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THE WALL STREET JOURNAL.

VOL. XXVIII NO. 128

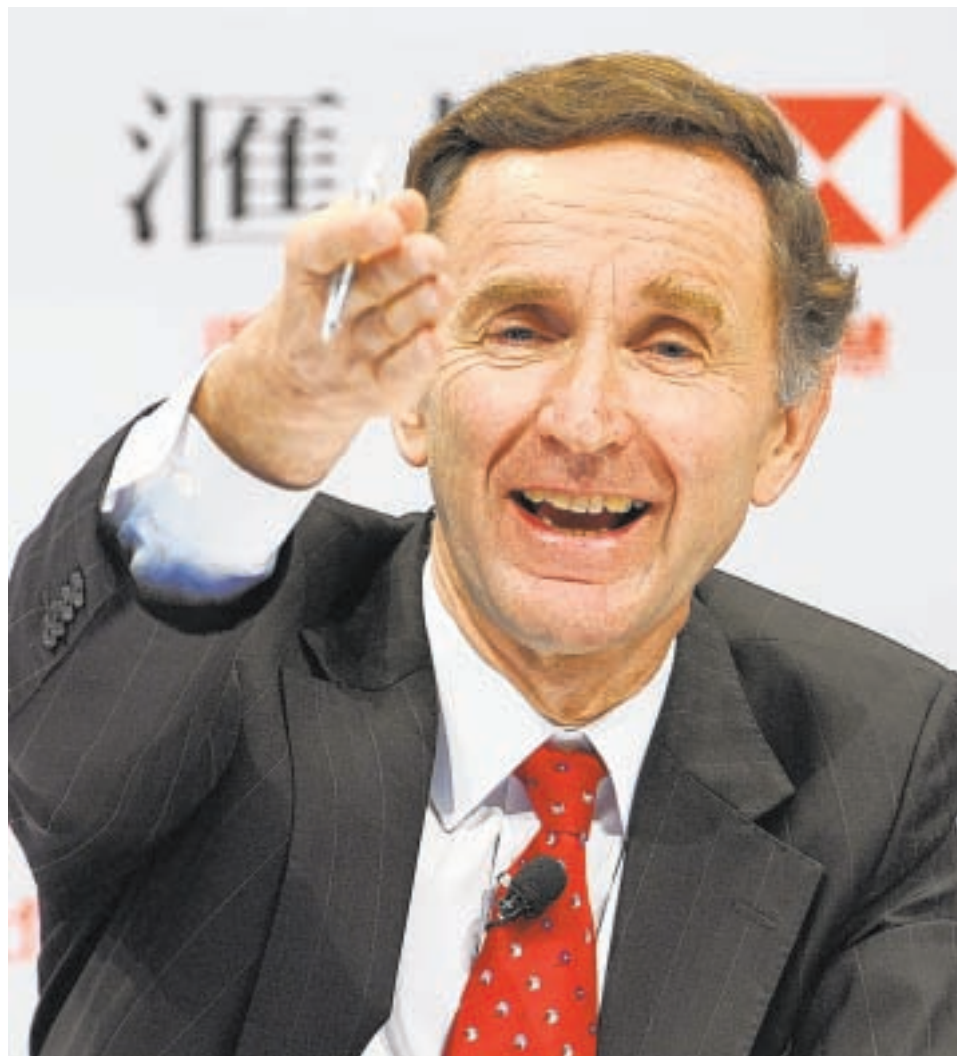
EUROPE

Tuesday, August 3, 2010

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HSBC greets strong first-half results



Agence France-Presse/Getty Images

HSBC Chairman Stephen Green said Monday in Hong Kong that emerging markets will remain the bank's priority for investments. HSBC reported that net profit more than doubled in the first six months of the year. Its shares rose 5.3% in London. See related articles on pages 2, 17 and 32.

U.S. presses for Iraqi deal before pullout

BY ELIZABETH WILLIAMSON AND MARGARET COKER

White House foreign-policy experts are working against the clock to break a deadlock on forming a new government in Iraq ahead of the end of the U.S. combat mission in August, amid a surge in violence in the country.

U.S. President Barack Obama, speaking to veterans in Atlanta on Monday, reiterated his determination to end the combat mission by Aug. 31. "The hard truth is we have not seen the end of American sacrifice in Iraq," Mr. Obama said at the Disabled American Veterans' national convention. "But make no mistake, our commitment in Iraq is changing—from a military effort led by our troops to a civilian effort led by our diplomats."

Mr. Obama also reaffirmed his support for the war in Afghanistan, saying that despite "huge challenges ... we will disrupt, we will dismantle and we will ultimately defeat al Qaeda."

Mr. Obama's remarks came as Vice President Joe Biden's foreign-policy aides work in Baghdad to break a five-month standoff on forming a new Iraqi government—a setback that wasn't foreseen when the administration formulated its plans to pull troops out of Iraq this month.

The Obama administration's heightened efforts to break the political deadlock in Iraq are a marked contrast to the seeming lack of urgency displayed by politicians in Baghdad.

Representatives from the country's major political blocs

have met in recent weeks but, with the Muslim holy month of Ramadan starting in a week, Iraqi politicians say they are no closer to forming any political agreement.

Meanwhile, the security situation in Iraq has deteriorated, a worry for the Obama administration, which took office in early 2009 pledging a responsible end to the war, now in its seventh year.

July saw the biggest surge in war-related fatalities in Iraq in more than two years, with 535 deaths, most involving Iraqi civilians, according to official Iraqi figures. The toll is the highest since May 2008, when 563 died. The number of injuries surpassed 1,000 last month, again most involving civilians.

The U.S. military disputed

Please turn to page 3

U.S. employees still waiting for return of retirement perk

BY ELEANOR LAISE AND KELLY GREENE

Roughly a year into the current economic expansion, U.S. corporations and their shareholders are enjoying surging profits and rising dividends—yet many employees are still waiting for the restoration of one of their most important benefits, the 401(k) match.

Hundreds of major employers in recent years have reduced or eliminated their con-

tributions to workers' 401(k) plans, which typically match workers' contributions up to a certain percentage of pay and are considered critical building blocks for retirement savings. A number of these employers said they hoped to resume the match when business improved. But so far, these benefits have been restored only sporadically.

FedEx Corp. last week boosted its profit expectations for the year to \$4.60 to \$5.20 a share, up from \$4.40 to \$5

previously, but said it is taking roughly two years to fully restore the employer matching contributions it cut in February 2009. FedEx had to ask everyone to "share the pain and make sacrifices, because the global economy was so slow," spokesman Jess Bunn said.

Rival United Parcel Service Inc. raised its dividend more than 4% earlier this year but still hasn't restored the 401(k) match it suspended in early 2009. Since some work-

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The Quirk



The former pinup actress who can still make the feathers fly. Page 29

Editorial & Opinion

The end of ASBO Nation. Page 12

Wheat prices surge amid fires in Russia

Wheat prices skyrocketed Monday as news that wildfires are spreading over key growing regions in Russia, one of the world's largest wheat exporters, prompted investors to pour new money into the markets.

Participants say the news of Russia's wheat woes is fueling fears of a repeat of problems in 2008, when a surge in food prices sparked riots in many countries.

But wheat prices are climbing against a substan-

tially different backdrop, meaning a run on food supplies is unlikely this time around. Inventories are abundant, especially in the U.S., lessening the chances of a food panic, analysts say.

Still, speculative buyers seeking to catch the next strong rally have flocked to wheat over the past weeks.

- Russia declares state of emergency 5
- China and India dig in their heels on supply 5



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PAGE TWO

Remember: Profits equal prosperity

[Agenda]

BY PATIENCE WHEATCROFT



Politicians may express distaste for what some categorize as banks' "excessive" profits but stock markets Monday rejoiced in the buoyant figures produced by two of Europe's biggest banks, **HSBC** and **BNP Paribas**.

What politicians tend to forget is that it is important that banks, like any businesses, make profits. Without them, they can't pay the dividends on which so many investors rely. For the first half of this year, HSBC alone will push out \$2.8 billion of dividends, much of it headed into pension funds that have suffered a nasty shock from BP's abruptly abandoned payout.

Having been castigated over their bonus arrangements, the banks, particularly in the U.K., are now being criticized for a perceived failure to lend sufficiently to business. Along with Monday's results came an effort to counter that, with HSBC saying that demand for loans in the U.K. in the first half of 2010 had been a fifth lower, in volume terms, than a year earlier.

But there was little emphasis from either of those reporting their good news about the benefits their profits will confer on very many individuals. Perhaps the banks still harbor a few qualms of their own about the ratio between what money goes to employees and what to owners. At HSBC, employee compensation and benefits were up from \$9.2 billion to \$9.8 billion, compared with that \$2.8 billion dividend. Nevertheless, banks need to feel brave enough to start shouting about the importance of profits.

Michael Geoghegan, HSBC's chief executive, did at least venture to point out in his printed review of the numbers that "HSBC recognises the importance of dividend income to all our



HSBC is returning to its Hong Kong roots, with its CEO leading the way.

shareholders".

The bank intends that a growing proportion of those shareholders will be in China. Once a change in the rules allows, it is ready to become the first international company to be listed on the Shanghai stock exchange. This would be a real return to its roots for what was once the Hong Kong and Shanghai Banking Corporation. Earlier this year, Mr.

Banks need to feel brave enough to start shouting about the importance of profits.

Geoghegan himself moved to Hong Kong, demonstrating the shift in the emphasis of the business. Although the chairman and finance director currently remain in London, other bankers believe that such a situation is unlikely to persist indefinitely. Videoconferencing has improved enormously of late but the optimum communication between a chief executive and, particularly, his finance director, probably benefits from being in the same time zone.

For the time being, however, HSBC remains a British bank with a determined strategy of rebalancing its assets toward the emerging markets and, in

particular, China. It estimates that mainland China's total trade flows with the rest of the world will grow by some 13% a year over the next five years, to hit \$5 trillion, and it is positioning itself to reap the benefits. In the last year, half of its new commercial banking customer growth in Hong Kong came from mainland Chinese companies expanding overseas.

