices, should be strong enough to bring employment gains from around April 2010.

Still, with more than 7.3 million jobs lost since December 2007, 61% of the panelists don't expect a complete recovery of the previously lost jobs until 2012.

Hamstrung by the nation's $1.4 trillion deficit and his pledge not to raise taxes on the middle-class, Mr. Obama is keen to avoid any measures suggestive of a second, big-ticket stimulus. With about half of the February stimulus spending spoken for, the measure has created about 640,000 jobs, fewer than the number of jobs lost in January alone.

"There is no discussion of a package like a second stimulus, but we are working closely with Congress and consulting with outside experts to determine the right policies and the right steps," said Jennifer Psaki, the White House deputy press secretary.

House Democrats have said they plan to introduce a jobs bill next month. Senate Majority Whip Richard Durbin (D., Ill.) on Sunday told NBC's "Meet the Press" that Senate Democrats were keen to pass the health-overhaul bill as quickly as possible, so they could turn to jobs legislation early in 2010.

Republicans say they would likely reject any sweeping jobs bill. Senate Minority Leader Mitch McConnell (R., Ky.), speaking on CNN's "State of the Union" Sunday, urged Congress to "repeal the balance of the stimulus package" and plow it into deficit reduction, saying it hasn't put enough Americans back to work.

White House Chief of Staff Rahm Emanuel said in an interview that "there are two engines to our economic message, two ways to generate jobs. One is small business, the second is energy." The government could promote hiring in those sectors through expanded tax credits or lending. "It's not about legislation—it's about the economy," he said. *—Luca Di Leo contributed to this article.*

A surge in home resales in October

By Jeff Bater

WASHINGTON—U.S. home resales jumped in October, rising more than expected and helping to fuel a rally in stocks.

Sales of existing homes increased 10.1% to a 6.10 million annual rate from 5.54 million in September, the National Association of Realtors said Monday.

Inventories kept shrinking. Prices fell, but the NAR said the decline was the smallest in more than a year.

The 6.10 million rate was the highest since February 2007. Economists surveyed by Dow Jones Newswires expected a 2.3% increase in sales during October, to a rate of 5.7 million.

"Many buyers have been rushing to beat the deadline for the first-time buyer tax credit," NAR economist Lawrence Yun said.

Late afternoon in New York, the Dow Jones Industrial Average was up 125.38 points, or 1.2%, at 10443.54.

September existing-home sales rose 8.8% to 5.54 million; the NAR originally reported sales for that month jumped 9.4%, to 5.57 million.

The October surge in sales follows a disappointing housing-sector report last week showing U.S. construction tumbled in October to the lowest point in six months. A reason for the drop might have involved uncertainty over a government tax incentive for home buyers that had been due to lapse in November. Congress extended the tax credit earlier this month through April, a move that is expected to boost sales and construction into the new year.

"There is still a large pent-up demand that can be tapped before the tax credit expires," Mr. Yun said.

Aside from the tax credit, low prices and mortgage rates have drawn in buyers. The average 30-year mortgage rate was 4.95% in October, down from 5.06% in September, Freddie Mac data showed. The NAR reported the median price for an existing home last month was $173,100, down 7.1% from $186,400 in October 2008.

Inventories of previously owned homes decreased 3.7% at the end of October to 3.57 million available for sale. That represented a seven-month supply at the current sales pace, compared with an eight-month supply in September.

Independent senator proves a tricky piece of health puzzle

[Capital Journal]

Gerald F. Seib

Sen. Joseph Lieberman, speaking in that trademark sonorous baritone, utters a simple statement that translates into real trouble for Democratic leaders: "I'm going to be stubborn on this."

Stubborn, he means, in opposing any health-care overhaul that includes a "public option," or government-run health-insurance plan, as the current bill does. His opposition is strong enough that Mr. Lieberman says he won't vote to let a bill come to a final vote if a public option is included.

Probe for a catch or caveat in that opposition, and none is visible. Can he support a public option if states could opt out of the plan, as the current bill provides? "The answer is no," he says in an interview from his Senate office. "I feel very strongly about this." How about a trigger, a mechanism for including a public option along with a provision saying it won't be used unless private insurance plans aren't spreading coverage far and fast enough? No again.

So any version of a public option will compel Mr. Lieberman to vote against bringing a bill to a final vote? "Correct," he says.

This is, of course, more than just one senator objecting to one part of health legislation. This is the former Democratic vice presidential nominee, now an independent, Joe Lieberman, still counted on to be the 60th vote Democrats will need to force a final vote on health legislation. In opposing a public option, he is opposing the element that some Democratic liberals have come to consider the cornerstone of health legislation.

