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EUROPE NEWS 7

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Associated Press

A soldier keeps an eye on the perimeter with his scope during a visit to a school in Afghanistan. U.S. commanders there say they would use extra troops to protect the volatile southern city of Kandahar.

## U.S. says recovery has been weaker than it thought

BY JON HILSENATH AND LUCA DI LEO

The U.S. economy's rebound was more tepid than originally believed, the government said as it lowered its third-quarter growth estimate to reflect a wider trade deficit and less consumer spending.

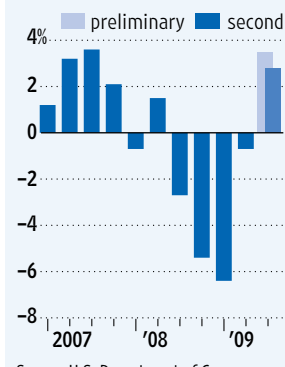
The nation's gross domestic product—the sum of the output of goods and services—grew at an estimated 2.8% inflation-adjusted annual rate in the quarter, less than the 3.5% rate calculated by the Commerce Department last month.

With an anemic recovery settling in, Federal Reserve officials wrestled in early November with concerns that have grown out of their efforts to revive the economy.

Minutes from the Nov. 3-4 meeting showed officials worried that the Fed's stimulative policies "could lead to excessive risk-taking in financial markets or an unanchoring of inflation expectations," events that might be associated with new asset bubbles or a sharp weakening of the dollar.

Fed officials also squab-

**Fragile growth**  
Quarterly change in U.S. GDP, at a seasonally adjusted annual rate



Source: U.S. Department of Commerce

bled, the minutes showed, over whether the central bank should someday sell portions of its vast portfolio of mortgage-backed securities and Treasury bonds.

Top White House officials and Senate Budget Committee Chairman Kent Conrad (D., N.D.) met Tuesday to discuss establishing a bipartisan commission on the U.S.'s swelling debt. White House aides stressed that no decision has been made on such a commis-

sion, which would deliver recommendations on controlling the growth of Social Security and Medicare and on taxes. The fiscal 2009 deficit has swelled to a post-World War II record of \$1.4 trillion.

Consumer spending, which accounts for 70% of demand in the U.S. economy, increased at a 2.9% annual rate during the third quarter—less than the 3.4% estimated last month by the Commerce Department—even after a boost from government stimulus, such as the cash for clunkers auto-rebate program.

That suggests consumption could be on a weak trajectory heading into the holidays, underscoring the economy's reliance on business and government spending to produce enough growth to improve the labor market.

The Federal Reserve's preferred inflation gauge remained tame, giving the central bank latitude to keep interest rates low for an extended period.

—Sudeep Reddy, Jonathan Weisman and John D. McKinnon contributed to this article.

## Frustration over Afghan plans

A WSJ NEWS ROUNDUP

President Barack Obama's delay in setting out how he wants to reinforce the international force in Afghanistan has undermined Britain's attempt to rally public support for the war there, the U.K. defense minister said Tuesday.

"We have suffered a lot of losses; we have had a period of hiatus while McChrystal's plan and his requested uplift has been looked at in the detail to which it has been looked at over a period of some months, and we have had the Afghan elections—which have been far from perfect let us say," Secretary of State for Defense Bob Ainsworth told the House of Commons' defense committee, referring to Gen. Stanley McChrystal, the U.S. commander in Afghanistan. "All

of those things have mitigated against our ability to show progress."

The White House is aiming for an announcement by Mr. Obama on the Afghanistan strategy next week, either Tuesday or possibly Wednesday. The president held his 10th and final war council meeting Monday night.

Gen. McChrystal reported to Mr. Obama in August that the U.S. mission was headed for failure without the addition of about 40,000 troops.

Republican critics in the U.S. have attacked the president for taking so long to make up his mind, but a spokesman for Britain's Prime Minister Gordon Brown denied Mr. Ainsworth was doing any such thing.

"I think what the secretary of state was saying ... was

that there are a number of divergent factors at play," Mr. Brown's spokesman, Simon Lewis, told reporters. "It is a fluid situation and always has been."

Meanwhile, one aspect of the allies' strategy in Afghanistan appears to be firming up.

Mr. Obama is widely expected to adopt a plan that sends tens of thousands more troops to bolster a flagging military campaign and the 68,000 troops now fighting it.

Commanders in Afghanistan say many of the fresh troops the White House is expected to send to shore up the war effort will reinforce a protective wall around the volatile city that gave birth to the Taliban.

■ Plans for Kandahar .....Page 11

### The Quirk



U.S. President Obama is finding that the game of golf is no slam dunk. Page 33

### World Watch

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

### Editorial & Opinion

David Cameron finally finds his inner Margaret Thatcher. Page 13

## Koenigsegg pulls out of talks to buy Saab

BY JOHN D. STOLL

General Motors Co.'s drive to rapidly downsize global operations was dealt another setback as the buyer for its Swedish Saab brand backed out of a takeover agreement.

Koenigsegg Group AB, a maker of exotic sports cars, said it ended negotiations over Saab, citing delays in closing the deal that led to "risks and uncertainties."

GM Chief Executive Frederick "Fritz" Henderson said that the company is "obviously very disappointed" with the move. Mr. Henderson said GM will take the next several days to assess the situation.

The managing director of

GM's Saab unit, Jan-Ake Jansson, said that the Swedish brand has enough liquidity to keep running in the short term, but a decision on the brand's future is needed "in the next couple weeks."

GM's agreement with Koenigsegg included hundreds of millions of dollars in financial backing from Sweden's government. Koenigsegg was planning to join with China's Beijing Automotive Industry Holdings to revitalize the brand.

One of GM's leading options for Saab is to simply kill it, a person briefed on the matter said. The board has the final say on Saab's future.

■ Saab is stranded .....Page 23

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## PAGE TWO

# Europe looks to the U.S. on defense

## [ Agenda ]

BY IAIN MARTIN



Amid scenes that the European Union's critics thought farcical, the leaders of the member states of that organization chose their first de facto foreign minister last week. The High Representative for Foreign Affairs and Security Policy of the European Union is to have responsibility for co-ordinating the efforts of 27 states.

In theory, this makes the person who occupies the role a figure of some influence. But they chose Baroness Catherine Ashton.

She was a surprising choice for a grouping with global aspirations. Until last week the British peer was EU Trade Commissioner, although she is virtually unknown in her homeland, being a classic quangocrat and product of party patronage.

It isn't that she is without ability, according to friends. But what she has is absolutely no serious experience of foreign affairs. This is unfortunate, as the job description of her new posting makes it something of a must. True, from 1977-79 she worked at the offices of the Campaign for Nuclear Disarmament, subsequently becoming one of its vice chairs.

But that isn't really a qualification for someone attempting to co-ordinate foreign-policy activity among governments representing 500 million people.

Her emergence suggested that for all the EU's talk of a new confidence in the wake of the ratification of the Lisbon treaty it isn't yet capable of being translated into reality.

Germany and France, the key power brokers in the appointments of Baroness Ashton and President Herman Van Rompuy, have no interest in losing



Baroness Catherine Ashton, Europe's new foreign minister

control of their foreign policy. They wanted a chairwoman and chairman who would undertake some co-ordination but not upstage them.

To achieve this they deftly cooperated, demonstrating again just how formidable they can be when they combine their efforts.

In contrast, Britain—which seems currently incapable of working out what its own foreign policy is never mind trying to dictate to others—has been left exposed as a country that can be relied upon only to come up with a weak compromise candidate who offends none of the 27. This is usually a role played by smaller countries with more limited reach.

But the Ashton appointment was given a surreal twist by the absence of any mention of the "A" word: Afghanistan. Here is the most significant policy challenge of the moment facing the West—aside from Iran.

And it never came up?

But 21 EU states have troops in Afghanistan as part of the NATO mission, although 12 have token forces of fewer than 500 troops on the ground. Combined, Germany, France and Italy have more than 10,000 troops involved while Britain's deployment is sitting at 9,000.

Of course, they are on a NATO

mission and the EU has no operational role. But a power bloc with aspirations to wield power and influence would want to take a view, to attempt to lead.

What does Baroness Ashton think? Someone is going to have to ask her.

Despite the rhetoric, Europe doesn't have a foreign policy in any serious sense.

It has various people appointed to positions with foreign-affairs titles, and it has the beginnings of a structure of embassies abroad, but its states have no collective view.

Instead, when the west gets to the sharp end of foreign policy—the difficult bit involving deployment of large numbers of troops for sustained periods—eyes look westward, out across the Atlantic Ocean, and in the direction of Washington.

This was true in the Balkans, and it is true again now, especially since President Obama pledged to recast U.S. policy in Afghanistan.

To put it politely, Obama has taken his time but finally it is close. The White House has said the president has finished gathering information and will make his plans known next Tuesday, after Thanksgiving.