But HSBC is not betting solely on China's success. Its HSBC Amanah business claims to be the largest and most comprehensive Islamic proposition of any international bank. With Islamic finance now growing at a rate of more than 20% a year, that is a useful sideline to have.

This international growth puts Mr. Geoghegan in a strong position from which to gently point out to regulators that, in a global marketplace, businesses may be able to leave less hospitable regimes in favor of more welcoming ones. "One country cannot afford to pursue its own particular policy agenda without considering the possible unintended consequences for the wider economy," he wrote.

It was a plea for the Group of 20 to act as one when it comes to regulating the banking industry. He is not the first to have made such a plea and he will not be the last, although the evidence so far is that some countries cannot countenance the wait involved in trying to achieve a uniform

approach and the U.S. has already moved unilaterally on reform as other countries have on bonus taxes. In the case of HSBC, though, the veiled threat has substance. If it judges the U.K. to be unduly harsh in its regime, it really does have an escape route in place.

Striking similarity

As Greece has endeavored to impose a more austere regime on its previously well-looked-after public-sector workers, they have taken to the streets in protest. Spain, too, has had its demonstrations. Now there is a call for the U.K. to emulate such behavior.

The transport union, RMT, wants to see a broad program of what it terms "industrial action" across the country. It has put down a motion for debate at the conference for the main trade union organization, the TUC, which would see a concerted program of strike action and demonstrations across the country in protest at the public-sector cuts planned by the coalition government.

The details of those cuts are due to be announced in the Public Spending Review in October but the RMT is already gearing up for a fight. Its general secretary, Bob Crow—sounding like a throwback to the days when British industry was regularly brought to a halt by militant trade unionists—is effectively declaring war on the coalition, with a demand for "generalized strike action and community resistance." The country, he says, is facing "an ideological dismantling of the state and an attack on workers."

Quite how Mr. Crow and his colleagues would deal with the gaping hole in the nation's finances is not something he addresses. Neither is he likely to do so at the TUC conference in September. But in broad terms he suggests "higher rates of tax for the rich." And if the strikes did not drive the wealthy out of the country, then higher tax rates surely would.

What's News

■ **BNP Paribas reported** a 31% increase in profit for the second quarter, as strong retail-banking operations more than compensated for the fallout from Europe's sovereign-debt crisis. The bank's shares rose 5.3%. 22

■ **A U.K. appeals court** overturned a lower-court ruling in favor of hedge funds that maintained some funds weren't properly protected when Lehman collapsed. 17

■ **Turkish media firm** Dogan won a partial victory in its appeal against tax fines, but lack of clarity over how much it eventually will have to pay pushed the stock down. 20

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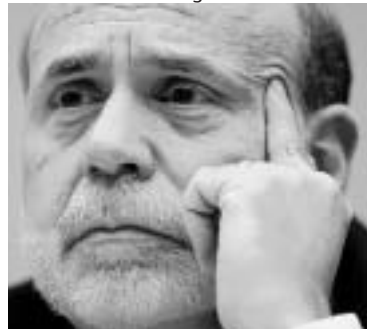
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'Investors should be very wary of taking indexes' resilience to mean the uncertainty has abated.'

David Cottle on why uncertainty is the new watchword for global markets



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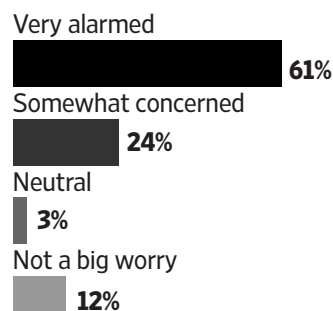
Question of the day

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Previous results

Q: Are you concerned about companies tracking your online behavior?



THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Commodity Quay, East Smithfield,
London, E1W 1AZ

SUBSCRIPTIONS, inquiries and address changes to:
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8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com.
Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones
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Printed in Belgium by Concentra Media N.V. Printed in
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M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200
Brussels, Belgium

NEWS

Wednesday vote to test Italy premier

BY MARGHERITA STANCATI
AND CHRISTINA PASSARIELLO

ROME—Italy's Parliament on Monday decided to vote Wednesday on a motion to dismiss a junior minister who is under criminal investigation—a vote that will test Italian Prime Minister Silvio Berlusconi's government after members of his ruling party broke away last week.

Mr. Berlusconi's break with Gianfranco Fini—the speaker of the lower house and co-founder of the prime minister's People of Freedom, or PDL, party—has plunged Mr. Berlusconi into his most severe political crisis since the party came to power in 2008.

Mr. Berlusconi's break with Gianfranco Fini has plunged the prime minister into his most severe political crisis since the party came to power in 2008.

Mr. Fini and about 30 members of the lower house formed an independent parliamentary group last week after Mr. Berlusconi split with the speaker, criticizing his position that members of Parliament under investigation should resign.

The breakaway means Mr. Berlusconi has lost his automatic majority in the lower house, where the

ruling coalition had a 26-vote majority.

If the lower house on Wednesday votes to dismiss Undersecretary for Justice Giacomo Caliendo, the government would lose its official majority in the lower house, triggering a move in which Italy's president would decide whether Mr. Berlusconi's PDL party could stay in power—long before the next general election, scheduled for 2013.

The vote comes at a time when Mr. Berlusconi's popularity ratings have slumped to their lowest level since taking office.

However, an immediate government collapse is considered unlikely. For the censure motion against the minister to pass, all three opposition parties would need to back it, in addition to Mr. Fini and his breakaway group. Mr. Fini's supporters haven't revealed their voting intentions.

Some observers expect Mr. Fini's group to give a tempered response to the censure motion, opting to vote against it or abstain. "I think they'll ultimately vote against the censure motion," said Alessandro Campi, director of conservative think tank Fare Futuro who is close to Mr. Fini. "It would be a chance for them to show they remain formally loyal to the government, despite their criticism of some government decisions and of the way Berlusconi rules the party," he added.

The criminal probe of party members is a sore point between



Italy's Prime Minister Silvio Berlusconi, here at a Parliament session in Rome last week, faces a test of support this week.

Messrs. Fini and Berlusconi. Mr. Fini has criticized party members close to Mr. Berlusconi on "grounds of public ethics," and suggested that politicians who are under investigation—as many of Mr. Berlusconi's allies are—should resign.

The prime minister accused Mr. Fini of undermining the party's program. Mr. Fini then announced that he and his supporters would no longer back the government on all of

its measures, saying he would support the government only when it adheres to its campaign platform.

Mr. Caliendo, the focus of Wednesday's vote is under investigation for allegedly belonging to a secret society aimed at influencing political decisions and business deals. He has denied all charges and has rejected calls to resign. Mr. Berlusconi has publicly defended Mr. Caliendo.

Since Mr. Berlusconi's election in 2008, the prime minister has faced criminal investigations, indictments and trials on charges ranging from false accounting to corruption. He has repeatedly denied all charges. In some cases, he was acquitted at trial. In others, charges were dropped after the statute of limitations expired. He is currently being investigated over alleged tax fraud and faces several pending trials.

U.S. reaffirms Iraq pullout

Continued from first page
the figures, saying that by its count, 222 people were killed in July, including six U.S. soldiers.

On Monday, Iraqis were killed in two bombings and a drive-by shooting, including a policeman, his wife and four-year-old daughter whose house was blown up by militants, according to the Associated Press.

Seven other family members were wounded in the blast, Iraqi police officials said. The officials said they suspected al Qaeda in Iraq militants, who have been targeting policemen and members of Sunni militias.

Mr. Obama, saying "violence in Iraq continues to be near the lowest it's been in years," said the U.S. would shift its military mission in the country from combat to supporting and training Iraqi forces.

The U.S. plans to install a new military commander and ambassador in Iraq in August, and had hoped that a new Iraqi government would be in place before the transition, administration officials said.

Insurgent attacks in 2006, when Iraq was at a similar political impasse, brought the nation to the brink of civil war. Republicans on Monday claimed credit for the surge strategy devised under the George W. Bush administration in 2007, that helped to quell the violence. "While the president may be eager to use this speech to check off another of the major promises he made during the campaign, he may be less willing to revisit his own opposition to the surge strategy," House Republican leader John Boehner of Ohio said in a statement.

The uptick in violence suggests that insurgents are using the political impasse in Baghdad to try to

sow sectarian unrest and seize an advantage, Iraqi and U.S. officials say.

U.S. and international diplomats have failed so far to help rival factions forge a compromise, and the White House has taken an increasingly hands-on approach in trying to resolve the issue.

The White House on Monday sought to play down the problem. "If you look back at the last elections, it took some six months to form a government," White House spokesman Bill Burton told reporters traveling with Mr. Obama. "That there are competing parties and individuals who want to lead this democracy is a sign of the kind of progress that they've made."

The U.S. will maintain a transitional force until all U.S. troops withdraw from Iraq by the end of next year, Mr. Obama said. During this period, U.S. military personnel will focus on supporting and training Iraqi forces, partnering with Iraqis in counterterrorism missions, and protecting U.S. civilian and military efforts, he said.

The U.S. has reached an agreement with the Iraqi government to remove all American troops from Iraq by the end of 2011, but has pledged to maintain a significant diplomatic presence.

The number of American troops in Iraq has been steadily declining this year, as the U.S. ramps up its military presence in Afghanistan. As of last month, there were 81,000 U.S. troops in Iraq and 87,000 in Afghanistan.

By the end of August, the number of U.S. troops in Iraq is set to decline to 50,000, while the number in Afghanistan is slated to reach 96,000 by September.

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EUROPE NEWS

Pakistan calls on U.K. envoy to explain Cameron remarks

BY TOM WRIGHT

Pakistan Foreign Minister Shah Mehmood Qureshi summoned Britain's envoy to Islamabad on Monday to seek an explanation for comments made last week by British Prime Minister David Cameron about Pakistan exporting terrorism.

The foreign ministry said in a statement that Mr. Qureshi had conveyed to British High Commissioner Adam Thomson "the sentiments of the government and the people of Pakistan" over Mr. Cameron's remarks.