Maybe the Lieberman stance is posturing, or a maneuver to force a watering down of the public option into something he and like-minded Democratic conservatives can swallow. In any case, as Senate Majority Leader Harry Reid tries to solve the Rubik's Cube that is health legislation, Mr. Lieberman just might represent the hardest piece to flip into place.

In spite of that, Mr. Lieberman insists he wants a bill. He voted with Democrats over the weekend on a procedural motion to let debate begin on a version that definitely includes a public option, albeit one states could choose not to join. "I want to get to the health-care debate, and I want to be part of creating, working on and passing health-care reform," he says. "I've been working on it for years, so that's my goal. But I'm not going to vote for anything and everything called health-care reform."

He says he wants the government to help uninsured Americans get coverage, as the bill envisions, and likes the provisions designed to bring down overall health costs. And he favors the consumer protections it would impose on private insurers, including one that bans insurance companies from denying coverage to those with pre-existing health conditions.

But none of that trumps his opposition to a public option, Mr. Lieberman says. And he insists his objection isn't based on the oft-expressed conservative fear that a public option would lead to a government takeover of health care. He says he doubts this or any subsequent Congress would allow that.

Rather, his objection is based on fiscal risk: "Once the government creates an insurance company or plan, the government or the taxpayers are liable for any deficit that government plan runs, really without limit," he says. "To me, with our debt heading over $21 trillion within the next 10 years...we've got to start saying no to some things like this."

Mr. Lieberman also notes that the public option simply wasn't a big feature of past health-overhaul plans or the campaign debate of 2008. So he says he finds it odd that it now has become a central demand—which it has, he suspects, because some Democrats wanted a full-bore, single-payer, government-run health plan, and were offered a public option as a consolation.

Mr. Lieberman says he won't vote to let a bill come to a final vote if a public option is included.

Critics, of course, think Mr. Lieberman is merely protecting insurance companies from his home state of Connecticut. He, of course, insists otherwise, arguing that regulation and litigation are the traditional and more appropriate ways to keep the private market honest. The real risk he sees, he insists, is government debt.

Yet he still thinks that, somehow, health legislation will get done, probably not by Christmas but early next year. "At the end of the day," he says, "I feel strongly health-care reform will pass the Senate and the Congress."

How? Mr. Lieberman says he has made his position absolutely clear to Mr. Reid. And Mr. Reid, all agree, is a wily tactician. So does he think Mr. Lieberman, and the two or three conservative Democrats who share his inclination, will give in at the end? Or is there some artful compromise that can be seen as including and not including a public option at the same time?

Here's another possibility: Maybe Mr. Reid plans to push as far as he can with a bill that includes a public option, to show his party he has done all humanly possible, before yanking out the public option at the last moment, just before the whole effort goes off a cliff. We've proven that a bill is possible, he might say then, but also that a public option isn't.

Special Advertising Section

SERBIA

Reforms enhance investment opportunities

IMF aid, reforms help stabilize economy and attract industry; EU membership remains the goal

By Catherine Bolgar

Next year is shaping up to be a turning point for Serbia, in the transition from post-communist laggard to market performer. Italian car maker Fiat is preparing to make cars at the Zastava factory — in the city of Kragujevac, 138 kilometers southeast of Belgrade — the country's only auto maker, which it bought for €940 million last fall. The government is cutting spending to balance the budget and is committed to an overhaul of the pension system. And it is hoping to move forward on becoming a candidate for the European Union.

The Fiat deal is important, not only because it is the country's biggest foreign direct investment, but also because it will help ramp up Serbia's industry and exports. The recession squeezed Serbia's gross domestic product less than that of its neighbors, but only because the relatively closed economy didn't depend on exports.

"The growth model Serbia had before the crisis didn't work," says Albert Jaeger, the International Monetary Fund's mission chief to Serbia. "You had a growth rate that looked quite impressive, 5% to 6% a year. But if you look at which sectors were growing, they were nontradable sectors: communications, retail and financial services. That's an unsustainable growth model. They have to change policies in a way to switch to a more sustainable growth, to build up more of a tradable sector. Usually that means industry for these countries."

As elsewhere, FDI has shriveled in Serbia, from €4.5 billion in 2006 to what may be as low as €1 billion this year, according to some projections. What FDI Serbia saw didn't bring in export-oriented industry, and greenfield investment has failed to exceed 10% of FDI, says Miroslav Prokopijevic, an economics professor at the University of Belgrade and principal fellow at the Institute for European Studies, a research institute in Belgrade.

