



Billionaires answer the call to pledge their fortunes to charity

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U.S. sees end to long battle with BP spill

WASHINGTON — The Obama administration on Wednesday hailed the success of efforts to cap a well that spewed nearly five million barrels of oil in the Gulf of Mexico, but said challenges remain to fully complete the federal response to the largest marine oil catastrophe in U.S. history.

U.S. President Barack Obama said the “long battle to stop the leak and contain the oil is finally close to coming to an end.”

It comes more than three months after the Deepwater Horizon drilling rig exploded off the coast of Louisiana, killing 11 men and triggering what has now been acknowledged as the world’s worst accidental oil spill at sea.

BP PLC has plugged the mile-deep well with heavy mud and said no oil appears to be leaking. Retired U.S. Coast Guard Admiral Thad Allen said, however, that the government is still consider-

ing whether to completely plug the well with cement, a more durable solution. He said work still remains on relief wells that would permanently control the flow of oil.

White House Press Secretary Robert Gibbs said the U.S. government is continuing to send BP bills for federal clean-up efforts. The company is facing billions of dollars in fines and penalties for the pollution caused by the spill, as well as huge claims for damages. In June, it suspended its dividend and agreed to set aside \$20 billion in an escrow account to compensate victims of the spill.

BP is seeking to raise \$30 billion from asset sales to help meet the costs of the Gulf spill.

The Obama administration said about three-quarters of the 4.9 million barrels that leaked from the well have been captured or eliminated. National Oceanic and Atmospheric Administration Ad-

ministrator Jane Lubchenco said the amount remaining on the surface was “negligible.”

Separately, Russia’s top energy official, Igor Sechin, said the country fully supports the appointment of Robert Dudley as chief executive of BP and may work with the U.K. oil major on new projects. He made the remarks following talks in Moscow with Mr. Dudley and departing CEO Tony Hayward, who resigned in the wake of the Gulf spill. The visit to Moscow is Mr. Dudley’s first trip since he was forced out of the country in 2008.

TNK-BP accounts for around a quarter of BP’s total output.

Mr. Hayward reassured Russian partners and officials during a visit to Moscow in June that BP has no intention of divesting its Russian assets.

■ BP’s progress on well fuels optimism 7

Cameron, Berlusconi hold talks in Rome



Agence France-Presse/Getty Images

British Prime Minister David Cameron greets his Italian counterpart Silvio Berlusconi before a meeting in Rome, Thursday. The talks came after Mr. Berlusconi avoided a possible early election call when lawmakers rejected a vote to dismiss a minister in his government. **Related article on page 4.**

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The Quirk



Diplomats take on the graffiti-artists in a battle to clean up Rome. **Page 29**

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Putin cannot silence the Russian opposition forever. **Page 13**

UBS is ordered to pay up as crisis costs keep rising

BY RANDALL SMITH

UBS AG has been ordered to pay \$80.8 million to reimburse a U.S. cellphone marketer for lost business when the company’s cash was frozen in auction-rate securities in early 2008.

The arbitration award is an unusual example of how Wall Street’s bills are still adding up more than three years after the crisis struck the credit markets in mid-2007.

Kajeet Inc., a fast-growing Maryland marketer of cell-phones for kids, filed the arbitration claim in 2009, using a special procedure for customers of firms that entered

into auction-rate-securities settlements with the Securities and Exchange Commission. The procedure allows investors to seek damages they may have suffered as a result of their assets being frozen, such as lost interest and business opportunities.

The \$330 billion market for auction-rate securities froze in February 2008. UBS had 40,000 customer accounts with over \$35 billion in such investments who couldn’t get access to their money, according to an SEC complaint filed in late 2008.

The arbitration award represented 73% of the \$110 million Kajeet claimed.

“Any company that had its

war chest in auction-rate securities was potentially going to have catastrophic consequences,” said Greg Lawrence, a partner of Conti Fenn & Lawrence LLC in Baltimore, which represented Kajeet.

A UBS spokeswoman said the company “strongly disagree[s] with the arbitration panel’s decision on this legacy auction rate matter” The company plans to ask a court to overturn the decision, according to a statement.

The Finra panel didn’t provide a reason for its ruling, as is typical of arbitration decisions.

—Suzanne Barlyn contributed to this article.

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PAGE TWO

Actions speak louder than slogans

[Agenda]

BY PATIENCE WHEATCROFT



Which company would choose as its slogan "Here for good"? Those in the defense and tobacco industries might judge it inappropriate but otherwise it could surely apply to businesses as diverse as soap manufacturing and communications.

So anodyne are those three words that they give no indication of what the business actually does. The company that has adopted the phrase as its "brand promise" claims that it is a way of "telling the world what we stand for and why we're different." Alternatively, it is a way of telling the world that the bankers who have made **Standard Chartered** such a success may have been paying too much attention to the marketeers. Perhaps this is what happens when a bank shares a chairman with a high fashion business. John Peace, who took over as Standard Chartered's chairman last year, has been in the same role at Burberry since 2002. Should we expect to see Kate Moss starring in the next Standard Chartered advertising campaign?

Even without the benefit of a widely recognized "brand promise," Standard Chartered has continued to grow its business. Its strategy of concentrating on Africa, the Middle East and, predominantly, Asia allowed it to sail through the recent turmoil relatively unscathed. Wednesday it reported a 10% uplift in first-half profit with, for the first time, India overtaking Hong Kong as its most profitable market. In 2000, the bank made profits of \$45 million in India. A year later, it bought Grindlays, which in 2000 made profits of \$90 million in India. In the first half of this year the figure from the combined operation was \$624 million.