"The foreign minister emphasized that terrorism was a global issue and had to be dealt with by all countries in a spirit of cooperation, rather than putting the entire onus on any one country," the statement said.

Over the weekend, demonstrators in Pakistan burned effigies of Mr. Cameron after he accused Pakistan of exporting terrorism to India, Afghanistan and elsewhere.

Mr. Cameron, during a state visit to India on Wednesday, said Pakistan couldn't "look both ways" in receiving billions of dollars in aid from the West while continuing to "promote the export of terror, whether to India or Afghanistan or anywhere else in the world."

Downing Street sought to play down Monday's meeting, saying it covered a "range of bilateral issues." A spokesman declined to comment on whether the Pakistanis raised Mr. Cameron's remarks. The spokesman said Mr. Cameron stands by the remarks, which he said haven't damaged the "strong broad and strategic relationship" between the two countries.

Still, many U.K. commentators believe the remarks are a dent in Mr. Cameron's reputation for foreign affairs. The prime minister, three months into his premiership, has been accused of being heavy-handed and of making a big mistake by accusing Pakistan while on a visit to its great rival, India.

Relations with Pakistan are important for the U.K., not least because Britain has about 10,000 troops in Afghanistan. A large percentage of terrorist threats to the U.K. originate in the border region of Pakistan and Afghanistan, and Pakistanis are one of the largest immigrant communities in the U.K.

Pakistani opposition politicians have called on President Asif Ali Zardari to call off a visit to the U.K. that starts Tuesday. Pakistan's military intelligence chief, who was to visit the U.K. this week, canceled his trip Friday, but Mr. Zardari has decided to go ahead. He arrives Tues-



Activists burn an effigy of British Prime Minister David Cameron in the streets of Karachi, Pakistan, on Saturday. The prime minister made comments Wednesday about Pakistan's alleged links to terrorism.

day in the U.K. from France and is due to meet Mr. Cameron later in the week at Chequers, the British prime minister's official country residence.

The government considered canceling but decided not to because of the importance of long-term bilateral relations, a Pakistan foreign ministry spokesman said.

A spokeswoman for Mr. Cameron said the U.K. and Pakistan enjoy "very good, strong relations," adding that the prime minister is looking forward to Mr. Zardari's visit and stressing that Mr. Cameron recognizes Pakistani government efforts in fighting extremism. The spokeswoman said the visit will be "a good opportunity to discuss further what action is being taken" by

Pakistan. She said counterterrorism issues would be on the agenda on Friday, alongside a range of other bilateral issues.

Pakistan has come under enormous pressure since the release last month of U.S. military documents by WikiLeaks, an Internet site that publishes classified information. Those documents allegedly showed links between Pakistan's military spy agency and the Taliban in Afghanistan.

Although U.S. and other officials have said many of the documents are likely unreliable, their publication has given ammunition to those that suspect Pakistan still aids the Taliban. Pakistan denies the links.

Pakistan has been fighting Pakistan Taliban militants in its tribal

regions bordering Afghanistan for the past two years. But the U.S. and U.K. would like it to broaden the war to target Afghan Taliban militants that have been using Pakistan as a haven to attack North Atlantic Treaty Organization soldiers in Afghanistan.

Pakistan's critics fear some elements of the military continue to support the Taliban because it fears the rising influence of its rival India in Afghanistan and sees the militants as a counterweight.

Mr. Cameron has sought to adjust U.K. policy in the region. He said he wants British combat troops out of Afghanistan by 2015.

—Alistair MacDonald and Laurence Norman in London contributed to this article.

U.K. chief of security will resign next year

Associated Press

LONDON—Britain's first national security adviser is to leave his post, the government said Monday—less than three months after the official took up the newly created role.

Peter Ricketts, previously the country's top diplomat, was appointed after Prime Minister David Cameron's government took office in May to lead its security work and set up a new national security council.

A spokeswoman for Mr. Cameron said Mr. Ricketts would step down in 2011, and said that he had only ever intended to serve in an interim capacity.

"He is not leaving his post early," the spokeswoman said. "It was always the understanding that he would do it for a limited period." She said it isn't confirmed who will succeed Mr. Ricketts as Mr. Cameron's chief security adviser.

Mr. Ricketts sits alongside Mr. Cameron, other ministers and the heads of the military and intelligence services on the security council, which is responsible for key decisions on the Afghanistan conflict and domestic security.

Mr. Cameron clashed last week with key allies in Pakistan over terrorism, after he questioned Islamabad's commitment to tackling terror groups inside its borders.

The spokeswoman said the departure of Mr. Ricketts was unconnected, and that Mr. Cameron had full confidence in the adviser's work.

Mr. Ricketts, who was previously head of Britain's joint intelligence committee and served as chief diplomat at the Foreign Office for four years, is expected to be offered a prestigious post overseas next year.

Mr. Cameron is likely to appoint new ambassadors to Paris, Washington and India over the next 12 months as incumbents reach the end of their postings. Though the British leader has said he intends to break with tradition and appoint businessmen as ambassadors in some countries, Mr. Ricketts is expected to be rewarded with a post in the U.S. or France. Britain's Foreign Office declined to comment.

"Announcements about senior positions will be made at the appropriate time," the ministry said in a statement.



Associated Press

Security adviser Peter Ricketts

ECB trims government-bond purchases

BY GEOFFREY T. SMITH

FRANKFURT—The European Central Bank said Monday it had reduced by more than 50% its purchases of government bonds last week, reinforcing impressions that it has all but withdrawn from public-debt markets now that crisis conditions seen in May have receded.

The ECB said it settled €81 million (\$105.6 million) in transactions under its Securities Markets Program, down from €176 million the previous week.

By contrast, it had bought more than €26.5 billion in bonds in the first weeks of the program in May, stabilizing debt markets profoundly shaken by fears over the solvency of some euro-zone states.

The latest data raise the volume of bonds bought under the program to €60.36 billion.

As usual, the ECB said it will conduct an auction of one-week deposits Tuesday to ensure that it fully offsets the impact of its program on money supply.

The ECB is sensitive to criticism, largely from Germany, that the program merely helps to finance budget

deficits of euro-zone member states.

In introducing the Securities Market Program, the central bank had aimed to prevent an unwanted tightening of monetary conditions through rising long-term interest rates.

Bond yields, to which corporate and household loan rates are generally tied, had risen sharply as a result of the turmoil in bond markets.

EUROPE NEWS



Associated Press

Anna Ismakina, 79, at the site of her home in the village of Shuberskoye, near Voronezh. Forest fires have killed 34 people.

Peat, forest fires choke Russia; fear over grain

By WILLIAM MAULDIN

MOSCOW—President Dmitry Medvedev declared a state of emergency in forest-fire-afflicted regions of Russia and the country's grain authority lowered its harvest projection amid one of Russia's hottest, driest summers on record.

Much of the country west of the Urals is suffering through a severe drought, and in Moscow, the summer has been the hottest since record-keeping began 130 years ago. Vast tracts of Russian forest have been engulfed in flames in the past few days and wildfires now burn across an area the size of greater London. Smoke blanketed Moscow on Monday as peat smoldered underground just outside the Russian capital.

The Emergency Situations Ministry estimated the area covered by forest fires at 128,000 hectares and at least 34 people have died in fire-related incidents throughout the country, according to media reports.

Mr. Medvedev declared a state of emergency in seven regions, including the Moscow region. State television showed him placing a telephone

call to Prime Minister Vladimir Putin on Monday to instruct the country's military to assist in fighting fires. The prime minister, wearing jeans and with rolled-up shirt sleeves, was shown receiving the call on a mobile phone at the scene of a fire in the Nizhny Novgorod region.

Outside the capital, crops covering an area larger than Portugal have been killed by heat and drought, delivering a blow to an agriculture industry that has rebounded in recent years from a fall of production in the 1990s.

The Russian Grain Union on Monday lowered its forecast for the 2010 harvest to between 72 million and 78 million metric tons, helping boost Chicago wheat futures to the highest level in 22 months. That marks the latest in a string of trimmed forecasts to a crop that was previously seen at 81 million to 85 million tons.

If the grain yield falls to 72 million tons, the lower end of the union's forecast, then Russian grain exports may tumble to 11 million tons in the current harvest year, union head Arkady Zlochevsky said.

Moscow hit a record summer temperature of 38.2 degrees Celsius on Thursday. In the next few days, high temperatures will be between 35 degrees Celsius and 40 degrees Celsius, the latter temperature being a key "psychological barrier" that Moscow has never crossed, said Dmitry Kiktev, deputy director for science at official forecaster HidroMetTsentr.

Above ground in Russia's capital, a southeast wind wafted smoke from forest fires and smoldering underground peat Monday morning. The burning peat was once a part of swamps outside Moscow that were drained in Soviet times and have since dried, developing into a fire hazard.

Crop damage may lead to higher food prices in Russia, boosting Russian inflation. That, in turn, could lead the central bank to raise interest rates, some economists said, hurting bond prices but perhaps giving a boost to the ruble. Russia's industrial output in July and August may also be affected by the heat, VTB Capital said.

—Olga Padorina
contributed to this article.

Spike in prices of wheat ignores abundant supply

By TOM POLANSEK

CHICAGO—The worsening drought in Russia has set wheat prices on fire.

Wheat futures surged past \$7 a bushel on Monday, taking the grain 67% above June's nine-month low.

The fields of Russia's traditionally fertile Volga River region are strewn with withered wheat stalks. The heat and lack of rain have killed half of the crops in the worst-hit areas, while the surviving crops are expected to yield half as much as in previous years.

Before the drought and subsequent wildfires that have killed dozens of people, Russia and the Ukraine were expected to supply almost 18% of the wheat volumes that trade between nations. Not only has the drought grabbed headlines, it has reawakened fears of the kind of global supply shortage that sparked riots in 2008. China and India are already digging in their heels.

But wheat prices are climbing against a drastically different backdrop this time around, lessening the likelihood of a run on food supplies and another scorching run past \$13 a bushel, analysts say.