Export manufacturing

Yet Serbia holds potential for export manufacturing. It compares favorably with EU members like Greece or Portugal in terms of education, says Przemyslaw Wozniak, senior economist at the Center for Social and Economic Research (Case), a think tank based in Warsaw. "One can imagine Serbia becoming one of those countries like Slovakia, the Czech Republic or Poland that's a big car producer for other countries, because they have the engineers and much cheaper wages."

A low dependence on exports insulated GDP from the external shocks of the economic crisis. Although exports fell 20%, GDP went from 5.5% annual growth in 2007 to a 3% contraction projected for this year, far less than in neighboring countries such as Romania where annual growth of 8% is projected to turn into a contraction of 8%. However, unemployment has soared, with Serbia losing 130,000 jobs, or 8% of its work force in the year since the crisis began, says Mr. Prokopijevic. Meanwhile, the government's budget deficit grew to 4.5% of GDP (from 1.1% of GDP in 2005) as tax revenues shrank and social expenditures mounted.

Although Serbia's tightly supervised banks didn't dabble in the kinds of risky foreign-exchange loans seen next door in Hungary, such loans crept in

> *"One can imagine Serbia becoming one of those countries like Slovakia, the Czech Republic or Poland that's a big car producer for other countries, because they have the engineers and much cheaper wages."*

anyway. Foreign parents of local banks got around strict rules by making foreign-exchange loans directly to Serbian companies, and when the crisis sent emerging-market currencies falling — including the Serbian dinar — companies suffered. "It was their Achilles heel," says Mr. Jaeger of the IMF.

Serbs panicked as well, pulling over €1 billion of deposits out of banks late last year. The IMF program helped stabilize the dinar, and deposits have been coming back, Mr. Jaeger says.

A condition of the €2.92 billion package the IMF agreed to in May was controlling the budget gap. The government has chosen to do that by cutting spending rather than raising taxes. It froze pensions and public sector wages this year and plans to keep them frozen next year. The government is working on reducing overall administrative staffing and undertaking reforms in

REUTERS

Serbia's government came into power in May 2008 on a pro-EU agenda. Membership remains the ultimate goal.

education and health care, as well as an overhaul of the pension system.

The cutbacks are highly unpopular, and "there's no chance of them happening unless an institution like the IMF comes in and says you will not be given this arrangement unless you commit," says Mr. Wozniak of Case. The European Commission and other organizations are in turn making their assistance conditional on Serbia's complying with the IMF accord. Foreign investors use it as a barometer too.

"If the IMF says this country is okay, this country is on the right track, then [investors] move in," he adds. "It's always like this, but especially now in this stormy period."

The government came into power in May of last year on a pro-EU agenda, and while it has been careful to keep all options open, EU membership remains the ultimate goal. The country has a Stabilization and Association Agreement with the EU, the first step toward membership. But the agreement has been frozen until Serbia turns over war criminals. Nationalist Radovan Karadzic was arrested in July 2008 and is now on trial at The Hague, but the EU is pressing for General Ratko Mladic to be found and tried as well.

EU negotiations

Serbia would like to get EU negotiations back on track next year. Recent new members needed eight to 12 years to complete the EU accession process; Serbia should use the period to attract industry from EU states, Mr. Prokopijevic says.

Opportunities abound, from manufacturing to its much-cherished agricultural sector to an under-built real estate market. "There is money to be made once more credit comes back and the markets recover globally," says Mr. Wozniak of Case.

WORLD NEWS

European Pressphoto Agency

President Luiz Inácio Lula da Silva, left, greeted Iran's Mahmoud Ahmadinejad at the Itamaraty Palace in Brasilia on Monday.

Ahmadinejad in Brazil

Iran must be engaged in push for Mideast peace, da Silva says

Associated Press

BRASILIA—Engaging Iran, not isolating it, is the way to push for peace and stability in the Mideast, said Brazilian President Luiz Inácio Lula da Silva as he headed into private talks Monday with his increasingly isolated Iranian counterpart.

President Mahmoud Ahmadinejad's first visit to Brazil provides Mr. da Silva with an opportunity to lift the international political clout of South America's largest nation.

For Mr. Ahmadinejad, the visit could give his country some sorely needed political legitimacy, as Iran engages in large-scale war games aimed at protecting its nuclear facilities and is refusing to back down from developing a nuclear program.

Oil prices rose above $78 a barrel Monday amid deepening tension in the Middle East, following the start of Iran's war exercises Sunday and boasts by an air force commander that Iran could deter an Israeli military strike.