In the Obama-shaped vacuum

since the turn of the year, his NATO allies have become quite confused and are sending out a range of contradictory signals.

The British government wants Washington to know that it will take part in whatever shape of surge emerges, while discreetly recognizing that the war is also unpopular in the U.K. with a general election looming. Hence reports emerge that Prime Minister Gordon Brown wants to be in a position to announce a planned drawdown of some troops to take place post-election. The message is that the Afghans will supposedly be able to take over more control of security. How this is to be achieved is, as yet, not properly explained.

There are also reports from Afghanistan of nervousness that other NATO countries are considering drawing back, rather than helping with the surge. The Dutch, in particular, are under pressure not to remove 1,300 of their troops from Uruzgan, in the south of the country.

On this side of the Atlantic, the NATO general secretary, Anders Fogh Rasmussen, is hoping to hold all this together, which is akin to trying to herd cats.

He is aiming to co-ordinate statements with the White House and announce a small but as yet unspecified number of new troops.

The intention seems to be to declare European solidarity with an American ally which already has almost 67,000 troops out there—and that's before Obama adds to those numbers.

Ultimately, the impression isn't of a strong EU, but of a supplicant continent that keeps saying it wants a bigger role on the world stage and then can't deliver. Boxed in by the way in which it chooses its senior figures, it ends up with Baroness Ashton, rather than a figure of consequence.

And so it goes on. On foreign affairs and defense, Afghanistan demonstrates that Europe continues to look to the U.S. It remains the sun around which European powers orbit.

## What's News

■ **The Netherlands** reappointed Neelie Kroes to the European Commission, completing the field of 27 candidates and setting the stage for a struggle for control of the bloc's key economic-policy jobs. Kroes isn't expected to retain her post as competition commissioner. 6

■ **The Bank of England** provided emergency loans to Royal Bank of Scotland and HBOS last year. 4

■ **Another of GM's brands** appeared all but headed to the junkyard after the collapse of the firm's plan to sell Saab to Koenigsegg. 23

■ **The U.S. lowered** its estimate of third-quarter economic growth to reflect a wider trade deficit and less consumer spending than originally thought. 1

■ **Galleon's Raj Rajaratnam** denied he traded on material, nonpublic information about Google or other firms as alleged in the SEC's case. 21

## Inside



Big challenges remain for real-estate investor IVG Immobilien. 26



The flu fighters in your food offer new ways to boost immunity. 31

## ONLINE TODAY

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### The Source

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“When kids start to download books for free, the rest of the world will surely follow.”

Paul Sharma on publishers' coming challenge over online book downloads



### Continuing coverage



Recruiting experts and hiring managers offer tips to improve your résumé at [wsj.com/careers](http://wsj.com/careers)

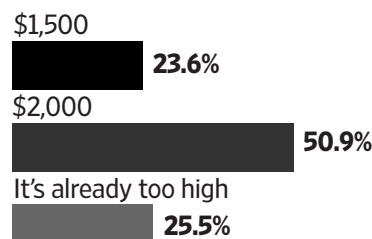
### Question of the day

Vote and discuss: Should the U.K.'s probe into the Iraq war include a ruling on its legality?

See coverage at [europe.wsj.com](http://europe.wsj.com) and vote online at [wsj.com/dailyquestion](http://wsj.com/dailyquestion)

### Yesterday's results

Q: How high can gold prices go?



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NEWS

# French first lady to act in Allen film

By DAVID GAUTHIER-VILLARS

PARIS—France's first lady said she has accepted a proposal from U.S. film director Woody Allen to act in his next movie.

"I don't know for what role, but I said yes," Carla Bruni-Sarkozy, a model-turned-singer and the wife of President Nicolas Sarkozy, told French pay-TV channel Canal Plus late Monday.

Ms. Bruni-Sarkozy, 41 years old, said acting in a film by Mr. Allen was a once-in-a-lifetime opportunity she couldn't miss, though she lacks experience as an actress. "Perhaps I will be very bad," she said.

The news came a week after the U.S. animated television series "The Simpsons" featured Ms. Bruni-Sarkozy as a cartoon character.

A spokeswoman for the first lady didn't reply to requests for comment.

Mr. Allen said in recent interviews with European newspapers that he planned to shoot a film in Paris next year and had offered Ms. Bruni-Sarkozy a chance to play a role.



France's first lady Carla Bruni-Sarkozy, right, in Pittsburgh in September, has agreed to be in a Woody Allen film. She was parodied, left, in a recent episode of 'The Simpsons.'

When she married Mr. Sarkozy in February 2008, Ms. Bruni-Sarkozy said she would put her career as a singer on hold. Last year, in December, she was appointed ambassador of a humanitarian pro-

gram led by the United Nations.

In an episode of "The Simpson" titled "The Devil Wears Nada," Ms. Bruni-Sarkozy is portrayed as a femme fatale. Unlike some public figures, such as former U.K. Prime

Minister Tony Blair, who voiced over their characters for the show, Ms. Bruni-Sarkozy's appearance was unsolicited. The episode hasn't yet been broadcast in France, but excerpts have circu-

lated widely on the Web.

"The Simpsons" is broadcast by News Corp.'s Fox television network. News Corp. owns The Wall Street Journal and Dow Jones News-wires.

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## EUROPE NEWS

# U.K. banks received crisis-era loans

Bank of England made \$102.37 billion in emergency lending to HBOS and RBS when the downturn was at its peak

BY NATASHA BRERETON  
AND PATRICIA KOWSMANN

LONDON—The Bank of England said it provided emergency loans, which peaked at £61.6 billion (\$102.37 billion) in total, to Royal Bank of Scotland Group PLC and mortgage lender HBOS PLC at the height of the financial crisis last year.

BOE Gov. Mervyn King, testifying before Parliament, said the funding “was to prevent a loss of confidence spreading through the financial system as whole.”

It was the central bank’s first specifics on the support it provided in October and November 2008, when the financial system froze after Lehman Brothers Holdings Inc. filed for bankruptcy.

“It is a vast sum that highlights the scale of the crisis,” says Philip Shaw, chief economist at Investec Securities in London.

Analysts said it isn’t surprising that RBS and HBOS had trouble accessing wholesale funding after Lehman’s collapse, and pointed out that the Bank of England mitigated risk by requiring that the loan be secured against collateral.

The central bank said it provided the loans to HBOS from Oct. 1, 2008, and to RBS from Oct. 7, 2008. The HBOS facility was repaid by Jan. 16, 2009, while RBS’s was repaid by Dec. 16, 2008. HBOS was bought in January by Lloyds Banking Group PLC.

The bank said it is disclosing the emergency loans now because both RBS and Lloyds are stable. RBS has signed up for the government’s insurance plan, which will protect it from potential big bad-debt losses, while Lloyds is seeking to raise £22.5 billion from a rights issue and debt conversion to strengthen its balance sheet. HBOS shareholders would have been unaware of the BOE loan when they backed the takeover by Lloyds in January.

Mr. King also raised the stakes in his crusade to ensure banks are no longer too big to fail, arguing that future bailouts would undermine public support for the market economy.

He said that over recent decades, Britons had come to accept that the companies they work for can go out of business, and that they in turn might have to find lower-paying work. Mr. King said the bailouts for banks during the financial crisis are leading many to question that acceptance, because it indicates that all parts of the economy aren’t equally subject to market discipline.

“That is wholly unacceptable, not only from an economic point of



Mervyn King, governor of the Bank of England, testified before Parliament in London Tuesday, telling lawmakers that the bank’s emergency lending during the financial crisis was intended to prevent ‘a loss of confidence’ in the system.

view, but it will simply undermine peoples’ commitment to the principles of the market economy and that would be a tragedy,” he said.

Mr. King said the U.K. should go it alone in ensuring banks aren’t too big to fail because its solvency is particularly at risk given the relative size of its financial sector.

**‘The risk of the entire return [on complex financial instruments such as CLOs] being wiped out can be much greater than on simpler instruments. Higher returns come at the expense of higher risk.’ —Mervyn King in a 2007 speech**

Mr. King told lawmakers that the potential cost to taxpayers of a bailout similar to the one undertaken during this financial crisis could scare investors away from U.K. government bonds, or gilts.

The central banker emphasized the need for a credible plan to put the public finances on a sustainable path.

Mr. King said tax revenue for the next five to 10 years was likely to be well below what would have been expected before the financial crisis, and that roughly 5% to 10% of output would be lost for an “indefinite period.”

The British government has pledged to halve the deficit by 2014, but that would still leave a budget gap of around 6% of gross domestic product. The leader of the opposition Conservative Party, David Cameron, has said that if his party wins next year’s elections, he will announce a major emergency budget within 50 days of taking office.