"Although wheat has seen a stellar monthly performance, fundamentals do not seem to support the rally, with inventories, especially in the U.S., are abundant—and poised to increase with the arrival of a good spring wheat crop," said Hussein Allidina, head of commodity research at Morgan Stanley.

Nearby wheat futures in July posted their largest monthly percentage gain in at least 51 years. Wheat for September delivery settled 4.8% higher at \$6.9325 a bushel after rising as high as \$7.1125 on the Chicago Board of Trade.

The U.S. Department of Agriculture estimates there will be almost 30 million tons of wheat in U.S. stockpiles at the end of next May, a 23-year high. The 2007-2008 marketing year was marked by droughts in both Australia and the Black Sea region that were compounded by the U.S.'s shift to corn planting to feed ethanol production. U.S. inventories that year dropped to an all-time low of 8.3 million tons.

World supplies also are more

comfortable at 187 million tons. In 2007-08, they were a third less, at 124 million tons.

Speculative buyers, those who aren't looking to hedge parts of their business against moves in grains prices, have flocked to wheat over the past weeks. The number of bets that speculators have made on falling prices plunged to 15,432 contracts as of July 27 from 22,191 the week before.

"People want to catch on to the next strong rally, so they blindly come in and start putting these positions on," said Shawn McCambridge, a senior grains analyst at Prudential Bache. "The market's makeup is much different than it was in 2008."

But officials in China and India aren't taking any chances. China's top economic-policy planning agency warned last week that it will bar businesses found guilty of hoarding grains from state grain purchases. As grain prices have risen sharply together with the rally in wheat, the adequacy of China's harvest has come into focus.

The National Development and Reform Commission said it would strictly enforce price-stabilization policies and called for businesses to strictly observe minimum purchase prices.

"Some businesses are blindly 'following the wind' in raising prices," the commission said.

India, the world's second-largest wheat grower, banned the export of the grain in 2007 to boost local supplies and prices. Government officials since then have mulled the possibility of reopening the door to exports on expectations of a bumper harvest and overflowing stockpiles. Despite last year's drought, food grain stocks have swelled to almost 60 million tons as of April 30, more than triple the level required by the government.

A decision on lifting the ban on wheat exports has been delayed because officials want to assess crops. India is expecting normal monsoon rains this year, but the government is taking a cautious stance on the export of wheat, as it needs adequate food stocks to supply subsidized grains to the poor under a proposed law.

Poland demands Russian findings on plane crash

By MARCIN SOB CZYK

WARSAW—Poland's government for the first time voiced official dissatisfaction with Moscow for what it said was a failure to share critical findings from its investigation into an April plane crash that killed Poland's president.

Polish Prime Minister Donald Tusk on Monday said Warsaw has yet to receive documents it has requested and called on Russia to turn over "precise information" uncovered during its probe of the crash, near an airfield in Smolensk.

Mr. Tusk, using pointed language, said if the information isn't

forthcoming he expected Moscow to provide "explanations of what kind of reasons make it difficult for the Russian side to transfer documents."

Russian officials have said the country has already handed over everything it has.

The Polish presidential jet crashed less than a mile from the runway after attempting to land in dense fog, with dozens of government and military officials on board, killing 96 people.

Frustration has mounted in Warsaw in the months since the disaster, which unsettled Polish politics and sent the country into a period of national mourning.

The Polish daily Gazeta Wyborcza reported Monday that Polish investigators want to know about any deliberations among Russian air-traffic controllers about whether to close the airport and divert the flight, to determine whether the plane was allowed to continue its approach because turning it away could have created a diplomatic incident. Investigators also want to know whether the control tower radar accurately showed the plane's position, the newspaper reported.

Polish investigators declined to comment. Mr. Tusk's comments came in response to questions about

the newspaper report.

Investigators have also been looking at whether the pilots came under pressure from the president or members of his entourage as they weighed the decision to land. Transcripts of cockpit conversations show that pilots were in communication with aides to the president, Lech Kaczynski, as they neared the airport.

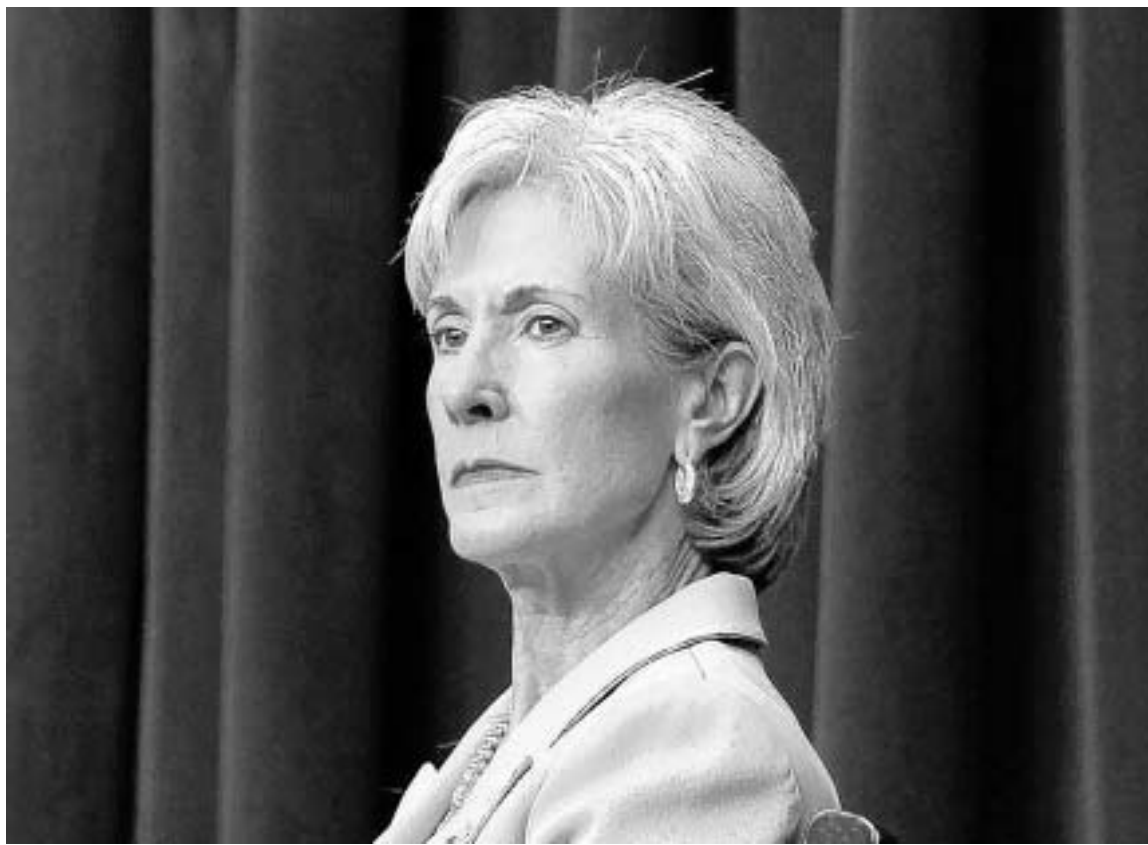
Polish media have reported that unofficial interpretations of garble in the cockpit recordings show the captain saying either, "If I don't land, they'll kill me," or "If I don't land, he'll kill me." Poland has made no official comment about these re-

ports. Russia's investigation says much of the cockpit discourse is inaudible.

Mr. Tusk's government has promoted warmer ties with Moscow, a contrast with the more skeptical view of Russia—rooted in the country's Soviet-era subjugation of Poland—held by the former president, Mr. Kaczynski, and his conservative Law and Justice party.

Bronislaw Komorowski, the standard-bearer of Mr. Tusk's more liberal Civic Platform party, defeated Mr. Kaczynski's brother in the July election to choose his successor. But the crash has helped fuel a conservative grass-roots movement.

U.S. NEWS



Getty Images

HHS chief Kathleen Sebelius is trying to appease governors who will have big sway over the health overhaul's success.

White House tackles state concerns on health

By JANET ADAMY

As governor of Kansas, Kathleen Sebelius once hopped on a plane to Washington to plead with federal officials for health funding.

Now the tables have turned. Ms. Sebelius, the secretary of health and human services, is trying to appease cash-strapped governors who will have big sway over the success of the health overhaul passed in March.

The law puts heavy demands on Ms. Sebelius—it has more than 1,000 references to actions that the “secretary shall” take. But much of the responsibility for actually implementing the changes falls to states, so the Obama administration’s top health official has been working to guide them.

“She has spent a lot of time with governors...to really make sure this does work,” said Gov. Jim Doyle of Wisconsin, a Democrat who has twice met with Ms. Sebelius in her Washington office.

Ms. Sebelius’s efforts come as some states prepare for friction with her department over the early provisions in the law, since they say they are underprepared to implement many aspects of it.

Missouri will hold a ballot on Tuesday on whether to knock down the health-care law by invalidating

the requirement that most people buy insurance or pay a fine. Some other states are planning similar votes.

Early this month, Ms. Sebelius’s office plans to host governors’ staff from across the country to begin tackling the most ambitious part of the legislation, which calls for setting up state-based exchanges where some 30 million Americans are expected to buy coverage.

State officials say they are struggling to meet the deadline for getting the exchanges running by 2014. Strapped budgets have left states without the staff to handle basics such as writing grants to apply for implementation funding, officials say.

“I am very sensitive having been in that situation myself,” Ms. Sebelius said. “It really helps to have been a governor.”

Some governors say her department is underestimating the law’s burden on states.

“The bill raises almost 1,000 questions and so far they have zero answers,” said Indiana Gov. Mitch Daniels. “This is going to be a nightmare, and you would think her gubernatorial experience would have given her a good intuition for that.”

While Mr. Daniels, a Republican who has been critical of the law, has political reasons for throwing cold water on it, Democratic governors’ aides have privately expressed concerns in planning meetings with congressional staff.

Ms. Sebelius said “we are moving as fast as we possibly can” to get states answers.