The original Chartered Bank



Standard Chartered has begun sponsoring Liverpool FC.

was founded following the grant of a royal charter in 1853, yet its operations have always been mainly overseas. So there is no reason, other than history, why it should be based in London. That was the subtext to some of the comments its executives made about the relative attractiveness of the U.K. following regulatory and tax changes. In June, the company became the first foreign

Should we expect to see Kate Moss starring in the next Standard Chartered advertising campaign?

company to list its stock in Mumbai. Chief Executive Peter Sands is insistent that this is not a prelude to a wholesale move and that the company has not considered where it might go if it were to quit the U.K. But he does say that shareholders are asking the question, not wanting to see their company put at a disadvantage to others competing in its markets.

In the meantime, it is concentrating on cementing its position in those markets and not merely relying on a slogan to increase brand awareness. It is also using the popularity of football. Last year Standard Chartered signed a sponsorship

deal with English Premier League team Liverpool, at a price said to be £20 million (\$32 million) a year. The team's red shirts now bear the bank's name. Those shirts were worn on a preseason tour around Asia and probably did rather more for brand recognition than "Here for good" will.

Risk factors

The unintended consequences of regulation was just one of five risks to the world economy cited by Standard Chartered. The others were the imbalances in world economies, which show little sign of changing; the deleveraging now happening in the West, particularly Europe, and proving painful; the unwinding of central banks' liquidity support measures; and unemployment.

It is the latter that is potentially the most dangerous. Apart from the poverty it creates, it also has the power to push politicians into populist, protectionist measures.

The most recent figures from Brussels on unemployment show no improvement. The June figure for the euro zone was 10% and for all 27 EU countries 9.6%. These numbers mask the extraordinary differences that persist within the area. Austria has unemployment of just 3.9% and the Netherlands 4.4%, while Spain was even higher in June than in May, up from 19.8% to 20%, and Latvia, whose most recent figures cover the first

quarter of the year, stood at 20% having been 13.4% a year earlier.

Youth unemployment is, in many cases, double the national average. The Netherlands has the lowest rate of unemployed under 25 at 8.1%, while Spain is highest, at 40.3%. Latvia is not much better at 39.5%.

Very near the bottom of the league on both measures is Estonia, where overall unemployment rose from 11% to 19% from the first quarter of 2009 to the first quarter of 2010, while youth unemployment is 39.8%. Such terrible numbers raise some qualms over whether the decision to allow Estonia to join the common currency on Jan. 1, 2011, is a wise move. The European Central Bank did raise questions over whether the country would be able to maintain its convergence within the euro area. A more basic question might be whether, with the euro zone already having been taken to the brink by Greece and still facing problems with the sickly economies of Spain and Portugal, should be about to embrace another unhealthy economy.

Holding on tight

Central bankers meeting in Frankfurt and London on Thursday will almost certainly leave interest rates on hold. Both the European Central Bank and the Bank of England's Monetary Policy Committee are likely to feel that whatever green shoots may be appearing, any recovery in their economies is still too fragile to risk raising interest rates.

But there will certainly have been a stronger than usual debate about it at the MPC, for there are increasing fears that inflation may be a real and close danger. Statistics from the BRC show food prices moving significantly upward, a trend that will be exacerbated by the surging wheat prices resulting from the fires in Russia. Clothing prices are also on the increase, retailers say. The MPC's role is to keep inflation in check. It may not dare wait too long before doing its duty.

What's News

■ **Lloyds posted** its first profit in two years in the first half, lifting its shares and further paving the way for the U.K. to sell its stake. The better-than-expected pretax profit of \$2.6 billion continues the trend of strong U.K. bank results. 22, 32

■ **Société Générale's** second-quarter profit more than tripled on strong retail operations and lower provisions for bad loans. 17

■ **Medvedev cut short** his vacation and headed back to Moscow as Russian forest and peat fires burned out of control and the death toll climbed to 48. 5

■ **Swatch reported** a jump in first-half profit, helped by a rebound in Europe and the U.S., and it expects business to remain strong. 19

■ **Adidas got a huge boost** to quarterly earnings from the World Cup in South Africa, as sales of items such as replica shirts soared. 18

Inside



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Run for all the family: the growing popularity of the 5K. 28

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'Now that the beast is back in its cage, perhaps people are questioning whether it was all that fierce.'

James Herron on news that BP has tamed its well in the Gulf of Mexico



Continuing coverage



See analysis of the day's top news, including Heard on the Street columns, at wsj.com/europeananalysis

Question of the day

Vote and discuss: How would you grade BP's overall handling of the Gulf of Mexico oil spill?

Vote online at wsj.com/polls

Previous results

Q: Should a mosque be built near Ground Zero, the former site of the World Trade Center?

Yes

21%

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79%

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NEWS

U.S. super rich vow to share their wealth

By ROB GUTH
AND SHELLY BANJO

Software mogul Larry Ellison will join "Star Wars" creator George Lucas and 38 other super rich people who are following a call by billionaires Warren Buffett and Bill Gates to pledge to give the majority of their wealth to charity.

On Wednesday, Mr. Buffett announced that 40 of America's wealthiest individuals and families, from **Citigroup** Inc. founder Sandy Weill to hotel mogul Barron Hilton, have signed on to the "Giving Pledge," an invitation Messrs. Buf-

fett and Gates extended in June to publicly commit to giving away at least half of their wealth to charity within their lifetimes or after their deaths.

The pledge stemmed from a series of dinners the two men held for the U.S.'s billionaires over the past year to discuss the effects of the recession on philanthropy.

The push by Mr. Buffett, Mr. Gates and his wife Melinda is publicizing what has been a private matter for many wealthy people. Many of the individuals and families that joined the pledge already had the intention of giving their wealth

away; many hadn't made that intention public.