Since the financial crisis began two years ago, Britain has injected fiscal stimulus valued at about 1.9% of GDP into the economy. Given a sharp fall in tax revenue and the cost of bailing out major banks, the budget deficit is set to hit around 12% of GDP this financial year.

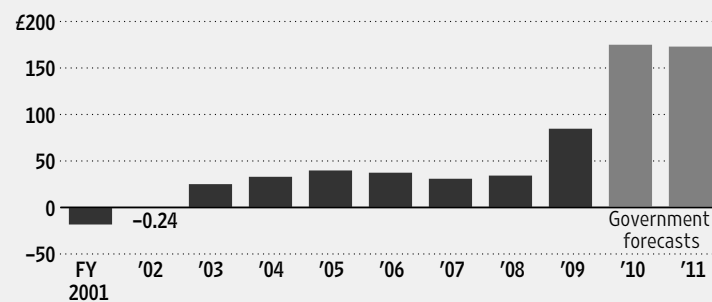
Mr. King said that the U.K. was at no “immediate” risk of losing its triple-A credit rating and that the threat wasn’t a problem unique to the U.K. He warned that the risk would become larger as long as there is no credible plan.

Despite the BOE’s stimulus programs, mortgages and business loans and investment remained subdued.

Business investment in the U.K.

## Widening

The U.K.’s fiscal-year budget deficit, in billions



Note: Fiscal years end in March  
Sources: Office for National Statistics, U.K. Treasury

fell for a fifth successive quarter in the third quarter, dropping 3% from the previous three months and sinking 21.7% on the year, the Office for National Statistics said in its preliminary estimate Tuesday. The quarterly decline was less steep than the figures for the second quarter, which showed investment fell at the fastest pace on the year since records started in 1967.

Mortgage lending, meanwhile,

rose in October from September, but by the same £3.1 billion amount reported a month earlier, the British Bankers Association said. The BBA also said nonfinancial firms made a net repayment of £700 million in October, compared with a £3.9 billion repayment in September, reflecting a high degree of caution among both lenders and borrowers.

—Paul Hannon and Neil Shah contributed to this article.

# Hearings begin in U.K. inquiry on Iraq war

BY CASSELL BRYAN-LOW  
AND ALISTAIR MACDONALD

LONDON—A U.K. panel investigating the country’s role in the Iraq war began hearings Tuesday to dissect the decisions made in the run-up to, and during, the conflict, launching a long and public process.

U.K. Prime Minister Gordon Brown established the Iraq inquiry in an effort to address public criticism of the case made for the war and of preparations for reconstruction in Iraq, among other issues. The

five-member panel, led by retired civil servant Sir John Chilcot, will look at the eight-year period up to 2009, including the period prior to the start of military operations in March 2003.

Among those due to give testimony over the coming months is former Prime Minister Tony Blair, whose decision to back the 2003 U.S.-led invasion continues to be controversial in Britain. The panel also has said it hopes to speak to officials from the U.S. and elsewhere.

On its first morning, the inquiry

heard from a former U.K. Foreign Office official that there were “drumbeats from Washington” for regime change in Iraq before the Sept. 11, 2001, terrorist attacks. The official, William Patey, said the U.K. at the time had wanted to “stay away” from that option.

But thinking in Washington and London shifted after the Sept. 11 attacks, the panel heard. Sir Peter Ricketts, a former senior intelligence official, testified that he believed that had 9/11 not happened then the U.K. would have “remained convinced

that a strengthened sanctions regime, tightened, narrowed, was the right way to go.”

The hearings come as Mr. Brown has deepened the country’s military commitment to Afghanistan, an increasingly unpopular war in the U.K. The U.K.’s involvement in Iraq ended in July. The conflict left 179 British military personnel dead and brought massive public protests.

Sir John, in his opening statements Tuesday, said that he hoped to “identify the lessons that should be learned from the U.K.’s involvement

in Iraq to help future governments who may face similar situations.”

There already have been several U.K. probes and studies into aspects of the Iraq war, but this one is expected to be the broadest yet.

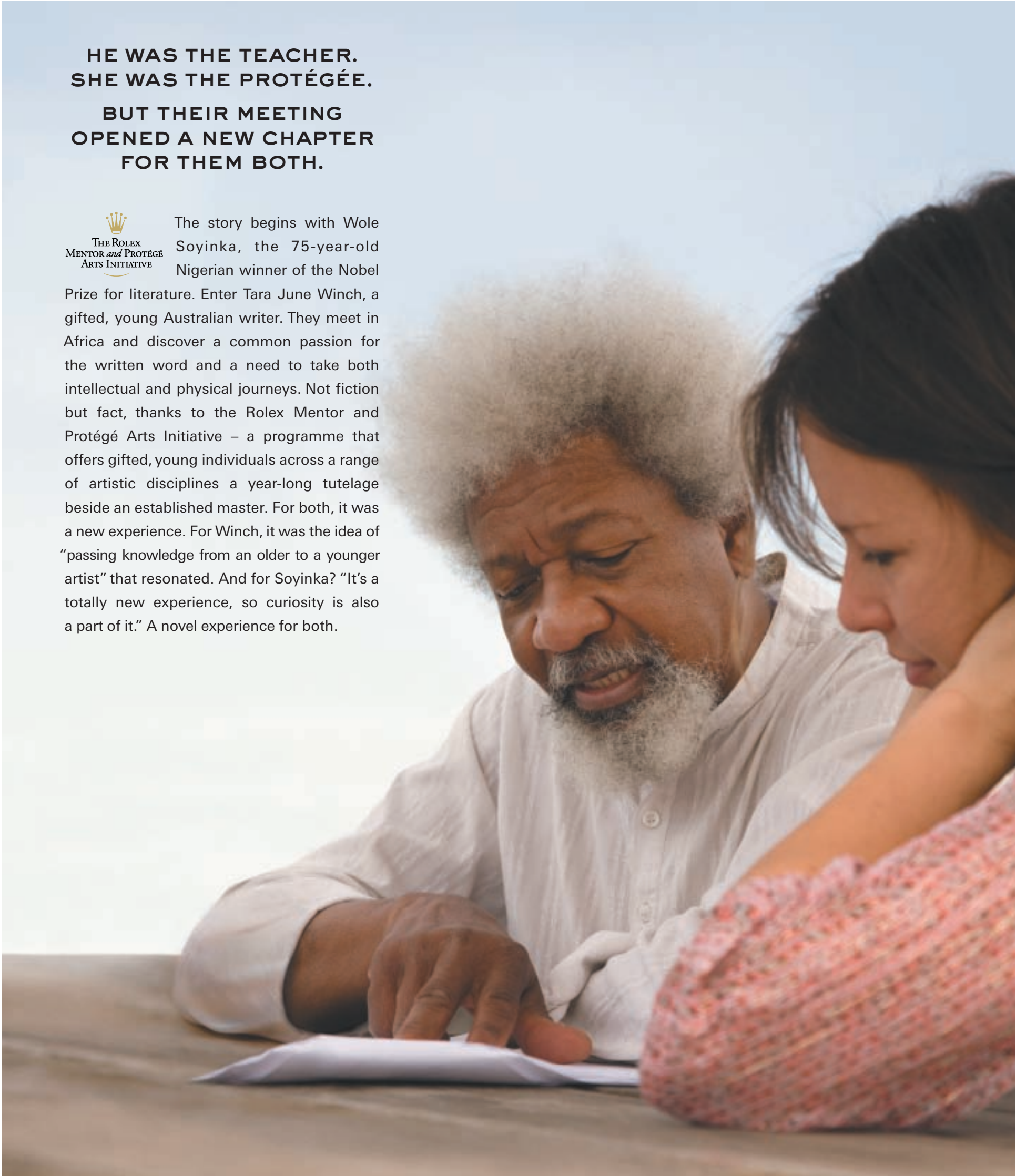
In the first round of hearings, due to continue through February, the panel will hear evidence from senior officials and military officers who had a key role in developing advice for ministers and implementing government policy. The panel won’t establish civil or criminal liability.



**HE WAS THE TEACHER.  
SHE WAS THE PROTÉGÉE.  
BUT THEIR MEETING  
OPENED A NEW CHAPTER  
FOR THEM BOTH.**



The story begins with Wole Soyinka, the 75-year-old Nigerian winner of the Nobel Prize for literature. Enter Tara June Winch, a gifted, young Australian writer. They meet in Africa and discover a common passion for the written word and a need to take both intellectual and physical journeys. Not fiction but fact, thanks to the Rolex Mentor and Protégé Arts Initiative – a programme that offers gifted, young individuals across a range of artistic disciplines a year-long tutelage beside an established master. For both, it was a new experience. For Winch, it was the idea of “passing knowledge from an older to a younger artist” that resonated. And for Soyinka? “It’s a totally new experience, so curiosity is also a part of it.” A novel experience for both.