For the secretary, winning over governors is part of a broad campaign to persuade skeptics that the sweeping law will improve the U.S.’s health system. According to a June Wall Street Journal/NBC News poll, 44% of Americans called the law a bad idea, while 40% called it a good idea. In recent months, the effort has taken her to the basement of a senior center in Cincinnati, a health-care facility in La Crosse, Wis., and elsewhere to sell the law.

Another contentious issue is Medicaid funding. Budget-challenged states want more flexibility to pare back spending on the federal-state program for the poor, but the law effectively prevents them from doing that.

Ms. Sebelius’s hands are mostly tied. Congress has repeatedly failed to pass a \$24 billion funding extension states say they need to keep existing Medicaid eligibility rules.

In Boston last month, Ms. Sebelius walked into a room of governors at a National Governors Association meeting and greeted them with hugs and kisses, people at the event said. Then they began peppering her with questions about the Medicaid issue. She says she told them, “I can’t waive the law.”

“I think it’s hard to go from being a governor to having to take instructions from someone else,” said Sandy Praeger, a Republican who is Kansas’s insurance commissioner and worked with Ms. Sebelius. Ms. Sebelius, a Democrat, served two terms as Kansas governor and was the state’s insurance commissioner before that.

As governor, Ms. Sebelius says, she was sometimes frustrated making federal health programs work in her state, including the 2003 Medicare Part D prescription-drug benefit.

Months after she was elected in 2002, she learned that Kansas owed \$100 million in Medicaid money because of an earlier miscalculation. Ms. Sebelius went east and persuaded the program’s federal administrator to whittle down the debt, said Robert Day, her health-care policy adviser at the time.

Mr. Doyle, the Wisconsin governor, consulted Ms. Sebelius on the new high-risk insurance pools that are starting this summer under one of the bill’s first provisions. He said she helped him confirm that the law allowed his state to pay health-care providers under the program at the same rate as Medicaid. That paved the way for 3,000 more people in Wisconsin with health conditions to get coverage.

Payback for health effort slow to come for Democrats

[Capital Journal]

By GERALD F. SEIB



What if the Democrats hadn’t done health care? It’s hypothetical question, to be sure, but in many ways the most intriguing one to ponder at the outset of the August congressional recess in a tough political year for Democrats.

With the fall congressional campaign now just ahead, it’s fair to say that the monumental health debate of 2009 and early 2010 had as much to do with shaping the political landscape as anything. President Barack Obama and his party were bound to be stuck with a lousy economy and high unemployment; the sheer depth and breadth of the recession insured that.

But were they wise to also take on a giant overhaul of the nation’s health system while also grappling with deep economic distress? And having done so, is the trend line on that decision now pointing up or down?

The president and most in his party will argue that they felt a moral responsibility to take on a pressing social problem—the growing inaccessibility of health care to more and more Americans—when they had the congressional majorities to do so. And Mr. Obama maintains, as he did in a speech to the Urban League last week, that reforming the increasingly costly and unwieldy health system was an economic as well as a social need.

But was it a wise move politically? Privately, some Democrats are asking themselves that question. And there’s no easy answer.

Failing to tackle health care would have carried significant downside risks of its own. Expanding health coverage has been a prominent Democratic dream for more than four decades, and was a central feature of the 2008 presidential campaign. Had Mr. Obama failed to attempt it, he would have been accused by many in his own party of not only breaking a campaign promise, but of missing a historic chance to tackle what many Democrats consider the most pressing social issue.

That likely would have left the Democratic base angry and even more dispirited than it appears to be now. Moreover, having started down the health-care path, failing to complete the job would have left Democrats with the worst of both worlds, pummeled by foes who hate what was in their plan and mocked by friends for being ineffective.

On the other hand, a decision to put off health care—or trying a much more modest first step such as expanding coverage for women and children—certainly was an option.

If the president had taken a pass on a big health bill, Democrats wouldn’t have spent so much of the crucial summer and fall of 2009 talking about health care. They might instead have been focused on the word that has



U.S. President Barack Obama Monday.

emerged as the most important in this year’s election environment: jobs. Particularly because the debate on health dragged on through the end of 2009 and into 2010, many voters concluded the party had its priorities wrong.

“For many Americans, perhaps a majority, the year spent on health care represented, for them, a diversion” from the economy, says William Galston, a Democratic domestic policy analyst at the Brookings Institution.

Without a big health bill, there might not have been the marked escalation in public worries about government spending and debt that was seen at the end of 2009 and into 2010. There also might not have been such a vigorous tea-party movement; the movement, though born during the 2009 debate over economic stimulus, really flowered during town-hall debates over health care during last August’s congressional recess.

It’s also possible that without so much time taken up by health care, the Democratic Congress might have gotten around to passing a bill to combat greenhouse gases by reducing dependence on fossil fuels before the BP oil spill, changing the dynamics of the post-spill debate.

Perhaps most important in the long run, the health overhaul called for squeezing money out of Medicare and Medicaid so those funds could be used to expand health coverage for others. A laudable goal, but using those savings for expanding health coverage largely takes them off the table for use in addressing the escalating public demands to pare federal budget deficits.

Here’s the key political question: Are Democrats finally starting to get some payback? Democrats point to hints that the popularity of the legislation is slowly climbing.

In the latest Wall Street Journal/NBC News poll, the percentage of those who say it was a good idea ticked up to 40% from 31% at the beginning of the year, and a majority say they’d be more likely to support a Democratic congressional candidate who wants to give the overhaul more time to work than a Republican who wants to repeal it.

No doubt, though, Democrats would have liked a bit more reward, and a bit faster.

U.S. NEWS

Risks block recovery, Fed chief says

By LUCA DI LEO

CHARLESTON, S.C.—Federal Reserve Chairman Ben Bernanke said Monday while the U.S. economy continues to grow at a moderate pace, significant restraints remain on the recovery.

In prepared remarks, Mr. Bernanke said the U.S. had a “considerable way to go to achieve a full recovery in our economy, and many Americans are still grappling with unemployment, foreclosure and lost savings.”

He was speaking at the 64th annual meeting of the Southern Legislative Conference, where he urged politicians from Southern states to keep promoting growth despite continued pressure to their budgets.

Answering a question about what lessons should be learned from the Great Depression, Mr. Bernanke said that today the Fed must be careful not to raise interest rates too soon and the government should proceed cautiously in cutting spending and raising taxes.

“We need to be careful about tightening too quickly,” Mr. Bernanke said, adding that monetary policy should remain loose until “sustained” growth is seen, especially in jobs.

The recovery from the deep recession ran out of steam in the second quarter as consumers spent less and restocking by businesses—which



Fed's Ben Bernanke, on Capitol Hill in July, spoke in Charleston, S.C., Monday.

had lifted the economy from the second half of 2009—started to fade. Gross domestic product grew at an annualized rate of 2.4% in April to June, compared with 3.7% in the first three months of 2010 and 5% in the last quarter of 2009.

Mr. Bernanke said rising incomes and slowly improving credit conditions should help sustain consumer spending in the coming quarters. Together with continued strong business investment, that should help lift the economy.

But the Fed chairman warned the economy still faces several hard-

ships.

“The housing market has remained weak, with the overhang of vacant or foreclosed houses weighing on home prices and new construction,” Mr. Bernanke said. “Similarly, poor economic fundamentals and tight credit are holding back investment in nonresidential structures, such as office buildings, hotels and shopping malls.”

The economy’s weakness is keeping a lid on consumer prices, and the Fed chairman said the central bank expects inflation to remain subdued for the next couple of years. He

didn’t signal any risk of deflation, which some Fed officials have indicated recently.

Even though the Fed has kept short-term interest rates near zero since December 2008, the unemployment rate remains at a lofty 9.5% and the economy shed jobs in June for the first time this year. Economists expect only a small rebound in jobs in the July employment report out Friday.

It was just over a month ago that the Fed downgraded its outlook for the U.S. economy slightly, citing the financial market fallout from Europe’s debt crisis. But those forecasts already look too rosy.

At its last meeting June 22-23, the Fed’s policy-setting body trimmed its GDP prediction to around 3.3% this year and to about 3.8% in 2011. The U.S. central bank may have to cut those predictions again when it meets in just over a week.

Since the June meeting, there have been increasing signs that the recovery is losing momentum and could be stalling. The unemployment rate remains painfully high, giving little hope that Americans will boost consumption again anytime soon. Housing is still in the doldrums and the expansion in manufacturing is slowing. In its latest “beige book” report on regional economies out last week, the Fed said activity ground to a halt in several areas of

the U.S. in June and the first half of July.

“Notwithstanding the very difficult near-term budget issues you face, I urge you not to take your eye off the important goal of promoting growth,” Mr. Bernanke told the lawmakers from the Southern states.

“A basic economic principle is that growth requires investment,” Mr. Bernanke, who grew up in Dillon, S.C., added.

At the same time, Mr. Bernanke stressed the importance of fiscal rectitude going forward. He called for states to build larger budget buffers—which he dubbed “rainy-day funds”—during the good times, when the economy is strong.

Mr. Bernanke noted that at the end of 2006 state governments had set aside 12% of their general expenditures in reserve funds.

“Given the depth of the recent recession, even these historically high reserve-fund balances proved insufficient to buffer fully the budgets of most states. Thus, state governments may wish to revisit their criteria for accumulating fiscal reserves,” he said.

Despite raising taxes and cutting spending two years in a row, states are expected to continue facing deep financial pressure for at least the next two years as they grapple with weak tax collections and the loss of federal support provided through the stimulus act.

Factory growth uneven globally

By SUDEEP REDDY AND NICHOLAS WINNING

Growth in manufacturing activity slowed in many of the world’s major economies in July, underscoring concerns about the strength of the economic recovery in the second half of the year.

While the manufacturing sector is still expanding in most regions, in the euro zone in particular, the weaker path indicates factories won’t be the strong growth driver they were earlier in the year.

Euro-zone factory activity improved in July to 56.7 from 55.6, largely due to strong growth in Germany. A measure for the factory sector declined in France, the Netherlands, Ireland and Austria as growth slowed. Greece was the only country continuing to see output decline outright.