The effort comes during the second consecutive year in which philanthropy experienced its deepest decline ever recorded by the Giving USA Foundation, which has tracked annual giving since 1956. Donations fell 3.6% to \$303.75 billion last year, down from \$315 billion in 2008, according to Giving USA. In 2008, they were down 2%.

In an interview, Mr. Buffett said he didn't expect to see an immediate increase in philanthropic money. Rather, the goal of the effort is to set examples for others to follow,

Mr. Buffett said. "If Carnegie and Rockefeller hadn't done what they'd done, there'd be less philanthropy in the United States today."

Mr. Buffett said he and Mr. Gates in coming months will meet with wealthy individuals in China and India with hopes of adding more names outside the U.S.

Some signatories on the list released Wednesday came as a surprise. Mr. Ellison, the founder and chief executive of **Oracle** Corp., is among those who have given widely but rarely stated their intentions so publicly.

"Until now, I have done this giv-

ing quietly—because I have long believed that charitable giving is a personal and private matter," wrote Mr. Ellison in a letter posted on the Giving Pledge's website.

Mr. Ellison said he put virtually all his assets into a trust with the intention of giving away at least 95% of his wealth to charitable causes.

Other billionaires on the list, including New York Mayor Michael Bloomberg, **Microsoft** Corp. co-founder Paul G. Allen and oil tycoon T. Boone Pickens, had previously stated their plans to give away the majority of their wealth.



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LOUIS VUITTON

EUROPE NEWS

Berlusconi prevails in vote

By CHRISTINA PASSARIELLO
AND MARGHERITA STANCATI

ROME—Italian Prime Minister Silvio Berlusconi prevailed in a critical parliamentary vote Wednesday that tested the strength of his dwindling ruling coalition, easing pressure on the leader until September.

Mr. Berlusconi's center-right coalition defeated a motion in the lower house to dismiss Undersecretary for Justice Giacomo Caliendo, who is under criminal investigation. The government defeated the motion by a large margin. Most members of a group of lawmakers that recently split from the prime minister's ruling party abstained from the vote Wednesday, helping to defeat the motion.

Had the vote to dismiss the official succeeded, Mr. Berlusconi's ability to govern could have been called into question. According to Italian parliamentary procedures, if a government loses a parliamentary vote, Italy's president must examine whether it has lost its official majority and can then order a government reshuffle or call a general election—long before the next scheduled vote, which is slated for 2013.

The vote Wednesday was the first test of Mr. Berlusconi's grip on power since he split last week from Gianfranco Fini, speaker of the lower house and until recently the prime minister's biggest ally, prompting the most serious political crisis since a coalition led by his People of Freedom, or PDL, party came to power in 2008.

Until last week, the prime minister enjoyed an automatic 26-vote majority in the lower house. That evaporated after he broke with Mr. Fini, accusing him of clashing with the party line. The speaker and roughly 30 supporters in the lower house formed an independent vot-



Italy's Minister of Justice Angelino Alfano, left, and Prime Minister Silvio Berlusconi in Parliament in Rome Wednesday.

ing bloc. Mr. Fini said that he will vote with the ruling coalition on a case-by-case basis only where it adheres to the electoral platform.

Most of Mr. Fini's supporters abstained from the vote Wednesday, allowing Mr. Berlusconi to defeat the motion. The motion was defeated 299 to 229. Leaders from Mr. Fini's breakaway group said they decided to abstain from the vote to avoid throwing the government into crisis. Mr. Fini's followers had also cut a deal with opposition parties such as the centrist Union of Center party to abstain, allowing the motion to fail. The 75 abstentions Wednesday were a display of force less than a week after Mr. Fini cobbled together his followers.

Mr. Caliendo, the focus of Wednesday's vote, is under investigation by prosecutors in Rome 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. The vote on the censure of Mr. Caliendo wrapped up parliamentary proceedings until September.

"The [parliamentary] majority that emerged from the elections no longer exists," said Dario Franceschini of the center-left wing Democratic Party, speaking in the lower house. "From now on the majority will have to fight for survival," Mr. Franceschini added.

Mr. Berlusconi's government is set to face more challenges when parliament resumes in the fall now that he has lost his automatic majority. Politicians within Mr. Berlusconi's ranks are floating the possibility of lobbying for early elections, a move that could solidify his grip on power if the ruling party believes the opposition is particularly weak.

"Although there are no precedents of elections in the fall, this cannot be ruled out in the face of a severe political crisis," said Interior Minister Roberto Maroni of the Northern League party, Mr. Berlusconi's key coalition partner, in an interview with Italy's *Corriere della Sera* daily on Wednesday.

Britain sees food costs accelerate

By ILONA BILLINGTON

LONDON—U.K. store prices in July eased a touch from the previous month, but rose at the same annual pace as in June, as food prices accelerated sharply while nonfood prices declined, a survey showed Wednesday.

The British Retail Consortium's monthly store-price inflation survey showed total shop prices fell 0.1% in July from June and rose 1.5% from a year earlier, the same changes reported in June.

Food prices rose 0.9% from the previous month and were 2.5% higher on the year after a 0.1% monthly fall and a 1.7% annual increase in June. Nonfood prices, meanwhile, were 0.6% lower in July from June and rose 1% on the year compared with a flat monthly change in June and a 1.4% year-to-year rise.

"Good news for customers: Shop price inflation remained low and well below other measures of inflation as a slowdown in nonfood prices compensated for an increase in food inflation," said Stephen Robertson, the BRC's director general. "The overall figure remained the same as June and is half the rate of the official Consumer Price Index. It's clear the high street is not the main source of inflation," he added.

Despite the rise in food prices, the period of high and volatile store-price inflation appears to be over.

The BRC said that despite the increase in food price inflation, partly due to higher animal-feed, palm-oil and cocoa prices, the recent period of high and volatile shop price inflation "appears to be over for now."