**DANCE**  
JIŘÍ KYLIÁN  
JASON AKIRA SOMMA

**FILM**  
MARTIN SCORSESE  
CELINA MURGA

**LITERATURE**  
WOLE SOYINKA  
TARA JUNE WINCH

**MUSIC**  
YOUSOU N'DOUR  
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**THEATRE**  
KATE VALK  
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**VISUAL ARTS**  
REBECCA HORN  
MASANORI HANDA

## EUROPE NEWS

**Günther Oettinger**

Germany

**New to the commission:** As Baden-Württemberg's minister-president, Oettinger is powerful regional baron, but he has little experience outside his country.

**Joaquín Almunia**

Spain

**As economics commissioner,** he was at the center of the EU's response to the financial crisis, but his post lacked real power.

**Neelie Kroes**

Netherlands

**As competition commissioner,** she wielded her powers forcefully, racking up billions in fines for cartellists and hitting Intel Corp. with an €1.06 billion antitrust penalty.

**Viviane Reding**

Luxembourg

**As telecom commissioner,** she angered mobile-phone operators by pushing through a cap on roaming rates. More recently, she's set her regulatory sights on the Internet.

Agency France-Press/Getty Images (Oettinger, Almunia); Reuters (Kroes); Associated Press (Reding)

# Kroes completes commission field

*Barroso is likely to shift competition czar to new role amid struggle for key economic-policy assignments at EU body*

BY JOHN W. MILLER  
AND CHARLES FORELLE

BRUSSELS—The Netherlands reappointed Neelie Kroes to the European Commission on Tuesday, completing the field of 27 candidates and setting the stage for a struggle for control of the bloc's key economic-policy jobs ahead of international negotiations on trade, climate change and financial services.

With a full slate of nominations, José Manuel Barroso, the commission's president, can assign commissioners—one proposed by each country—to specific jobs. EU officials say he aims to make the assignments this week.

According to people close to the matter, Mr. Barroso is inclined to rotate returning commissioners out of their jobs. That would mean Mrs. Kroes will move to a new role, to the relief of U.S. technology companies and European banks she antagonized

in her role as competition commissioner over the past five years.

The commissioners for competition and trade, where the incumbents wield true executive power, are the two most coveted jobs in the commission, along with key posts like internal markets, currently responsible for writing financial regulation. Employment, fisheries and multilingualism, by contrast, are regarded as lower-rung posts.

If Mrs. Kroes is moved from competition, where she has closed most outstanding cases in the past few months, it means a demotion. "There is no portfolio as good as that one," says Antonio Missiroli of the European Policy Centre, a Brussels think tank.

Spain is hoping Joaquín Almunia will move from economic affairs to competition, Mrs. Kroes's old post. French officials are making a push for their nominee, Michel Barnier, to take over internal markets, where

he would be responsible for financial regulation if the portfolio remains unchanged. Germany has nominated Günther Oettinger, the leader of the state of Baden-Württemberg, and EU officials say he could snare the trade job, as could Mrs. Kroes.

The reappointment of Mrs. Kroes, a liberal, is an unusual cross-party move by the Netherlands' Christian Democratic prime minister, Jan Peter Balkenende. But Mrs. Kroes mounted a concerted campaign in recent weeks and garnered public support for another term in Brussels.

Even if Mr. Barroso moves quickly, the commission may not be in place for months because the entire slate needs approval by the European Parliament, which isn't shy about using its power. In 2004, it threatened to block the commission unless the Italian candidate, who called homosexuality a sin, was re-

placed, which he was.

The commission initiates EU legislation, which is then approved by the EU's member governments and sometimes the European Parliament. The commission is also charged with enforcing existing EU law.

If the European Parliament delays approval of the commission, it would weaken the EU's ability to act, say analysts. "It's very bad to have a lame-duck commission," says Piotr Maciej Kaczyski, an analyst with the Brussels-based Centre for European Policy Studies. "We need a new commission to put things in motion."

On Wednesday, Mr. Barroso is set to fill his most pressing void by appointing Austria's Benita Ferrero-Waldner for a temporary turn as European trade commissioner ahead of the World Trade Organization's ministerial conference from Nov. 30 to Dec. 2.

Ms. Ferrero-Waldner is already

external-relations commissioner, so she doesn't require confirmation by parliament. She loses that portfolio on Dec. 1 when Baroness Catherine Ashton, the current trade commissioner, becomes the EU's first foreign minister.

Her short stay could have some immediate implications. The commission is due to rule on whether to extend duties on imports of Chinese and Vietnamese shoes. Ms. Ferrero-Waldner, who will step down when the new slate of commissioners is confirmed, has opposed the duties.

Besides Mrs. Kroes, several commissioners have been reappointed by their governments, among them Luxembourg's Viviane Reding, who as information-society commissioner has staked out territory regulating telecommunications companies and the Internet; and Olli Rehn of Finland, the current enlargement commissioner.

# Euro zone extends uneven economic upturn

BY MARCUS WALKER  
AND PATRICK MCGROARTY

BERLIN—The euro-zone economy's patchy recovery is continuing in the current quarter, according to data published Tuesday that showed more improvement in German business confidence and French household spending.

But French business confidence stagnated, and the uncertain outlook for Germany next year is prompting Chancellor Angela Merkel's government to extend labor-market subsidies that have kept a lid on rising unemployment.

Germany's Ifo index of business confidence, a closely watched leading indicator for Europe's biggest economy, rose sharply this month, reaching its highest level in more than a year. The index stood at 93.9 in November, up from 92.0 in October, as companies reported an improving outlook for exports.

French consumer spending, an

important pillar of the euro-zone economy, improved by more than expected in October, with purchases of goods rising 1.1% from a month earlier. Clothing and household equipment led the improvement, partially allaying fears that the recovery might rest only on car sales pumped up by short-lived subsidies.

French industry sentiment was unchanged in November, according to a separate French survey by national statistics agency Insee. Companies said they expected their business to stay subdued in coming months, Insee said.

Germany's government confirmed its earlier estimate of third-quarter economic growth, saying the country's economy expanded by 0.7%, thanks to businesses investing more and cutting inventory more slowly than before.

Ms. Merkel's cabinet is expected to approve a proposal on Wednesday to prolong government subsidies for so-called Kurzarbeit, or

**Road to recovery**  
Germany's Ifo business-climate index



Source: Ifo Institute for Economic Research

short-shift work at companies suffering from the recession. Under the short-hours program, companies can get aid to cover part of the cost of workers who have too little to do, thanks to the plunge in global

demand for German goods in the past year. Business groups and economists say the policy has helped companies minimize layoffs during the recession.

"We're not yet out of the trough," Ms. Merkel told a business conference in Berlin on Tuesday. "It's next to impossible to predict how the international economic situation will develop," she said.

The chancellor said she supports her labor minister's proposal, announced over the weekend, to offer short-shift work subsidies for as long as 18 months to companies that apply for them next year.

Currently, the program offers subsidies for as long as two years for companies that apply before the end of this year. Wednesday's expected decision "prolongs a proven measure," said Alexander Koch, an economist at UniCredit in Munich. "It makes sense to extend it because of the uncertainty about how strong and enduring the recov-

ery will be," he said.

German unemployment, at 8.1% of the labor force, is only half a percentage point higher than a year ago. However, German politicians are worried that unemployment could worsen sharply in 2010, as companies cut back idle production capacity.

Germany's auto sector in particular could suffer next year, economists say, because the country's cash-for-clunkers incentives that gave car sales a huge boost earlier this year have ended.

The overall picture in European industry is brightening. Euro-zone manufacturers' new orders rose 1.5% in September from August, the sixth straight monthly rise, the European Union's statistics arm Eurostat said.

Factory orders were 16.5% lower than in September 2008, showing the gap that Europe's industry still has to close to reach prerecession activity levels.

EUROPE NEWS

# Medvedev orders inquiry into death

Russian president acts following public outcry over demise of attorney detained for almost a year in a Moscow jail

BY GREGORY L. WHITE

MOSCOW—Russian President Dmitry Medvedev ordered an investigation into a lawyer's jailhouse death, officials said, following an outcry over the high-profile case.

The order Tuesday came a day after the head of the Kremlin's human-rights panel broached the matter at a meeting with the president.

According to a Kremlin transcript, Ella Pamfilova called the death a "murder," and said, "Untimely death in jail has become almost an occupational hazard for Russian entrepreneurs." Mr. Medvedev didn't directly address the issue at the meeting, participants said.

Sergei Magnitsky died in the hospital of Moscow's Matrosskaya Tishina jail on the evening of Nov. 16, according to officials. Mr. Magnitsky, 37 years old, had been held for nearly a year without trial on charges of tax evasion linked to his work for Hermitage Capital Management, a fund that was one of the largest investors in Russia until its U.S.-born founder, William Browder, was denied a visa in 2005.