Financial-information firm Markit’s final euro-zone manufacturing purchasing managers’ index rose to a three-month high of 56.7 in July from 55.6 in June. The gauge of activity is based on a survey of about 3,000 manufacturing firms.

“The manufacturing PMI shows that the sector continued to provide a substantial boost to the euro-area recovery at the start of the third quarter,” Chris Williamson, the chief economist at Markit, said in a statement.

The U.K.’s manufacturing sector expanded at a slower pace in July, but with a rise in new orders propping up activity at the start of the third quarter, data showed Monday.

The purchasing managers’ index for the manufacturing sector fell to 57.3 in July from 57.6 in June,

Markit and the Chartered Institute of Purchasing and Supply said.

In the U.S., the Institute for Supply Management’s manufacturing index declined to 55.5 from 56.2 in the prior month. Figures above 50 indicate expansion for the sector.

Earlier in the year, the ISM survey of purchasing managers in the U.S. showed 17 of 18 industries expanding. That number dropped to 10 in July. Four industries, nonmetallic mineral products, furniture, food products and machinery, reported a contraction during the month.

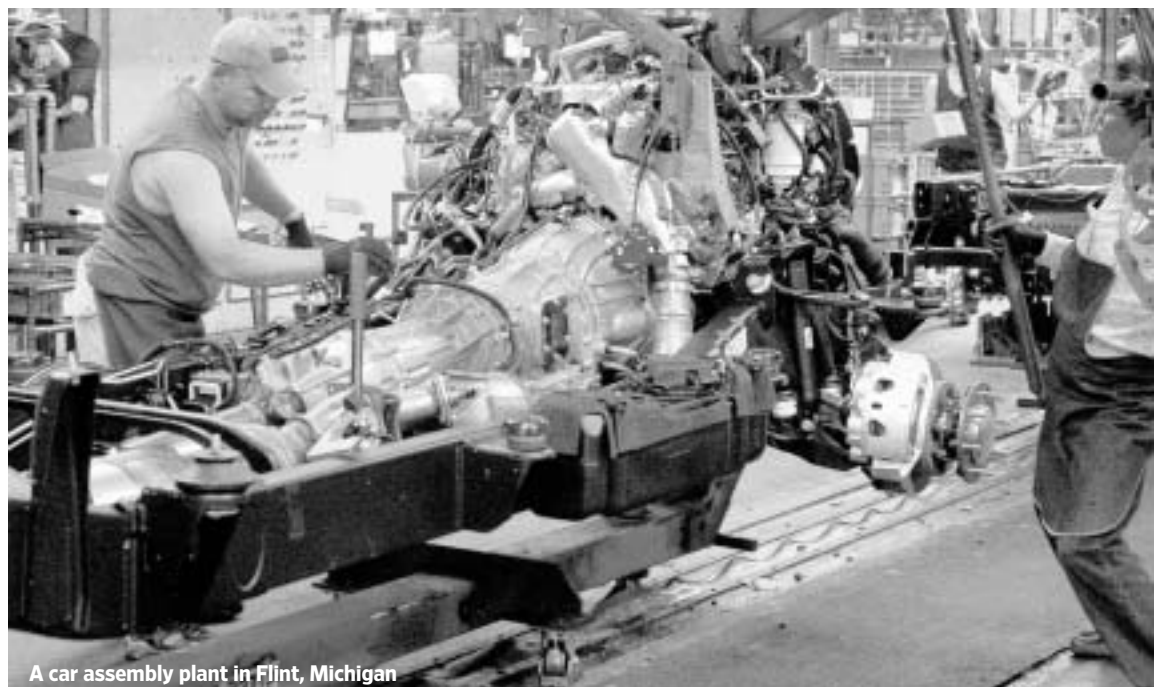
The report also showed sharp drops in the measures for new orders—a key gauge of future demand—and for production. The weaker figures suggest that manufacturing is likely to expand more slowly in the coming months.

“There are not a lot of drivers going into the second half of the year for manufacturing,” said Norbert Ore, chairman of the ISM survey committee. “Everything says that we’re going to see growth, but it’s going to be slow and weak.”

“This is clearly a very uneven recovery and the national variations in manufacturing performance may well feed through to similar divergences in consumer spending via the labor market, which will worsen the imbalances,” said Chris Williamson, the chief economist at Markit.

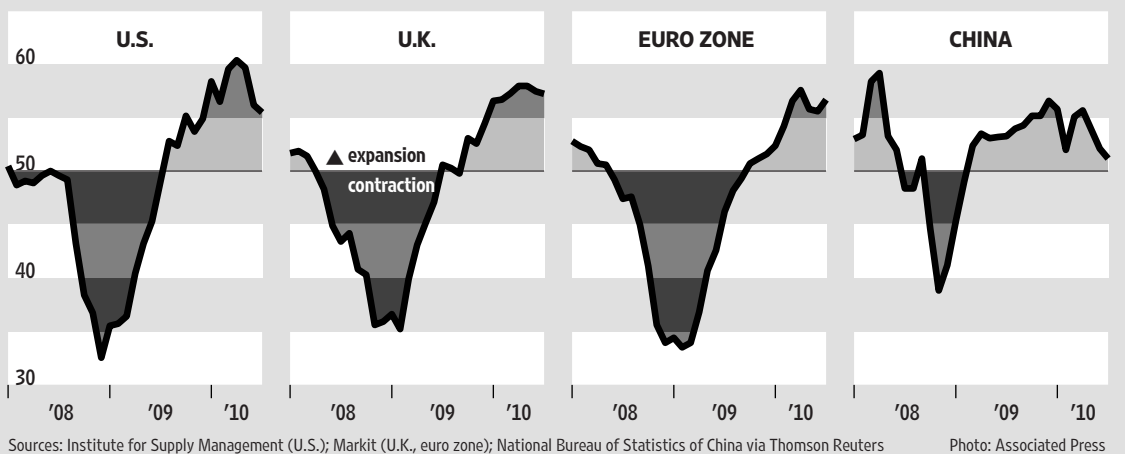
The rate of growth in new export orders eased to its weakest since January, suggesting the acceleration in total new business in July was fueled by the domestic market, Markit said.

In Asia, manufacturing activity across much of the continent



A car assembly plant in Flint, Michigan

Mixed recoveries | Purchasing managers’ indexes



Sources: Institute for Supply Management (U.S.); Markit (U.K., euro zone); National Bureau of Statistics of China via Thomson Reuters

Photo: Associated Press

slowed in July. China registered its first contraction since its recovery began in early 2009, indicating that the rebound in the world’s fastest-growing region is losing steam. The HSBC China Manufacturing PMI fell

to 49.4 in July from 50.4 in June, the fourth straight month of decline.

A different, official PMI for China, issued Sunday, suggested a slightly more modest slowdown. The index, issued by the China Fed-

eration of Logistics and Purchasing and the National Bureau of Statistics, fell to 51.2 in July from 52.1 in June.

—Arran Scott and Ilona Billington contributed to this article.

U.S. NEWS

Big divide over Ground Zero mosque

BY JACOB GERSHMAN

NEW YORK—With approval from New York City nearly secured, the battle over a proposed mosque and Islamic center two blocks away from Ground Zero, the site of the Sept. 11, 2001, terrorist attacks, is moving away from zoning boards to the court of public opinion.

The expected clearing of another major regulatory hurdle on Tuesday is unlikely to silence the debate around an issue that has become a call to arms for national Republicans—who have been emboldened by polls showing widespread public skepticism about the project—and a divisive policy matter for religious groups.

The landmarks commission on Tuesday is expected to approve the demolition of the 152-year-old Burlington Coat Factory building on Park Place to make way for a 13-story Islamic community center that would contain a prayer space, as well as recreational and cultural facilities.

Positions on both sides of the debate have hardened around the mosque, a \$100 million project spearheaded by a Kuwaiti-born cleric, Imam Feisal Abdul Rauf, who says the center aims to promote cultural understanding.

The question has turned to whether critics such as families of victims of the Sept. 11 attacks, who consider the idea of the mosque so close to Ground Zero a deliberate provocation, will be able to generate enough outrage to persuade the imam to revise his plans and build elsewhere.

"They should just move this thing," Carl Paladino, a Republican candidate for governor, said on Sunday.

He added: "The vast majority of New Yorkers and Americans have rejected their idea. If a bridge was



The Burlington Coat Factory building in lower Manhattan is to make way for a 13-story Islamic community center.

their intent, why jam it down our throats? Why does it have to be right there?"

Last week, the Anti-Defamation League, a national Jewish group, announced its opposition to the mosque by appealing directly to the leadership of the planned center.

"In our judgment, building an Islamic Center in the shadow of the World Trade Center will cause some victims more pain—unnecessarily—and that is not right," the organization said in a statement.

The Anti-Defamation League's stance came under sharp criticism from some other Jewish and civil

rights groups, as well as from prominent Jewish writers, such as Jeffrey Goldberg of Atlantic magazine, who called the organization's statement a "terrible decision."

Abraham Foxman, the head of the ADL, responded on Sunday with even sharper language.

"Two blocks away is basically in your face," Mr. Foxman said. Referring to Jewish groups that have attacked the ADL as bowing to anti-Muslim sentiment, he said: "The fact that bigots agree with your position doesn't make you a bigot."

For the ADL, it's an issue of "consistency," said Mr. Foxman, who

cited his organization's protests in the late 1980s against a Carmelite convent near the Auschwitz concentration camp in Poland.

"If we want the national community to understand our pain and sensitivity, then we need to be sensitive to the pain of other victims," Mr. Foxman said.

Oz Sultan, a spokesman for the group behind the Islamic center, on Sunday responded to Mr. Foxman by saying: "We've stood with the ADL and their efforts to eradicate anti-Semitism and bigotry. We just expected they would give other religions the same consideration."

On the local political level, Republican outrage intensified over the weekend, while Democrats accused the GOP of abandoning American principles to score political points.