It warned, however, that "the recent shock in the supply of wheat is likely to put pressure on food inflation in the coming months."

The cost of fresh food rose at a faster pace than ambient goods, which include canned and dried foods. Fresh food prices rose 1% in July from June after no change in June from May, while ambient foods were up 0.7% from June after a 0.4% monthly decline the previous month. "The price of wheat has increased aggressively in the last month, the fastest rate of increase in more than 30 years, partly the result of severe droughts in Russia," the survey said.

The latest official measure of the U.K. CPI rose 0.1% on the month and 3.2% on the year in June. While this measure is much stronger than the BRC's measure of shop prices, it represents a continued slowdown in price inflation over recent months, which Bank of England rate setters expect to continue this year, a view shared by data-analysis firm Nielsen, which compiles the monthly survey for the BRC.

"Shop price inflation remains below consumer price inflation and the moderate increases in the price of food in July are being driven by wider economic conditions and seasonal supply changes," said Mike Watkins, senior manager of retailer services for Nielsen.

U.K.'s recovery trails euro zone's

By ILONA BILLINGTON
AND NICHOLAS WINNING

LONDON—The U.K. economic recovery appeared to take a pause in July, contrasting with an accelerating rate of expansion in the 16-country euro zone.

The U.K.'s dominant services sector expanded in July at its slowest pace since June 2009 as a broad-based slowdown, including weaker demand from the public sector, weighed on the index, data showed Wednesday. The confidence measure also remained at a weak level, suggesting the sector will remain under pressure in coming months.

The services purchasing managers' index fell to 53.1 in July from 54.4 in June, research group Markit and the Chartered Institute of Purchasing & Supply said.

Private-sector output in the euro zone, meanwhile, grew faster in July, suggesting the common currency area's economic recovery hasn't lost any momentum going into the second half of the year, Markit said.

The final Markit euro-zone composite output index, a gauge of private-sector activity based on a survey of some 4,500 manufacturing and services sector firms, rose to a three-month high of 56.7 in July from 56 in June.

The results suggest that euro-zone economic growth picked up in the second quarter, driven by a hard-charging German export economy. Economists expect the recovery to slow later in the second half as stimulus measures run their course and governments cut spending to trim budget deficits. They also note that the recovery remains uneven, with core euro-zone countries such as Germany and France forging ahead, while peripheral countries such as Spain and Greece lag behind.

Given the strong growth seen in manufacturing in recent months, it is unlikely that the overall pace of the euro zone's economic expansion will be sustained unless growth picks up in the services sector, said Chris Williamson, chief economist at Markit.

The final Markit euro-zone services business activity index rose to 55.8 in July from 55.5 in June, but the result was revised down slightly from the preliminary estimate of 56.

"While growth in Germany and France has returned to prerecession levels, recoveries are far more lackluster and susceptible to further downturns in Spain and Italy," Mr. Williamson said in his analysis.

A separate retail report Wednesday from the European Union's statistics agency Eurostat showed that



consumers remained the weakest link in the currency area's economic recovery. Eurostat said the volume of retail sales across the euro zone was unchanged in June from May, and 0.4% higher than in June 2009, when much of Europe was still in recession. However, figures for May were revised higher to show that retail sales rose 0.4% from April and 0.6% from a year earlier.

"The recovery will likely remain half-baked as fiscal tightening all over Europe is hardly the stuff a consumption boom is made of," Pe-

ter Vanden Houte, an economist at ING, said in a note.

Economists also worry that the U.K. recovery will be hamstrung by the coalition government's aggressive fiscal tightening and the prospect of tax increases. The U.K. confidence subindex in the Markit survey was stable in July after a sharp drop in June, but remains well below the long-run average, not least because of concerns about the impact of the planned Jan. 4 increase in sales tax to 20% from 17.5%.

"This month's services PMI will undoubtedly raise questions about whether the economic recovery is running out of steam," said David Noble, chief executive officer at the CIPS. "To see government spending cuts impact the sector so quickly is concerning given the bulk of cuts are still yet to come."

That warning came alongside announcements by big U.K. retailers such as **Next PLC** and **Marks & Spencer Group PLC** that they will have to raise prices to take account of increased costs from tax increases and commodities. U.K. retailers are concerned that the value-added tax increase and public-spending cuts, introduced by the government to rein in borrowing, will hit consumer sentiment.

—Simon Zekaria
contributed to this article.

EUROPE NEWS

Why Hungary rejected more IMF aid

By MARGIT FEHER

BUDAPEST—Hungary's successful bond issues explain the government's recent rejection of International Monetary Fund assistance, a previously undisclosed document reveals, while Romania on Wednesday moved toward receiving more IMF help.

In July, the government of Hungarian Prime Minister Viktor Orban rebuffed requests from the IMF and the European Union to impose further austerity measures in exchange for the next installment of a €20 billion (\$26.5 billion) loan package established in October 2008, at the height of the global financial crisis.

Budapest's move surprised markets but becomes more understandable in light of a new debt-issuance plan put together by AKK, the government's debt agency. The five-page presentation sets out amounts, timetables and debt vehicles for a financing program that officials say they hope will continue to hold investor confidence.

The AKK plan reflects confidence by Mr. Orban's government, which has been in office since late May, that the country's financing is secure for the year.