Mr. Magnitsky was arrested shortly after he testified to police about what Hermitage said was a \$230 million fraud against the Russian government using companies taken from the fund. Hermitage alleged government officials were



Dmitry Medvedev, right, met Azerbaijan's Ilham Aliyev, left, on Tuesday to discuss simmering Azerbaijan-Armenia tensions

behind the fraud. Russian authorities have denied the charge. Russian authorities charged Mr. Browder, who now lives in London, with tax evasion and put him on their in-

ternational wanted list.

Initially, Russian officials investigating Mr. Magnitsky's death said they hadn't found evidence of a crime and rejected calls from his law-

yers for a formal probe. But after the president's intervention Tuesday, the Investigative Committee of the Prosecutor General announced it had opened criminal investigations

into possible negligence and failure to give proper medical treatment.

The Kremlin said the president had also ordered an analysis of the quality of medical care in jails, as well as the practice of pre-trial jailing of suspects without criminal records in white-collar cases. Critics say the tactic is widely used by police and prosecutors to pressure business people.

Mr. Magnitsky's lawyer said his client had complained in the days before his death that he had been essentially abandoned in the medical unit of the jail where he was then being held, Butyrskaya, in Moscow.

The lawyer said officials told him the preliminary cause of death was related to pancreatic illness, while investigators publicly have identified it as heart failure.

Hermitage said one of its lawyers who had moved to London had received threatening text messages in the weeks around Mr. Magnitsky's death. Hermitage's transcripts of the messages, reviewed by The Wall Street Journal, show some contained lyrics from prison songs. Another contained a quote from "The Godfather" about how easy it is to kill people.

Mr. Browder said he doesn't know who sent the messages, but now believes the texts were threats referring to Mr. Magnitsky. He said the number from which the messages were sent couldn't be traced.

## OECD tax burden falls

BY ADAM BRADBERRY

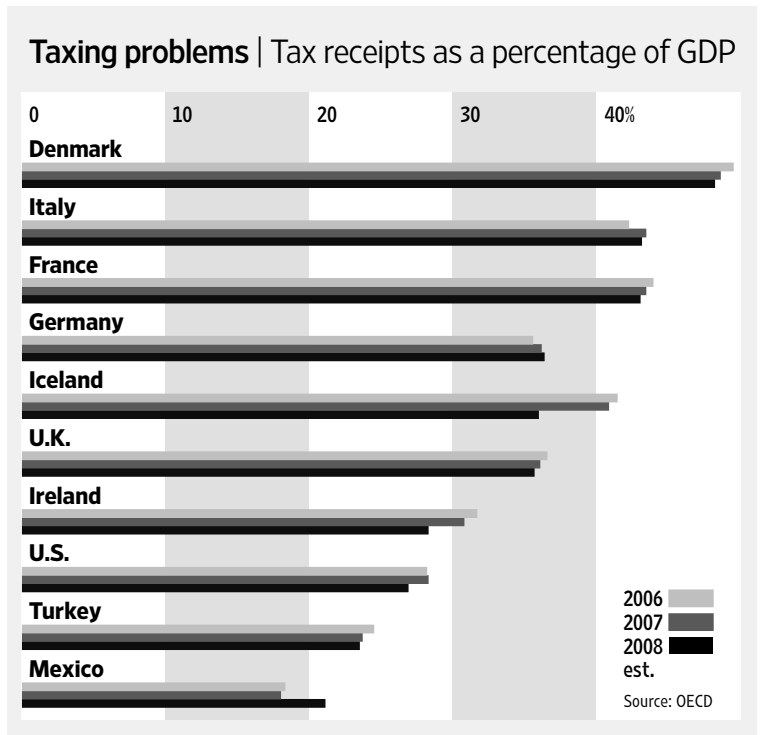
LONDON—The average tax burden in countries within the Organization for Economic Cooperation and Development dropped in 2008 as business activity slowed and some countries lowered their tax rates to aid economic recovery, the think tank said.

The tax burden for the 26 OECD countries that have produced estimates dropped by more than half a percentage point to 35.2% of gross domestic product in 2008 from 35.8% in 2007 and is also likely to have fallen further in 2009, the OECD said in an annual report on tax

revenue. There are 30 countries in the OECD.

The OECD's findings show the scale of the problem faced by member governments as they struggle to reduce their budget deficits and supplement their income in a bid to pay down the large amounts of debt they have issued to fund economic stimulus and bank rescues during the financial crisis.

"Governments acted decisively in 2008 and 2009 to support demand during the crisis," OECD Secretary-General Angel Gurría said. "But falling tax receipts underline the challenge they will face, once the recovery is secured, in maintaining sound public finances."



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## U.S. NEWS



U.S. President Barack Obama, right, and Indian Premier Manmohan Singh will discuss nuclear weapons, climate change and trade.

# U.S., India hold talks

*In White House meeting, Obama and Singh emphasize partnerships*

BY JAY SOLOMON

WASHINGTON—U.S. President Barack Obama and Indian Prime Minister Manmohan Singh pledged during the first state visit hosted by the Obama administration to expand their countries' strategic partnership on issues ranging from counterterrorism to global warming.

At the same time, Mr. Singh's visit to the White House Tuesday underscored some of the contentious issues that still exist between the world's two largest democracies.

Indian diplomats and pundits have bristled during the past week over what they fear has been the administration's tilt toward China, New Delhi's historic rival, on key Asian security and economic issues.

Mr. Singh and other Indian officials also pressed Washington this week to push Pakistan to more aggressively crack down on militant Islamic groups that operate from within its borders.

Mr. Singh is visiting Washington a year after Pakistan-based militants launched a wide-scale attack on the Indian city of Mumbai in which at least 170 were killed.

Pakistan "should be pressurized by the world community to do much more to bring to book all those people who are responsible for this horrible crime," Mr. Singh said in a speech Monday night at the Council on Foreign Relations.

Messrs. Obama and Singh met for more than an hour Tuesday morning at the White House. The

state visit will culminate in a black-tie dinner in honor of Mr. Singh on Tuesday night.

"Our nations are two global leaders, driven not to dominate other nations but to build a future of security and prosperity for all nations," Mr. Obama said following his meeting with Mr. Singh.

The two leaders announced an extensive list of joint U.S.-India initiatives designed to promote trade, education and military ties. Mr. Obama said he had accepted Mr. Singh's invitation to visit India next year.

Messrs. Obama and Singh also outlined joint efforts to combat the spread of nuclear weapons. They said their governments would commit to a moratorium on nuclear-weapons testing and seek to put in place a global treaty banning the production of weapons-grade nuclear fuel.

The U.S. and Indian leaders didn't announce, however, any advance on completion of a landmark nuclear-energy cooperation agreement that passed both countries' legislatures last year. U.S. and Indian officials met over the weekend to try to formalize a follow-on pact designed to ensure New Delhi won't reprocess American-sold nuclear fuel into weapons-grade material.

Both sides remained optimistic that the deal would be completed in the coming months.

Indian officials have grumbled in recent days over what they believe was a slight by Mr. Obama toward New Delhi during his Asian trip this month. The U.S. leader signed a joint

communiqué with Chinese President Hu Jintao that pledged the U.S. and Chinese would jointly seek to promote stability in South Asia. Indian officials viewed the document as legitimizing Beijing's role in policing its southern and western borders at a time of a growing border dispute between China and India.

Indian officials have privately voiced concerns that Mr. Obama might not be as committed to bolstering New Delhi's global role as President George W. Bush. U.S. officials have worked in recent days to assure their Indian counterparts that they were misreading the president's intentions, according to U.S. diplomats.

Mr. Obama is assuming the delicate diplomatic role of balancing Washington's relationships with India and Pakistan. Pakistan remains the U.S.'s most important ally in fighting al Qaeda terrorism.

Islamabad has pressed the U.S. to play a more central role in mediating Pakistan's dispute with India over the Himalayan territory of Kashmir. Pakistan wants to receive the same nuclear-cooperation agreement the U.S. recently agreed to with India. New Delhi, however, sees no U.S. role in Kashmir and wants Mr. Obama largely focused on combating Pakistan-based terrorism.

On Tuesday, the U.S. leader appeared to tilt toward Mr. Singh. "Obviously, there are historic conflicts between India and Pakistan," Mr. Obama said. "It is not the place of the United States to try to, from the outside, resolve all those conflicts."

## Seeking a way for both sides to declare victory on health

[ Capital ]

BY DAVID WESSEL



Two bits of conventional political wisdom are circulating about the health bill pending in Congress. One is that no health bill will pass *unless* it provides for a public option, a government-sponsored competitor to private insurers; the Democratic left demands it. The other is that no health bill will pass *if* it provides for a public option; the centrists needed to get to 60 votes in the Senate won't allow it.