"If Andrew Cuomo would simply do his job, we'd have a lot less controversy. People would feel that somebody is taking care of this," said Rick Lazio, a Republican candidate for governor who has called on Attorney General Andrew Cuomo, the Democratic contender in the race, to probe the financing of the mosque, formerly called Cordoba House and now known as Park51.

Mr. Lazio has pointed to the proposed location of the mosque and past comments made by Imam Rauf, in which he refused to label Hamas a terrorist organization and argued that American foreign policy was an "accessory" to the Sept. 11, 2001, attacks, as evidence of a more extremist motive for building the mosque.

While Mr. Cuomo and his campaign have made few public comments about the controversy—other than to say his office would investigate any allegations of wrongdoing—his political surrogates have begun to step up their rebuttals.

Jay Jacobs, the head of the state Democratic Party, labeled the Republican criticism offensive and ludicrous. "Lazio and Paladino are so bereft of ideas that they're manufacturing an issue where none exists," Mr. Jacobs said. "The backers of this project haven't raised funds to build the mosque so there's nothing to investigate. More to the point, this line of attack politicizes 9/11 and goes against everything that America symbolizes. It's as offensive as it is ludicrous."

Regarding Mr. Rauf's position on Hamas, Mr. Sultan said: "it's unfair to ask clergy to make blanket denunciations."

Consumer-czar candidate waits in wings

BY DAMIAN PALETTA

Many Democrats and liberal interest groups have launched an all-out campaign to have Elizabeth Warren nominated as the first consumer financial-affairs regulator. Many bankers and Republicans are hell-bent on stopping her.

Few are paying attention to who is waiting in the wings.

Mr. Barr has called on banks to offer simplified 'plain vanilla' financial products to consumers and to consider the psychology of borrowers when setting rules.

The White House's other top candidate, Treasury Department Assistant Secretary Michael Barr, has, like Ms. Warren, spent years calling for stricter curbs on the banking industry. While little known to the public, he has left behind a more-detailed paper trail than Ms. Warren.

Mr. Barr has called for rules that would force banks to offer "plain vanilla" financial products to consumers. He has pushed for the creation of a public trust to provide "financial education and assistance to troubled borrowers," funded by the

penalty fees banks charge to their customers. He has said regulators should consider the psychology of borrowers when setting rules.

In short, he has called for dramatic changes to how banks interact with consumers, often in a way that would make it harder for companies to lean on consumer financial products for profits.

"We have to totally transform the financial-services system for low-income people," Mr. Barr said in 2006 while serving on a panel arranged by former Democratic presidential candidate John Edwards, according to published reports. Mr. Barr declined to comment for this article.

President Barack Obama last month signed into law an overhaul of financial regulations that creates a consumer regulator to police products such as mortgages and credit cards. Democrats and liberal groups are struggling to coalesce around a nominee. For some, the primary focus is on pushing for a person who won't be swayed by bankers. Others are concerned that an outspoken nominee, such as Ms. Warren, a Harvard Law School professor, might not get confirmed.

Edward Yingling, chief executive of the trade group American Bankers Association, said many bankers had concerns about Mr. Barr's approach. He added that Mr. Barr is a "very quick study, he's very articulate, and he knows how Washington works."



Elizabeth Warren and Michael Barr are the White House's top candidates to be nominated as consumer financial-affairs regulator. Both endorse more simplicity in the financial system so that consumers aren't surprised by rules.



Ms. Warren and Mr. Barr remain the top two candidates, people familiar with the process say, although others remain under consideration. Mr. Barr's presence on the short list is an acknowledgment of the ties he has established within the Obama administration, particularly Treasury Secretary Timothy Geithner.

One of Mr. Barr's most contro-

versial proposals came when he co-authored a paper saying banks should be required to offer simplified, or "plain vanilla" financial products. Borrowers would be able to get complex loans only if they opt out of the standard product through a difficult process. "A plain vanilla set of default mortgages would be easier to compare across mortgage

offers," Mr. Barr, then a law professor at the University of Michigan, wrote in 2008 with co-authors at Harvard and Princeton universities.

The Obama administration tried to include such a provision in its financial overhaul bill, but it was stripped out.

In some ways, Mr. Barr's approach to financial regulation can appear as complex as banking itself. He has written that financial regulation should be informed by the "psychology" of the borrower, embracing an idea from behavioral economics. This goes beyond regulating products lenders can offer and looks into borrowers' behavior, asking such questions as: Why do they default? Why do they read certain disclosures but not others?

His proposals have erred on the side of regulation. Even though he held a key role in the Clinton administration's economic team, Mr. Barr has criticized the Clinton White House's approach to financial regulation as too lax.

Still, he has stopped short of calling for bans on products and has warned against the dangers of over-regulation. "Product regulation may stifle beneficial innovation and there is always the possibility that government may simply get it wrong," according to the 2008 paper.

Mr. Barr, 44 years old, joined the administration from the University of Michigan.

WORLD NEWS

Rockets strike seaside cities in Israel, Jordan

By CHARLES LEVINSON

JERUSALEM—A salvo of rockets struck the southern Israeli resort city of Eilat and its Jordanian neighbor Aqaba early Monday, killing one Jordanian and wounding four others, according to government officials.

Israeli officials said five or six rockets appear to have been fired from Egypt's Sinai peninsula, raising concerns that Islamist militants are deepening their foothold there.

Jordan's information minister, Ali Ayed, said the rockets were fired from southwest of Jordan, almost certainly a reference to Egypt.

Egyptian police in Sinai launched an investigation but found no indication that the rocket fire came from their side of the border, Egyptian security officials told the Associated Press.

Most of the rockets fell into the Red Sea or in open spaces in and around Eilat, Israeli police spokesman Micky Rosenfeld said, suggesting the rocket that struck Jordan

was likely meant for Israel but flew off course.

Eilat is Israel's southernmost city, a tourist hub on the Red Sea popular with scuba divers, snorkelers and beachgoers.

The rocket that hit Aqaba exploded on a main street in front of the Intercontinental Hotel near a taxi and a minibus, said Mr. Ayed. Mr. Ayed said four people were wounded and the taxi driver was killed. No injuries or damage were reported in Israel.

No group has claimed responsibility for the attack, but the Sinai peninsula is a popular route for smugglers of drugs, people and weapons into Israel and the Gaza Strip.

It has also emerged as a popular base for militants who have found cooperative hosts among the local Bedouin population. The Bedouins are intimately familiar with the local terrain, disgruntled over their treatment at the hands of Egyptian security services, and desperately poor, making them ripe for recruitment by



Jordanian police put out a fire after a rocket smashed into a street in Jordan's port of Aqaba on Monday.

militant outsiders.

The territory has seen sporadic terrorist attacks in recent years, mostly targeting tourist destinations along the Red Sea. In April, militants in Sinai fired two rockets at Eilat, causing damage but no injuries. In 2005, a group claiming ties to al Qaeda launched rockets at U.S. warships in the Aqaba port but missed.

But while past attacks have generally been pinned on radical Islamist groups espousing similar ideol-

ogies to al Qaeda, some Israeli analysts have suggested that Palestinian militant groups, including possibly Hamas, could be behind the latest attacks.

On Saturday, Israel launched five airstrikes against the Gaza Strip, killing a senior commander of Hamas's military wing and wounding 11 people, after Gaza-based militants fired a Grad rocket at the Israeli seaside city of Ashkelon on Friday, causing damage but no injuries. The

powerful rocket wasn't fired by Hamas militants, according to Israeli and Hamas officials, but Israel holds the group responsible for all attacks from the territory since it rules the Gaza Strip.

Another factor fueling those suspicions among some analysts in Israel is the fact that the attacks came just as momentum appears to be building toward the beginning of direct peace talks between Israel and the Palestinians.

Israel agrees to join U.N. review of flotilla incident

Israel changed course Monday and agreed to take part in an international probe in the May 31 Israeli naval raid on a Gaza-bound aid flotilla in which nine activists were killed.

By Joe Lauria at the United Nations and Charles Levinson in Jerusalem

Israeli officials said their government had decided to cooperate with the United Nations investigation after Secretary-General Ban Ki-moon convinced them the panel's mandate would be balanced and objective.

The officials said the decision was also driven by hopes within the Israeli government that cooperation with the panel will help mend ties with Turkey, which have significantly deteriorated since the raid. Eight of the activists were Turks, and one was Turkish-American.

"Israel has nothing to hide," Israeli Prime Minister Benjamin Netanyahu said in a statement. "It is in the national interest of the State of



The U.N.'s Ban Ki-moon assured Israel the investigation would be objective.

Israel to ensure that the factual truth of the overall flotilla events comes to light throughout the world."

Turkey's foreign ministry welcomed the decision to form a panel

of inquiry, while not mentioning Israel directly. The decision "revealed that every member of the U.N. is accountable for its actions and steps," said Foreign Minister Ahmet Davutoglu, according to Turkey's state

news agency, Anadolu Ajansi. Turkey had pushed for Israel to accept an international panel, saying that if it didn't, relations between the two countries would deteriorate further.

Israel's decision was an unexpected departure from its historical wariness of the U.N. After the Gaza War ended in January 2009, Israel declined to cooperate with a U.N. probe that led to the publication of a report accusing Israel as well as Hamas of committing war crimes.

That report, which was conducted under the auspices of the U.N.'s Human Rights Council, fueled international condemnations of Israel. Some Israelis later came to believe that their government's refusal to cooperate with the report was a mistake that hurt the country's international standing.

"We have to distinguish between the U.N.'s Human Rights Council and the secretary-general," said a senior official in Mr. Netanyahu's office. "The Human Rights Council is biased, it is partisan anti-Israel and offers us kangaroo courts. We hold

the secretary-general in the highest esteem and discussions with him gave us confidence that this panel will be both balanced and objective."

Mr. Ban said the decision by Israel came after two months of intensive consultations with leaders in Israel and Turkey. He called the panel's formation and Israel's decision to participate "unprecedented."

The probe will be led by former New Zealand Prime Minister Geoffrey Palmer, an expert in maritime law. Álvaro Uribe, the outgoing president of Colombia, will be the panel's vice chairman. Representatives from Israel and Turkey will round out the four-person board. The investigation is to begin on Aug. 10.