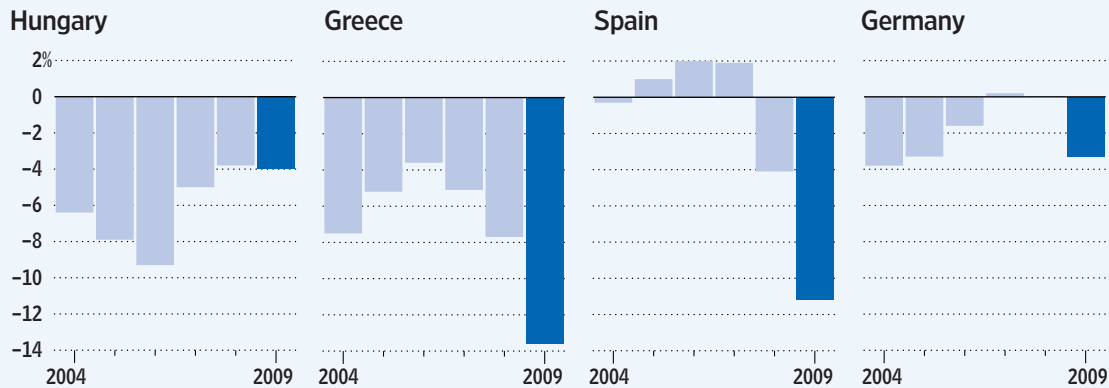
According to the plan, the government is on target for its IMF-EU goal of a 2010 budget deficit of 3.8% of gross domestic product. Financing for 2011 isn't clear because Hungary hasn't committed to a deficit target for next year, when it is due to start repaying the IMF-EU loans.

Hungary's success so far this year at issuing government debt on markets helped to set the stage for Mr. Orban's rebuff of international

Taking a stand

Hungary, whose budget deficits aren't as severe as those of some other European nations, says it can survive without new aid from the EU and IMF.

Fiscal balance as a percentage of GDP



Source: Eurostat

lenders. The country saw a rise in demand for government bonds—debt with a maturity longer than a year, allowing it to cut back on the issue of Treasury bills, which offer shorter-term funding at a higher cost.

In the first six months of 2010, Hungary's net bond issues totaled 340 billion forints (\$1.6 billion), twice the amount the previous government planned for all of 2010. A large amount of forint-denominated bonds mature in August and October. Factoring out redemptions, the debt agency's revised plan now targets full-year net bond issues of 298 billion forints.

The high level of bond issuance means Hungary will issue 106 billion forints less in Treasury bills this

year than the T-bills that are due to be redeemed. The original plan was to issue 146 billion forints more in T-bills than the amount maturing.

This year's overall net government spending is still expected to come in at 900 billion forints. Of this, 400 billion forints is available in the form of foreign currency deposits and 429 billion forints looks likely to come from bonds denominated in forints, with the remainder to be financed from the treasury's current account, the data show.

By the third quarter of 2009, Hungary had drawn a total of €14.2 billion of its €20 billion standby loan, the data show.

Because Hungary has been able to finance itself by issuing debt on

markets, it hasn't drawn on the credit line since then. Of the €14.2 billion, the government drew €12.8 billion, with the remainder drawn by the central bank.

The €12.8 billion included €4.9 billion to support Hungary's banking sector. The IMF provided €2.4 billion and the EU a further €5.5 billion to finance maturing government debt.

At the end of June, Hungary's government still had a substantial foreign-currency deposit at the National Bank of Hungary, €3.2 billion, from its IMF-EU loan.

By issuing \$2 billion of debt in January, Hungary has already covered the redemption later this year of two foreign-currency bonds, a €1 billion bond maturing in July and a 50 billion yen (\$583 million) bond

maturing in September.

While this year's financing looks secure, the picture for next year remains unclear. One factor that prompted Mr. Orban to turn his back on Hungary's international lenders was their insistence on a budget deficit of less than 3% of GDP for next year.

What is known is how much maturing debt Hungary will need to face next year on top of the undefined budget deficit. A total of €7.8 billion comes due in 2011: €2 billion in maturing EU debt; another €2 billion in foreign-currency debt; and the remainder denominated in forints, the AKK data showed.

Separately, the IMF indicated Wednesday that it will release the next tranche of Romania's €20 billion bailout package if the government passes pledged pension reforms and pays arrears to private companies.

The announcement came as the National Bank of Romania held interest rates at a record low of 6.25% and retail sales in the recession-hit economy rose at their fastest pace since December 2008. The upbeat economic news failed to move the Romanian leu, while the Bucharest Stock Exchange benchmark BET index fell despite the welcome developments.

The IMF's mission chief in Bucharest, Jeffrey Franks, said the Romanian government, which is reliant on the IMF-led loan to stay afloat, was on track to meet its deficit target, meaning the IMF could release €900 million, pending the board's approval at a meeting in September.

—Joe Parkinson

contributed to this article.

Death toll reaches 48 as Russian fires rage

By IRA IOSEBASHVILI

MOSCOW—Russian President Dmitry Medvedev cut short his vacation and headed back to Moscow as Russian forest and peat fires burned out of control Wednesday and the death toll rose to 48.

Fires continued to rage in much of the country's European territory, with seven Russian regions declaring a state of emergency.

Forest fires threatened at least five towns in the hard-hit Nizhny Novgorod region—where entire villages have burned to the ground and at least 20 people have been killed.

Authorities removed radioactive materials from a top-secret nuclear facility in the town of Sarov, even though the town's administration said this morning that a fire at its edges had been brought under control.

President Medvedev returned to Moscow Wednesday from the Black Sea city of Sochi in order to meet with the National Security Council and find a way to deal with the fires, state news agency RIA Novosti reported.

Soon after his arrival, Mr. Medvedev fired a string of military officers and warned Russia's two top naval commanders for allowing the fires to reach a military base last week.

"If something like this happens again...I will take exactly the same actions, without any pity," Mr. Medvedev said.

More than 155,000 personnel have been mobilized to fight the



Russian Premier Vladimir Putin, center, shakes hands with a firefighter Wednesday at the site of wildfires in Voronezh.

fires, Emergency Situations Minister Sergei Shoigu said in a meeting with Mr. Medvedev on Tuesday.