Both sides are playing chicken now. But there is an intense effort to find a compromise, a provision that allows enough members of both camps to declare victory and vote "aye." At the moment, the talks aim at defining circumstances—"the trigger"—under which a state would have to offer a public option.

The White House is trying to create an air of inevitability around passage of a health bill, a tactic aimed at getting wavering members of Congress to try to influence the final version, rather than trying to block a bill. When a bill is seen as inevitable, once firmly held positions tend to soften. Few would have predicted a couple of months ago that House Speaker Nancy Pelosi would craft limits on government-financed abortions that liberal Democrats would accept to get a bill through the House.

The public option is a significant issue, not a digression. Both left and right see it as a step toward expanding government-sponsored health insurance beyond the 29% of Americans who already get insurance from the government.

The bill Senate Majority Leader Harry Reid brought to the floor gives state legislatures the right to opt out of any public plan. But that notion may not survive attacks from fans of a public plan. They know several Southern states would opt out, if only to assert states' rights, including those states where there is very little competition among private insurers. Insiders treat the Reid opt-out provision as a placeholder until end-game negotiations commence.

A provision that would trigger a public plan in certain circumstances has the appealing political benefit of allowing one group to say those circumstances will never occur and the other to say they probably will; both can declare victory. That's why the 2003 Medicare prescription-drug law required a "fallback: public plan in places where seniors weren't offered two private plans. In the end, every senior had a choice so the trigger was never pulled.

Among the many reasons to watch the trigger talks—whether one thinks a public plan is wise or dangerous—is that the concept appeals both to Sen. Olympia Snowe, the Maine Republican

whose vote Sen. Reid may need if Sen. Joseph Lieberman, the Connecticut independent, defects, and to Rahm Emanuel, the president's chief of staff and legislative strategist.

Sen. Snowe proposes to create a nonprofit government corporation in states where "affordable" health insurance, defined as a percentage of income, is scarce. In an interview with *The Wall Street Journal* in July, Mr. Emanuel spoke favorably of triggering a public plan in places where the insurance marketplace lacks sufficient competition.

The competition trigger could return to center stage in the coming weeks. Advocating "competition" and "choice" is a more appealing slogan than calling for "government health insurance." And there are plenty of places where one or two insurance companies dominate the market, much to the consternation of employers and consumers.

Data compiled by the American Medical Association from 2006 and 2005 identify nine states in which two insurance companies have 85% or more of the market, excluding self-insured firms that use insurers only for administrative services. The Government Accountability Office says insurers offering coverage to small businesses and other small groups typically had 47% of the market in a state in 2008, up from 33% in 2002.

"Most Americans live in markets dominated by a small number of insurers, and most markets are becoming more concentrated over time," Northwestern University economist Leemore Dafny and two colleagues report in a recent National Bureau of Economic Research working paper. "Increases in concentration do raise premiums," they said.

In Arkansas, for instance, relevant because Sen. Blanche Lincoln, a Democrat, is a key vote, the AMA data say the Blue Cross plan has 69% of the market and United Healthcare 18%.

Health insurers challenge the AMA data. They say it's misleading, that what matters isn't market share but ensuring consumers a choice, and that rising health costs have less to do with the lack of competition among insurers and more to do with the market power of big hospitals.

Indeed, a dominant insurer may be able to squeeze hospitals and doctors, hence the AMA's interest. And Goldman analyst Matthew Borsch notes that in some states the dominant carrier is a nonprofit Blue Cross plan that resembles the "public option" that draws so much affection from some on Capitol Hill. Still, insurers are a much easier target for politicians than hospitals.

It's too soon to tell precisely what sort of trigger may emerge or what strain of public option would be triggered. But it's hard to see any health bill getting through Congress that either flatly requires or flatly forbids a public option. So a trigger is an obvious compromise.



U.S. NEWS

# Homeowners' woes dim U.S. outlook

*1 in 4 owe more than their properties are worth, burdening housing market, consumption and labor mobility*

BY RUTH SIMON  
AND JAMES R. HAGERTY

The proportion of U.S. homeowners who owe more on their mortgages than the properties are worth has swelled to about 23%, threatening prospects for a sustained housing recovery.

Nearly 10.7 million households had negative equity in their homes in the third quarter, according to First American CoreLogic, a real-estate information company based in Santa Ana, Calif.

These so-called underwater mortgages pose a roadblock to a housing recovery because the properties are more likely to fall into bank foreclosure and get dumped into an already saturated market. Economists from J.P. Morgan Chase & Co. said Monday they didn't expect U.S. home prices to hit bottom until early 2011, citing the prospect of oversupply.

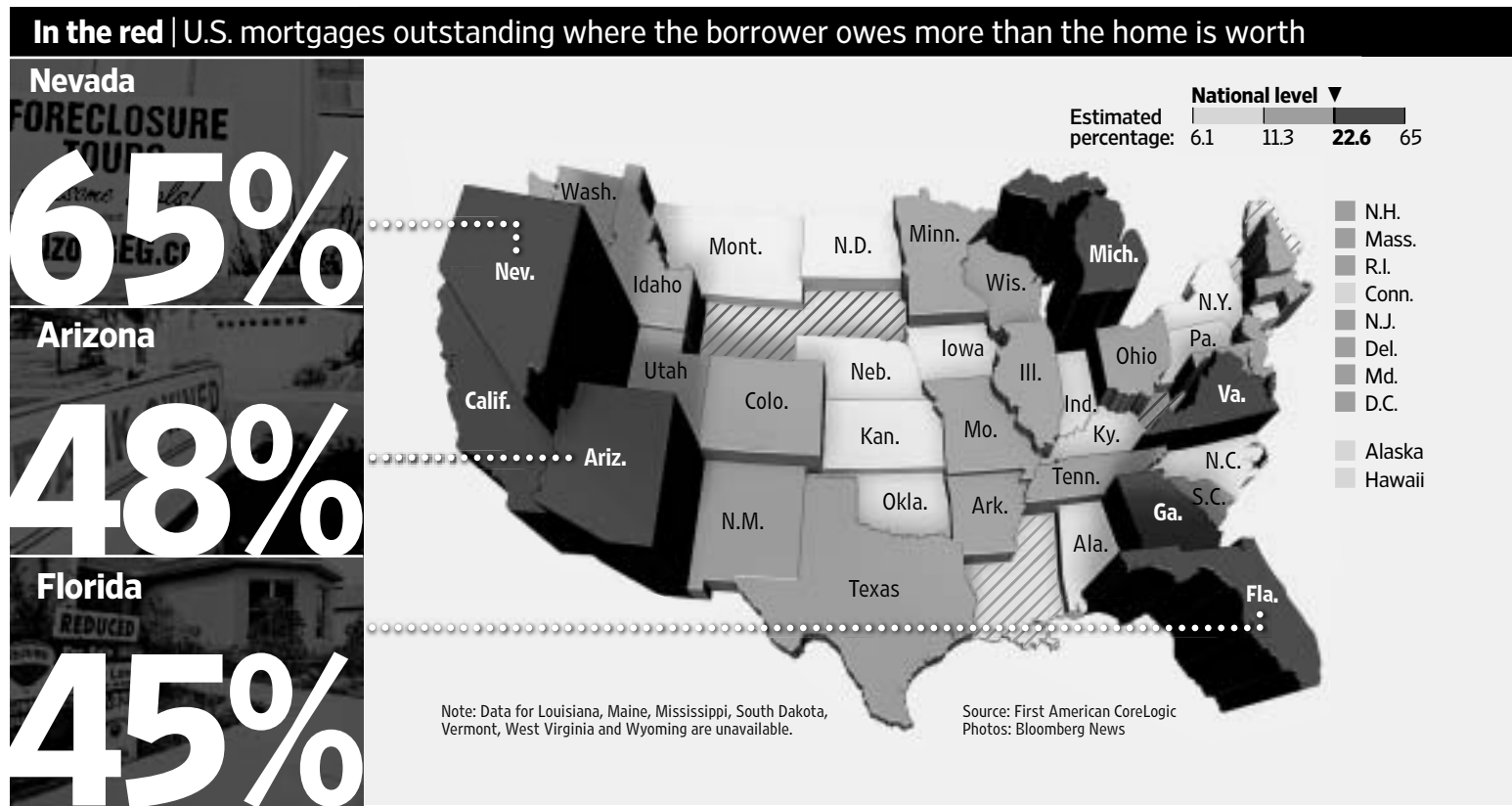
Home prices have fallen so far that 5.3 million U.S. households are tied to mortgages that are at least 20% higher than their home's value, the First American report said. More than 520,000 of these borrowers have received a notice of default, according to First American.

Most U.S. homeowners still have some equity, and nearly 24 million owner-occupied homes don't have any mortgage, according to the Census Bureau.