Mr. da Silva, who has defended Iran's nuclear program, didn't mention the war games ahead of his meeting with Mr. Ahmadinejad, but gave him a bear hug and called for diplomacy to push for peace in the Middle East and ease tensions between Iran, the U.S. and others.

"There's no point in leaving Iran isolated," the Brazilian leader said on his weekly radio program. "It's important that someone sits down with Iran, talks with Iran and tries to establish some balance so that the Middle East can return to a certain sense of normalcy."

Mr. da Silva, a deft negotiator who honed his skills as a union leader, says a new tack is needed with the Iranians. It may not be as embracing as the approach of Venezuela's President Hugo Chávez, a close ally whom Mr. Ahmadinejad will also visit in his South American tour. But it shouldn't be as punitive as the U.S. or European approach, Mr. da Silva said.

Philippine kidnappers kill at least 21 in convoy

By James Hookway

Armed men kidnapped and killed at least 21 people in the southern Philippines on Monday, carrying out an unprecedented act of violence six months before presidential and regional elections.

The midday attack on a convoy of several dozen political supporters and journalists was an apparent attempt to block the nomination of a local politician planning to run as a provincial governor in the May elections, the Philippine military said.

The fate of the rest of the convoy—and the identity of their attackers—remained unclear. The army's searches in the area, where the political landscape is dominated by clan disputes, haven't turned up any survivors.

Election-related violence is commonplace in much of the country, especially in the anarchic south, where Islamist separatists, private armies, chieftains and vigilante groups have long competed for power and influence.

Monday's killings bear the hallmarks of a political act rather than terrorism—and, like much political violence in the country, probably have local origins and little to do with the national contest to find a successor to President Gloria Macapagal Arroyo, political analysts said.

The attack happened in the province of Maguindanao, on Mindanao, the second-largest island in the Philippines. Mindanao's overall population is mostly Christian but pockets of the island are a majority of Muslims.

Maguindanao is part of the Autonomous Region in Muslim Mindanao, a section of the island's central hinterland that has had a measure of political autonomy since it was established in 1996.

While many analysts said they thought Monday's attacks stemmed solely from a political dispute , Mindanao has a violent past, in part due to the presence of al Qaeda-backed terrorist groups such as Abu Sayyaf.

Army spokesman Lt. Col. Romeo Brawner told local media that about 40 people traveling in a three-van convoy were abducted by about 100 gunmen while en route to file the election nomination papers of Ismael Mangudadatu, a local vice mayor in the region.

Mr. Mangudadatu had said he was planning to contest the governorship of Maguindanao province against the family of Andal Ampatuan, a previous governor and a powerful clan leader in the region.

The long-running feud between the Mangudadatu and Ampatuan families worsened several months ago when Mr. Mangudadatu declared his intention to run for the governor's job.

Mr. Ampatuan and his aides couldn't be reached to comment, and haven't said anything to the local media.

Soldiers found 21 bodies, in the area including those of Mr. Mangundadatu's wife, Genalyn Tiamzon-Mangudadatu and several journalists and lawyers traveling with the group. Thirteen of the 21 dead were women, Lt. Col. Brawner said, noting there were signs that some recovered bodies had been mutilated. He added that he feared more bodies would be found.

Mr. Mangudadatu said in a local television interview Monday that he feared being abducted or worse if he registered his candidacy for the gubernatorial post in person, or sent men to do that job. That was why he sent his wife and other female relatives and aides to do it, Mr. Mangudadatu said, emphasizing that he never imagined anybody would attack them.

In the interview, he said his wife called him on her mobile phone shortly before her abduction to say around 100 armed men had halted the convoy. "Then her line got cut off," he said.

The Philippines' National Union of Journalists said at least 10 local reporters were part of the Mangudadatu convoy to cover the election nomination and were presumed dead.

"Never in the history of journalism have the news media suffered such a heavy loss of life in one day," the Paris-based media advocacy group Reporters Without Borders said. "The frenzied violence of thugs working for corrupt politicians has resulted in incomprehensible bloodshed."

Philippines President Arroyo said she ordered top security officials to oversee the military's efforts to track down the killers.

"No effort will be spared to bring justice to the victims and hold the perpetrators accountable to the full limit of the law," Ms. Arroyo said.

Registration began last week for national and local elections in May.

More than 17,800 positions will be contested, including half of the Philippines' congressional seats, as well as the presidency. Term limits prevent President Arroyo from seeking re-election after what will be more than nine years in power.

—Josephine Cuneta in Manila contributed to this article.