However, the government has come under rare public criticism for being slow and ill-equipped to fight the fires, which have destroyed some 2,000 homes and left as many

as 4,000 homeless, according to state estimates.

In particular, critics have pointed to changes in the country's Forest Code that centralized the firefighting system and cut forest service employees.

More than 403 new forest fires

sprang up over the past 24 hours, while 293 have been extinguished, the emergency ministry said. In total, 520 fires are blazing across Russia, over a total area of 188,525 hectares, up from 172,372 hectares the previous day.

Close to 650,000 hectares have

been burned since the fires started, the ministry said.

The record heat wave that sparked the fires—as well as Russia's worst drought in at least three decades—shows no sign of letting up.

Scorching heat will continue until at least Aug. 12, with temperatures in some parts of the country as high as 42 degrees Celsius, according to the state weather service.

After the hottest July on record, temperatures in Moscow—with its 10.5 million residents—and the surrounding areas are expected to reach as high as 39 degrees Celsius this week, despite sporadic thunderstorms and hailstorms around the region, the weather service said.

Levels of contaminants in the air early Wednesday have "passed a critical barrier, where even healthy people must take protective measures," Mosekmonitoring, a state institute that monitors the environment, said on its website.

Smoke blanketed towns in parts of the Moscow region, where visibility fell to as low as 20 meters Wednesday morning.

In Moscow, calls for ambulances have risen 15% since the heat began, a top doctor said Tuesday.

Smoke seeped into the city's subway system, where a thin haze hung over some platforms, and the smell of smoke penetrated stores and offices.

Smog cut the visibility in the city center to only several hundred meters, with the towers of the Kremlin veiled by a grayish film.

U.S. NEWS

Three years of hindsight offer new lessons on crisis

[Capital]

By DAVID WESSEL



Although few realized it at the time, the devastating financial crisis began when money markets seized up in August 2007, prompting the first responders at the Federal Reserve and European Central Bank to act. With the modicum of hindsight that three years offer, what do we know now that we didn't know then?

A few lessons are widely accepted: Unfettered, poorly supervised finance can be dangerous to economic growth. Bankers and financial engineers do what rules encourage and permit, even if it means trouble later. Regulation was less than optimal, if not negligent. And borrowing heavily in good times in the hope they'll last forever is as imprudent as it sounds for homeowners and big bank CEOs.

A few other conclusions, though, are in dispute or are underappreciated. Here are three:

Government, which did fail to head off the crisis, saved us from an even worse outcome.

Hostility to the Bush-Paulson-Geithner-Bernanke (and largely Obama-blessed) bank bailouts, Obama fiscal stimulus and Fed meddling in markets is proof the public doubts this. (Full disclosure: My book, "In Fed We Trust," credits the Fed with a major role in averting another Depression.) Experts debate whether the Treasury and Fed were too soft on the banks and the bankers when they rescued them, about how much the Obama stimulus accomplished, and whether it was the right size and shape.

Those important arguments obscure the really big question: If the government hadn't done what it did, would unemployment be higher and the recession have been deeper and longer?

No one can answer a what-if question with certainty, and those skeptical of the potency of government spending won't be persuaded by economic models that assume government spending is potent.

But we know now that the economy was imploding in late 2008. We know now with detail how paralyzed financial markets were, and how rotten were the foundations of some big banks. We know now that even after all the Fed has done, we still risk devastating deflation.

So the short answer has to be: Yes, it would have been far worse had the government failed to act.

The biggest single bill to taxpayers will come not from a bank bailout, but from mortgage giants Fannie Mae and Freddie Mac.

Most people believe big Wall Street banks got bailed out and continue to profit from low interest rates. That's true, but many banks have paid back taxpayers with interest. Fannie

and Freddie, though, burdened by huge mortgage portfolios, have taken \$145 billion so far. In a new analysis, Alan Blinder of Princeton University and Mark Zandi of Moody's Analytics put the ultimate price for saving them at \$305 billion.

That compares with \$71 billion in estimated costs to the Federal Deposit Insurance Corp. for closing failing banks, \$38 billion for American International Group, \$29 billion for General Motors and its finance arm, GMAC, and somewhere between zero and a profit for banks in which taxpayers invested directly, according to the Blinder-Zandi calculations.

The government didn't nationalize the banks. Someday, it will sell its stake in GM. But it nationalized the mortgage market and hasn't found a way out. So taxpayers keep pumping money into Fannie and Freddie at a rate of greater than \$1 billion a week.

The overall cost to Americans as taxpayers looks less than feared initially; the human and economic toll greater.

In narrow budget terms, the rescue of the financial system won't cost as much an initially estimated. The Congressional Budget Office has cut its estimate of the ultimate cost of the Troubled Asset Relief Program (which doesn't include Fannie or Freddie) to \$109 billion from \$350 billion and probably will reduce it further later this month. Bank losses are simply less than

Only the profoundly pessimistic imagined how deep and prolonged the recession would be.

initially thought. In October 2009, the International Monetary Fund estimated U.S. banks would take write-downs of \$1.085 trillion. By April 2010, it had reduced that by almost 20% to \$885 billion. Officials at the Fed whisper that they may not lose a nickel on all their extraordinary lending.

But only the profoundly pessimistic in August 2007 imagined how deep and prolonged the recession would be, how much federal tax revenues would fall and thus how much the government would borrow, and how many would be out of work for so long. "The most pressing danger we now face is unacceptably weak growth and persistent unemployment rather than outright economic collapse," Peter Orszag said in his last speech as White House budget director.

So the good news is that we're not in a Great Depression. The bad news is that an army bigger than the entire population of Los Angeles has been out of work for a year—4.3 million people—and that just counts those still looking for work.