Negative equity "is an outstanding risk hanging over the mortgage market," said Mark Fleming, chief economist of First American Core Logic. "It lowers homeowners' mobility because they can't sell, even if they want to move to get a new job." Borrowers who owe more than 120% of their home's value, he said, were more likely to default.

Mortgage troubles are not limited to the unemployed. About 588,000 borrowers defaulted on mortgages last year even though they could afford to pay—more than double the number in 2007, according to a study by Experian and consulting firm Oliver Wyman. "The American consumer has had a long-held taboo against walking away from the home, and this crisis seems to be eroding that," the study said.

Just months after showing signs



of leveling off, the housing market has thrown off conflicting signals in recent weeks. On Tuesday, the U.S. home prices logged their fifth monthly increase in September, according to the S&P Case-Shiller home-price indexes. But David M. Blitzer, chairman of S&P's index committee, noted the gains in the most recent month are more modest than during the seasonally strong summer months, as fewer cities saw month-to-month improvements in September than in August.

Jittery home builders and bad weather led to a 10.6% drop in new home starts in October, and applications for home-purchase mortgages have dropped sharply in recent weeks.

These same falling prices have boosted home sales from the depressed levels of last year. The National Association of Realtors reported Monday that sales of previously occupied homes in October jumped 10.1% from September to a seasonally adjusted annual rate of 6.1 million, the highest since February 2007.

The bump in sales was ahead of forecasts, spurred by falling prices, low mortgage rates and a federal tax credits for buyers. Congress recently expanded and extended the tax credits.

The latest First American data aren't comparable to previous estimates because the company revised its methodology. First American now accounts for payments made by homeowners that reduce principal, and it no longer assumes that home-equity lines of credit have been completely drawn down.

The changes reduced the total number of borrowers under water—although both old and new methodology show increases from the previous quarter. Using the old methodology, the portion of underwater borrowers would have increased to 33.8% in the third quarter.

Homeowners in Nevada, Arizona, Florida and California are more likely to be deeply under water, according to the analysis. In Nevada, for example, nearly 30% of borrowers owe 50% or more on their mortgage than their home is

worth, said First American.

More than 40% of borrowers who took out a mortgage in 2006—when home prices peaked—are under water. Prices have dropped so much in some parts of the U.S. that some borrowers who took out loans more than five years ago owe more than their home's value.

Even recent bargain hunters have been hit: 11% of borrowers who took out mortgages in 2009 already owe more than their home's value.

Andrew Lunsford put 20% down when he bought his home in Las Vegas for \$530,000 in 2004. Now, he said, his home was worth less than \$300,000.

"I'm to the point where I feel I will never get my head above water," said Mr. Lunsford, a retired state trooper who works for an insurance company. He said his bank won't modify his loan because he can afford his payments, and he's unwilling to walk away, he said: "We're too honest."

Borrowers with negative equity are more likely to default if they live in a state where the bank can't pursue their assets in court, according

to a study by the Federal Reserve Bank of Richmond.

But borrowers who are less than 20% under water are likely to maintain their mortgage if their loan is modified and the payments reduced, said Sanjiv Das, head of Citigroup's mortgage unit. "Beyond 120%, the most effective modification is a complete loan restructuring, including a principal reduction."

Mortgage companies have been reluctant to reduce mortgage principal over worries about "moral contagion, with people not paying their mortgage or redefaulting because they believed the bank would reduce their principal," Mr. Das said.

Many borrowers are so deeply under water that they can't take advantage of lower rates and refinance their mortgage. "We're declining hundreds of loans each month," said Steve Walsh, a mortgage broker in Scottsdale, Ariz. "The only way we will make headway is if we allow for a streamlined refinance where the appraisal is irrelevant."

A recovery could pay off for the roughly 30% of underwater borrowers who owe 110% or less of their home's value and are able to endure the slump. "Most people prefer to stay in their home" even if the value of their property has declined, said John Burns, a real-estate consultant based in Irvine, Calif.

—Nick Timiraos  
contributed to this article.

## Homeowner Weighs Walking Away

BY JAMES R. HAGERTY

SCOTTSDALE, Ariz.—Brian Gindlesperger says he has never been late on a mortgage payment and considers paying off his loan "the right thing to do." But as the value of his home continues to fall, he is starting to wonder whether paying his debt is the smartest thing to do.

Four years ago, Mr. Gindlesperger, a police officer, and his wife, Kelly, a real-estate agent, paid \$650,000 for a four-bedroom house in this wealthy Phoenix suburb. They believed they were getting a bargain price for the area and made a 20% down payment, using a 30-year fixed-rate mortgage to pay the balance. To help pay for their eldest daughter's college costs, home improvements and a wedding, they took out a second mortgage against

their home. Now they owe about \$647,000 on the two mortgages.

But home prices on average have dropped about 48% in the Phoenix area since peaking in mid-2006, according to the First American CoreLogic index. Mr. Gindlesperger figures his home now probably is worth only \$375,000 to \$425,000, even though it comes with a four-car garage, a pool and a 1.2-acre lot. Zillow.com, a Web site that makes home-value estimates based largely on recent sales of nearby properties, pegs their house at \$374,000.

Families like the Gindlespergers are among millions of Americans who are "underwater" on their mortgages, owing more than the current value of their homes, and they face a dilemma: Keep making payments and hope for the best—or walk away, give up their home and accept

the seven-year blemish of a foreclosure on their credit record.

No one is forcing the Gindlespergers out of their home, but sometimes they have to dip into savings to make their mortgage payments. If illness or job loss slashed their income, they would be more vulnerable to foreclosure because they couldn't count on selling their home for enough money to satisfy their lenders.

Only a huge rebound in home prices—something that appears unlikely in the near term—would give the Gindlespergers a shot at having equity in their house again.

Some of their neighbors have walked away from mortgages they saw as losing bets. That is tempting because the Gindlespergers could rent another house for much less than they now pay each month for their mortgages, property taxes, in-

surance and maintenance costs.

On the other hand, they don't want to move. "It's our home. We have horses. We have dogs," says Mr. Gindlesperger.

The Gindlespergers still aim to hang onto their house and wait for a stronger economy to boost its value. But they can't wait for better days indefinitely, Mr. Gindlesperger says. If the family savings fall below a certain point, they would have to consider all options, including an attempt to sell the home for less than the loan-balance due and get the lenders to agree to forgive the rest of the debt—a transaction known as a short sale.

"We've always been responsible homeowners," he says. "We're sitting here draining our assets to keep current" on the mortgage. But, at some point, he adds, "you have to limit your exposure to being a victim in this."

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## WORLD NEWS

# HIV epidemic pattern alters

U.N. report says deaths and new cases of the virus are falling as access to treatment improves

BY GORDON FAIRCLOUGH

SHANGHAI—The number of people around the world infected with the virus that causes AIDS has stabilized at roughly 33 million, as new infections have declined and wider access to treatment has reduced the annual death toll of the disease, according to the United Nations' annual report on the epidemic.

But officials warned that changing patterns in the spread of the disease will require health authorities to adjust their tactics to contain it.

From 2001 to 2008, the number of annual new infections fell 17%, according to the report, issued here Tuesday by UNAIDS and the World Health Organization, while annual AIDS-related deaths fell by about 10% from 2004 to 2008. About four million people are now receiving anti-AIDS medicines, a tenfold increase in five years.

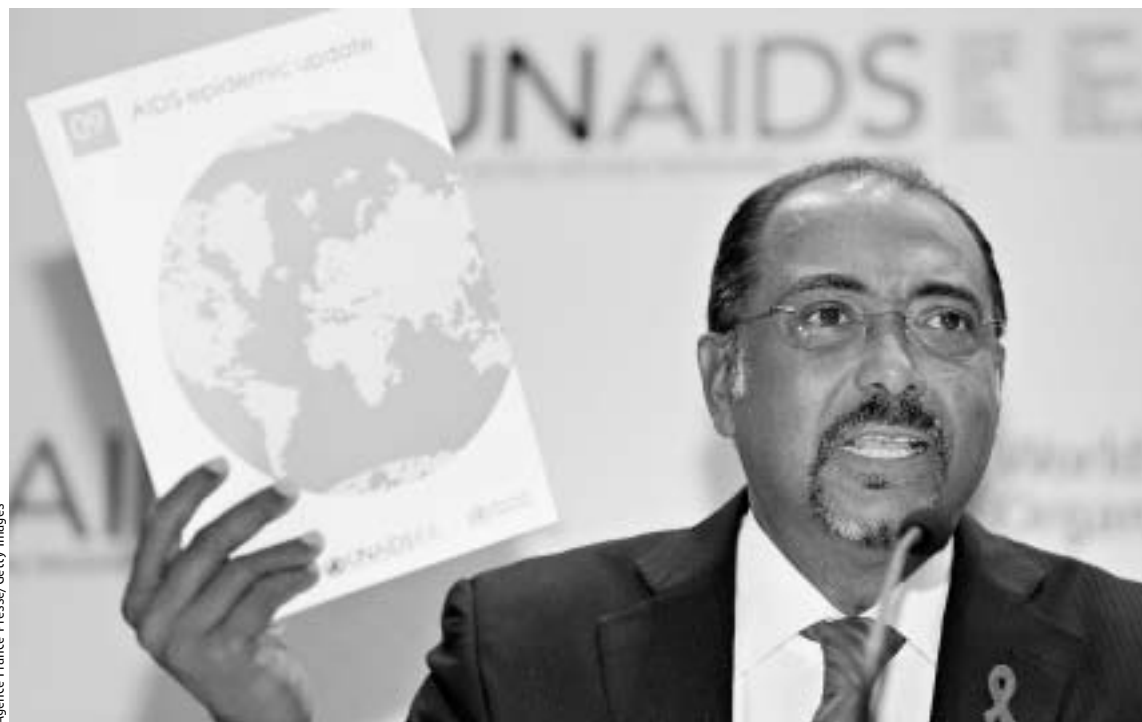
"We are making progress," said Michel Sidibé, the executive director of the U.N.'s joint AIDS program. But he added, "We are seeing a shift in the nature of the epidemic in many places," which will require new approaches by public-health authorities.