Unlike the investigation into the Gaza war, it appears this U.N. panel won't conduct an independent investigation of its own, but rely on the findings of investigations being conducted by Israel and Turkey.

—Marc Champion in Istanbul contributed to this article.

U.S. plans to name businesses that partner with North Korea

By EVAN RAMSTAD

SEOUL—U.S. officials in charge of new sanctions against North Korea on Monday said they will name and shame banks and businesses in other countries that help Pyongyang with illegal activities.

In the two weeks since U.S. Secretary of State Hillary Clinton announced the new penalties, few details have been announced and speculation, particularly in South Korea, has run wild about precisely what the U.S. is doing.

In recent days, media reports cited anonymous South Korean dip-

lomats who raised doubts that the U.S. would go as far as it did in 2005, when it publicly exposed a Macau bank with ties to Pyongyang, and warned that dealing with the bank risked skirting U.S. law. The publicity sent the bank's depositors running and caused other banks to stop doing business with it. North Korea protested for more than a year about not being able to access its money in the bank.

In 2007, the U.S. allowed North Korea to retrieve about \$25 million it had deposited in that bank, a gesture meant to spur Pyongyang into complying with a denuclearization

agreement.

Mrs. Clinton two weeks ago said that the U.S. would return to such tactics in the wake of a finding by South Korea and the U.S. that North Korea was responsible for the March sinking of a South Korean patrol ship, killing 46 sailors. North Korea has denied responsibility.

Robert Einhorn, the U.S. State Department's special adviser for nonproliferation and arms control, elaborated on the plans in meetings Monday with diplomats in Seoul, though he offered few details publicly. He was accompanied by Daniel Glaser, the U.S. Treasury Depart-

ment's deputy assistant secretary for terrorist financing and financial crimes.

Mr. Einhorn disputed South Korean media reports that the U.S. had narrowed its focus and wouldn't pursue the North's illegal activities in other countries.

"If we see an illicit North Korean trading company in a third country, we will approach the government of that country and say 'Look at this activity. You need to shut it down,'" Mr. Einhorn said. "In a number of areas, we will go out diplomatically to other countries and seek their cooperation. And their cooperation

will be very important."

Mr. Glaser told reporters that naming the businesses working with North Korea on illegal activities—such as counterfeiting, money laundering, and weapons and drug manufacturing—may isolate them from the international financial system.

"Once it is known throughout the world that a particular entity is involved in illicit activities for North Korea, or illicit activities of any kind for that matter, it becomes increasingly difficult for that entity to gain access to the international financial system," he said.

WORLD NEWS

Thai premier keeps election on hold

BANGKOK—Thailand's prime minister said he won't call national elections until early next year at the earliest as the government promotes programs intended to bridge the economic gaps that fueled deadly protests earlier this year.

By Patrick Barta,
Leigh Murray
and Almar Latour

Prime Minister Abhisit Vejjajiva's comments, in an interview with The Wall Street Journal, came after two separate grenade attacks killed one bystander and injured 11 others in Bangkok over the past week. It remains unclear who was responsible. Although the incidents were small compared with clashes between authorities and antigovernment protesters that killed nearly 90 people in April and May, they were a reminder that parts of Thailand remain tense.

Antigovernment "Red Shirt" activists continue to call for an ouster of the current government, which came to power in a 2008 parliamentary vote with the backing of military leaders and much of the country's royalist establishment.

Many Thais believe Mr. Abhisit's government hasn't adequately represented the needs of lower-income citizens, and would prefer to see a return of former Prime Minister Thaksin Shinawatra, a populist who was deposed in a 2006 coup amid allegations of corruption, which he denied.

Mr. Thaksin, who lives in self-imposed exile overseas to avoid a corruption conviction, remains popular in some areas after backing programs such as low-cost health care.

Many analysts say Mr. Thaksin's allies would win a national election if one were held today. By law, the government must call a new vote by the end of 2011.

But in the interview, Mr. Abhisit



Thai leader Abhisit Vejjajiva, in an interview in Bangkok on Monday, said 'we are serious about redistributing wealth.'

said he is "confident" his party can make inroads in areas where Mr. Thaksin remains popular. To boost its standing, the government is stepping up social programs to boost the fortunes of lower-income Thais, much as Mr. Thaksin did. It is unclear when all of the programs will be fully implemented.

Mr. Abhisit highlighted two new programs his government will pursue: A national savings program that would allow tens of millions of Thais to set up retirement funds with matching grants from the government, and a planned property-tax overhaul that would raise taxes on wealthy Thais who own large banks of land that is left undeveloped.

"We are serious about redistributing wealth," Mr. Abhisit said.

Mr. Abhisit said he recognized it would take time to convince some voters of his efforts, including other social programs such as a plan that provides guaranteed incomes for

farmers. But he said opinion polls have already showed the government is picking up support in some areas, and that "all the economic indicators suggest that the policy of this government has reduced inequity."

Some analysts remain doubtful that any new charm offensive will win over enough voters to prevent Mr. Abhisit's government from being turned out whenever an election is held.

Mr. Abhisit said that, if defeated, he and his allies will be willing to accept the result, but he warned allies of Mr. Thaksin to "avoid engaging in policies that are controversial," such as seeking an amnesty for Mr. Thaksin.

Leaders of the main opposition party allied with Mr. Thaksin have said bringing back Mr. Thaksin will be a central element of their platform when elections are called.

Mr. Abhisit said Thailand must remain stable until at least the end

of this year before he will consider calling a vote, and that Thailand will need an atmosphere of "peace" and "stability" before a vote can occur. Asked when he thought those conditions might be met, he said "we would recognize it if it were to happen."

Mr. Abhisit could get a boost from recent signs that Thailand's economy is rebounding much more strongly than expected, even after the April and May protests caused widespread tourist cancellations and left many foreign companies wondering about Thailand's long-term stability.

On Monday, Thai Finance Minister Korn Chatikavanij said robust exports and strong domestic demand should push full-year gross domestic product growth above official forecasts, which currently range from 5.5% to 7.5%.

Mr. Abhisit said he expects China and India to be of growing importance to Thailand's economy in

years ahead, helping it diversify its economy away from overreliance on exports to Western markets. China and Thailand plan to jointly develop a railway line, which Mr. Abhisit says will help to boost trade between both markets.

"China has provided quite a big market for our growth over the last almost decade now," he said. "Clearly there is great potential for expansion."

China's recent changes in its yuan policy, allowing greater flexibility of its exchange rate, haven't affected Thailand yet, according to Mr. Abhisit. "There have always been calls for greater flexibility," he said. "Since there has been a decision to allow for more flexibility, so far there have not been any major effects on exports."

"India is another important market for us and where we also expect to see quite a rapid expansion of trade and investment," he added.

Mr. Abhisit expressed concern about the weakness of the European economy and its impact on Thailand. "We're more worried about the [European Union] and the euro, because Thai exporters will suffer from both the reduced purchasing power and price competitiveness as far as the euro is concerned."

Mr. Abhisit welcomed more U.S. involvement in Southeast Asia, including a series of recent appearances by senior U.S. officials such as Secretary of State Hillary Clinton, who visited Vietnam in July.

"I think the current U.S. administration has shown very clearly it wants to re-engage the region," he said. "We've been encouraged by the policies and some of the actions that have been taken, for instance we had the first U.S.-Asean summit last year and there continues to be an attempt to hold a second one this year," he said, referring to the 10-member Association of Southeast Asian Nations.

Pakistan strains to cope with rising toll of floods

By ZAHID HUSSAIN

ISLAMABAD—Pakistan redeployed thousands of troops for rescue and relief work in remote mountainous villages where at least 1,100 people died in weekend flash floods and landslides, as public anger mounted against the government over its handling of the disaster.

On Monday, army helicopters dropped food parcels to thousands of people. While the rain has stopped and the weather has improved, large parts of Khyber Pakhtunkhwa province remain submerged. Relief agencies said the situation could worsen, as rain is forecast for later this week.

Troops, who had been fighting Taliban militants, and relief workers struggled to reach people trapped by floodwater as bridges, roads and even entire villages had been swept away. An army spokesman said 28,000 people have been rescued but thousands of others were still stranded with no access to relief supplies. Water supplies have been contaminated by the floods, raising serious concerns about the spread

of diarrhea and other diseases.

Relief workers said there have been reports of a cholera outbreak in some areas of the Swat Valley. The region, which isn't fully recovered from bloody fighting between the Taliban militants and the army last year, is the worst-affected by the disaster.

"It is a desperate situation for thousands of villagers with no food and clean drinking water," said Haider Shah, a relief worker in Mardan district, one of the worst-hit areas. "There are hardly any structures left standing and people are cramped in the few homes which are still intact."

Jane Cocking, the humanitarian director of Oxfam, said the extent of this crisis was emerging slowly. "The more villages that are reached, the grimmer the picture becomes," she said as the organization launched an appeal for aid.

Mian Iftikhar Hussain, the provincial information minister, said more than 1.5 million people have been affected by the floods and landslides. Government officials said the number killed is between 1,100

and 1,500. Relief agencies say the death toll could be as high as 3,000.

On Monday, United Nations Secretary-General Ban Ki-moon offered an extra \$10 million in aid for the relief effort. Earlier, the U.S. pledged \$10 million. It also provided about 50,000 meals, four rescue boats and two water-filtration units. The U.S. Embassy in Islamabad said Washington would also be providing 12 temporary bridges to replace some of those destroyed by the floods.

The devastation has hit the region at a time when a weak and unpopular Pakistani government has been struggling to cope with a faltering economy and a war against Taliban militants that has killed thousands of people in the past few years.

The government's response to the disaster sparked a protest in Peshawar, where survivors crammed into temporary shelters. Much of the public anger is directed against President Asif Ali Zardari, who left for a weeklong visit to France and Britain on Sunday, despite calls from opposition leaders to cancel the trip.



Victims of floods that have killed more than 1,100 people receive food at a relief camp in flooded areas in Nowshera, Pakistan, on Monday.