No wonder there's so much skepticism about the efficacy of fiscal stimulus, and such strong resistance to even think about doing more.



U.S. Treasury Secretary Timothy Geithner contends that a tax-cut extension would jeopardize the economic recovery.

Geithner defends plan to let tax cuts expire

By VICTORIA MCGRANE

WASHINGTON—U.S. Treasury Secretary Timothy Geithner on Wednesday will continue to defend the White House plan to let tax cuts for the wealthiest Americans expire at the end of the year, arguing that extending them would imperil the fragile economic recovery.

"Borrowing to finance tax cuts for the top 2% would be a \$700 billion fiscal mistake. It's not the prescription the economy needs right now, and the country can't afford it," Mr. Geithner will say, according to an excerpt from his speech provided by the Treasury. Mr. Geithner was set to deliver the remarks Wednesday at the left-leaning Center for American Progress.

Mr. Geithner's argument stands in direct contrast to Republicans

and some congressional Democrats, who argue that letting taxes increase even for the richest Americans will hurt the economy at a crucial time.

More broadly, Mr. Geithner's speech will focus on tax and fiscal policy. According to other excerpts from the speech, Mr. Geithner will say "ultimately, fiscal policy is about getting the conditions right for economic growth, prosperity and job creation."

Over the past two decades, Washington ran an experiment on that front. In the 1990s, the government put an end to budget deficits, and America enjoyed a period of growth led by the private sector, where prosperity was widely shared and job creation was robust. Over the next decade, Washington tried a new path, running up huge debts,

while incomes for most Americans stagnated and job creation was anemic. We are living today with the damage that misguided policy caused."

The speech continues: "So, as we look to a new decade, there's some empirical evidence around what works and what doesn't. Rather than recreating a false prosperity fueled by debt and passing the bills on to the next generation, we need to restore America to a pro-growth tax and fiscal policy, where the middle class once again has a chance to prosper."

After delivering his remarks, Mr. Geithner will participate in a debate with the center's president and chief executive, John Podesta; Douglas Holtz-Eakin, president of the right-leaning American Action Forum; and others.

Personal bankruptcies climb

By SARA MURRAY

More Americans filed for bankruptcy protection in July, reversing a trend of declining filings over the previous three months and highlighting the continuing financial struggles of many consumers.

Personal bankruptcies numbered 137,698 last month, a 9% increase

from June, according to the American Bankruptcy Institute, an organization of lawyers and other professionals. The data were supplied by the National Bankruptcy Research Center; similar government tallies won't be released for months.

Curbs on access to credit, such as those that arose during the recent recession, tend to fuel consumer bankruptcies as individuals who encounter trouble paying debts fail to find new sources of credit.

Filings in July were also up 9% compared with the same month a year ago, and 2010 is on pace to record the largest number of consumer-bankruptcy filings in five years. Filings topped 1.4 million last year, the most since Congress revamped bankruptcy laws in 2005 to make it more difficult for consumers to shed debt.

So far this year there have been nearly 908,000 personal-bankruptcy filings, representing roughly one in every 125 U.S. households. At this point last year there were about 802,000 filings. The upswing in personal filings has cast doubt on

whether the 2005 bankruptcy-law change has been effective. Filings declined drastically in 2006 but later resumed their increase.

Consumer-bankruptcy filings could decline in the next few years if less access to credit makes it more difficult to accumulate debt. But experts said it was unlikely filings would drop back to the lows immediately following the law change. "Short of repealing the bankruptcy law, it is always going to be an option for people that are at the end of the financial rope," said Samuel Gerdano, executive director of the American Bankruptcy Institute.

Personal bankruptcies haven't been distributed evenly. The suburbs of Atlanta had particularly high filing rates, according to an analysis by Ronald Mann, a professor at Columbia University's law school. Of the 10 U.S. counties with the highest filing rates, six were in Georgia.

Filings in many Southern states, however, have begun to decline compared with last year, including South Carolina, Alabama, Tennessee, West Virginia and Mississippi.

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U.S. NEWS

BP's progress on well fuels optimism

By GUY CHAZAN

BP PLC claimed a big victory in its efforts to kill its blown-out oil well, fueling optimism that the three-month oil drama in the Gulf of Mexico was finally entering its closing stages.

The success of BP's "static kill" operation, in which heavy drilling mud was pumped into the runaway well and pushed the gushing oil back into the reservoir, coincided with a government report that said much of the spilled oil is now gone.

U.S. President Barack Obama said the "long battle to stop the leak and contain the oil is finally close to coming to an end."

The U.K. oil major may now move to seal the well for good, pumping cement through the same pathways it used for the static kill. But federal officials, including retired Coast Guard Adm. Thad Allen, who heads the federal oil spill response effort, have stressed that the only permanent solution to the spill is a relief well, which will be completed by the middle of this month.

A report by U.S. scientists released Wednesday said that burning, skimming and direct recovery from the wellhead had removed one-quarter of the oil spilled into the Gulf, another quarter had naturally evaporated or dissolved, and 24% was dispersed as microscopic droplets into Gulf waters. It said the rest—26%—is either on or just below the surface as light sheen and tar balls, has washed ashore or been collected from the coastline, or is buried in sand and sediments.

The success of the static kill

Static kill: The final phase?