In 2008, two million people died of AIDS, while 2.7 million people were newly infected with HIV, the virus that causes the disease, the report said. The U.N. report said "AIDS continues to be a major public-health priority" and called for more funds to support efforts to curb the epidemic and to distribute lifesaving drugs.

Mr. Sidibé said international organizations and others working on AIDS prevention and treatment measures need to do a better job of integrating their programs with broader public-health efforts, to make the best possible use of available resources.

"We are at a special moment now. We need to be smarter. We need to be able to produce more with less," Mr. Sidibé said.

One example, he said, is better coordination between people working on AIDS and tuberculosis. Tuberculosis—which remains widespread in many parts of the world—contributes to 23% of all AIDS-related deaths. Mr. Sidibé also called for better and more widespread application of proven methods of reducing the risk that children born to HIV-positive mothers will be-



Michel Sidibé, executive director of the Joint U.N. Program on HIV/AIDS, presents the U.N.'s annual AIDS-HIV report.

come infected with the virus.

His comments appeared addressed, at least in part, at criticism by some public-health experts of the amount of funding devoted to AIDS, compared with that spent on other widespread and deadly threats such as malaria, pneumonia and diarrhea.

The U.N. report also suggested that health authorities need to remain vigilant and nimble to focus resources on those most at risk—population groups that can change over time in many countries.

In China, for example, most new infections now result from heterosexual sex, rather than from intravenous drug use, as was the case in the past. The increase in HIV infection among gay men in China also has been sharp, leaving the government and nonprofit groups scrambling to adjust prevention campaigns.

China's health minister, Chen Zhu, on hand for the release of the report, said the government would cooperate with nongovernmental organizations to "further enhance our work on high-risk populations," including among gay men, something he acknowl-

## Global burden

Estimated number of people living with HIV, 2008, in millions

Sub-Saharan Africa	22.4
South and Southeast Asia	3.8
Latin America	2.0
Eastern Europe and Central Asia	1.5
North America	1.4
Western and Central Europe	0.9
East Asia	0.9
Middle East and North Africa	0.3
Caribbean	0.2
Oceania	0.1

Source: UNAIDS/WHO

edged would require an effort to overcome "discrimination and stigma."

Mr. Sidibé said that after meetings with Mr. Chen and other Chinese officials, he was impressed by their "energy and pragmatism" in dealing

with AIDS. He pointed to China's stark shift in drug policy in response to the epidemic. The country rapidly moved to make methadone available to addicts to reduce the risks of HIV transmission from injecting heroin.

# Death toll in Philippines keeps climbing

BY JAMES HOOKWAY

The death toll in one of the Philippines' worst cases of election violence rose to at least 46 people Tuesday, police said, and President Gloria Macapagal Arroyo declared a state of emergency to give security forces a freer hand in tracking down the gunmen responsible for the massacre.

President Arroyo's press secretary, Cerge Remonde, said the emergency powers will enable police to conduct warrantless searches of people and property. The powers also will allow the military to pursue those who abducted and killed dozens of journalists, lawyers and political activists Monday en route to register a local vice mayor as a candidate for provincial governor in next year's election.

In a telephone interview, Mr. Remonde said two provinces—Maguindanao and its neighbor to the south, Sultan Kudarat—on the restive southern island of Mindanao will remain in a state of emergency until law and order is restored. The emergency measure also includes Cotabato, an independent city near the northern border of Maguindanao.

"The president is outraged and has ordered an impartial investigation," Mr. Remonde said. On Tuesday night the government hadn't detained any suspects and was pursuing leads, officials said.

The killings happened in Maguindanao, part of the Autonomous Region in Muslim Mindanao, a region on Mindanao, the Philippines' second-largest island.

Political analysts say Monday's massacre could be a consequence of successive national governments' open support for local militias and clan leaders to help contain Muslim and communist insurgents in the area.

The southern Philippines has been a hotbed of violence for decades and has served as a staging and training ground for al Qaeda-linked terrorists in the region. It also is home to long-running Muslim and communist insurgencies.

The few major cities there are separated by swaths of land where a handful of families intermittently battle for political power. For decades, the national government in Manila has run programs to help organize family or clan leaders to limit the sway of Muslim and communist rebels. Manila has allowed local governments and police forces to tap militias to contain the insurgencies, and, in some cases, has provided arms.

Mr. Remonde described the militias as "force multipliers" and says they have been effective in helping control insurgencies. He acknowledges the practice sometimes leads to human-rights abuses—especially when rival families vie for power.

"The political leaders in Manila seem content to use clan leaders and vigilantes as a sort of defense force, without considering how they can war amongst themselves and engage in horrible acts of violence," says Julkifli Wadi, an Islamic studies professor at the University of the Philippines. "We're now reaping the fruits of this short-term expediency."

Investigators say they are treating Monday's massacre as a fresh escalation of a long-running local feud between the Mangudadatu and Ampatuan families.

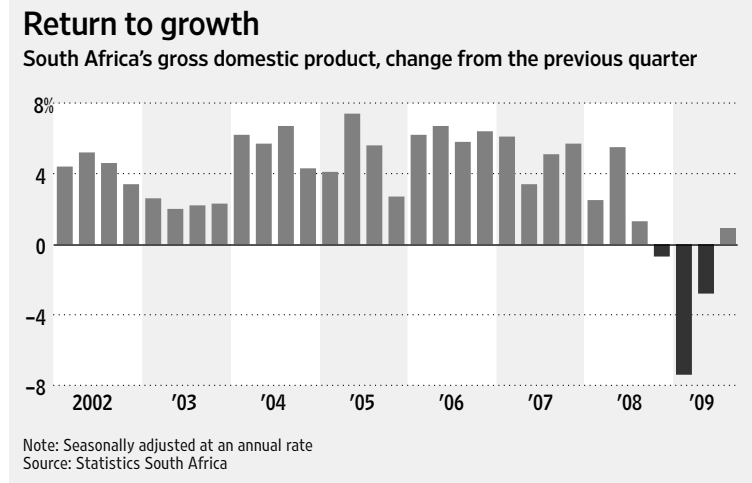
# South Africa pulls out of recession

BY ROBB M. STEWART

JOHANNESBURG—South Africa's economy surfaced from its first postapartheid recession in the three months through September, snapping three consecutive quarters of contraction as manufacturing rebounded.

Gross domestic product grew an annualized 0.9% quarter-on-quarter, data from the government statistics agency showed Tuesday. The economy shrank 2.8% in the previous quarter, after a 7.4% contraction in the first quarter of the year.

The first recession in 17 years after more than a decade of growth has mounted pressure on President Jacob Zuma, elected in April on a populist platform of poverty reduction and job creation. Unemployment rose to 24.5% in



the third quarter after 484,000 jobs were lost in the three months, Statistics South Africa said last

month.

The National Treasury in late October predicted Africa's biggest

economy would contract 1.9% this year, but bounce back with growth of 1.5% in 2010 as consumer spending recovers and the government continues to pour money into infrastructure including power stations, roads and railways.

Stats SA revised GDP growth upward for last year to 3.7%, which follows on the heels of growth above 5% in 2005 through 2007. The agency now bases GDP on 2005 prices rather than 2000 and has expanded its survey to include previously uncovered areas of the economy such as crime, the drugs trade and illegal mining. The "non-observed element" of the economy accounted for 0.2% of GDP in 2008, it said. Manufacturing activity during the third quarter expanded 7.6% from the prior quarter, after shrinking 11.1% in the second quarter.