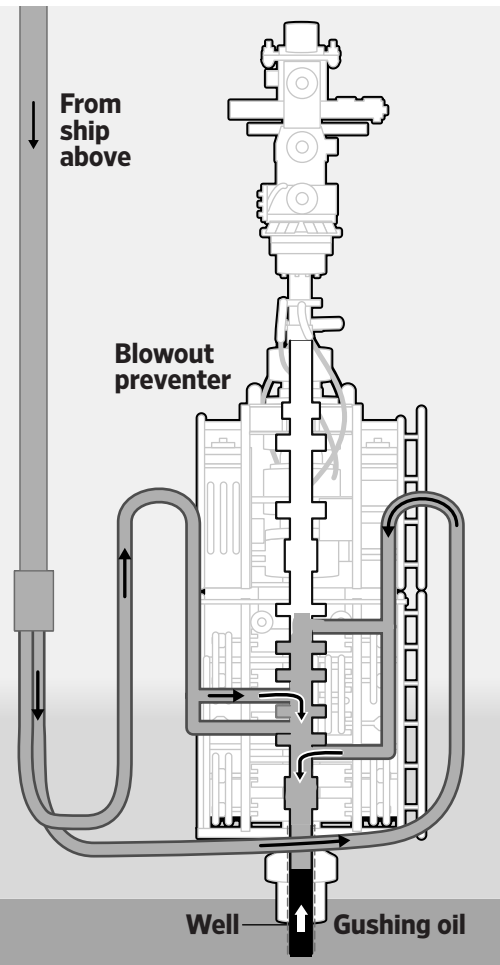
BP said its latest bid to permanently seal its blown-out oil well in the Gulf of Mexico—using a process known as 'static kill'—is working. The plan involves pushing oil back into the reservoir by pumping heavy drilling fluid down the well. BP will now cement the well shut.

MUD: Heavy drilling mud was channeled from vessels on the surface into the blowout preventer and then down into the well. BP said it had achieved the 'desired outcome,' with the mud pushing the crude back down into the reservoir, and the well had reached a 'static condition.'

CEMENT: BP said it will work with government officials to determine the next course of action, which could involve injecting cement in the well via the same route as the mud used in the static kill.

RELIEF WELL: Regardless of the outcome of the static kill, BP will complete a relief well later this month which will intersect the problem well thousands of feet beneath the sea floor. Engineers will then pump mud and cement to make sure the well is killed.

Source: BP



marks a breakthrough in BP's attempts to subdue a well that the government estimates has spewed nearly five million barrels of crude into the Gulf of Mexico.

It comes more than three months

after the Deepwater Horizon drilling rig exploded off the Louisiana coast, killing 11 men and triggering what has now been acknowledged as the world's worst accidental oil spill at sea.

The spill has been a catastrophe for the economy of the Gulf Coast and badly weakened BP, whose chief executive Tony Hayward was forced to step down over the disaster.

The company is facing billions of

dollars in fines and penalties for the pollution caused by the spill, as well as huge claims for damages. In June, it suspended its dividend and agreed to set aside \$20 billion in an escrow account to compensate victims.

But in recent weeks, the tide appears to have turned for BP—particularly since July 15, when it installed a new, more tightly fitting cap on the well and oil stopped leaking into the Gulf. Its share price has recovered, and it is a third of the way toward its goal of raising \$30 billion from asset sales to help it meet the cost of the spill.

Also, a threat posed by legislation that could have blocked the oil major from winning new drilling permits in U.S. waters was put on hold this week when Senate Majority Leader Harry Reid delayed action on an energy bill until after Congress returns from its summer recess in mid-September.

Over the course of eight hours on Tuesday, BP's engineers pumped hundreds of barrels of heavy drilling mud into the well from vessels on the surface. Gradually, the pressure of the mud equaled the upward pressure of the oil and gas, which was forced back into the reservoir.

The well "appears to have reached a static condition," BP said in a statement, describing it as a "significant milestone." It said it is now monitoring the well to ensure it remains under control, and may decide to pump in more mud depending on the results.

BP officials have stressed a definitive solution will only come with the relief well, which should be completed in mid-August.

Obesity risky in pregnancy

By SHIRLEY S. WANG

A large new study offers some of the most direct evidence yet that mothers who gain more weight during pregnancy have larger babies.

The results, published Wednesday in the *Lancet*, bolster public-health concerns that women need to curtail weight gain during pregnancy because high birth-weight babies are at greater risk of obesity in adulthood. They also reflect growing consensus in the medical community that pregnancy sets the stage for the long-term health of the mother and baby.

Much of doctors' focus has been on preventing underweight babies, but increasingly evidence suggests that extremes on the high end of the weight scale can also set up babies, and their mothers, for health struggles.

Wednesday's study examined the birth records of more than one million full-term births over a 15-year period ended in 2003 in two states, Michigan and New Jersey. Researchers focused on women who had more than one child to separate out the effects of genetics.

They found that if the same woman gained roughly double the weight during one pregnancy compared with another, her baby was on average half a pound, or 200 grams, heavier than its sibling, a large difference for newborns.

The more weight the women gained, the higher the risk of having a high-birth-weight baby, defined as 8 pounds, 13 ounces. Women who gained more than 52 pounds, for in-

stance, were 2.3 times as likely to have a high-birth-weight baby as women who gained 18 to 22 pounds, within the recommended range of gain for overweight women.

A number of previous studies have shown a link between babies born at high birth weights and later obesity, including a big study of twins that tracked body size from birth to late adolescence published in the *American Journal of Epidemiology* in 2001.

Other evidence suggests less conclusively that high birth weight is also related to increased risk of developing asthma, allergies and cancer. For women, substantial weight gain raises the chance for gestational diabetes and pre-eclampsia, a dangerous condition involving high blood pressure, as well as the need for Cesarean sections.

"Excessive weight gain during pregnancy not only places the mother's health at risk, but also appears to have long-term consequences for the offspring," said David Ludwig, first author on the paper and director of the Optimal Weight for Life Program at the Children's Hospital Boston, an affiliate of Harvard Medical School.

The *Lancet* paper "just adds more fuel to the fire that [managing weight gain] is an absolutely critical part of preconception care and prenatal care," said William Callaghan, acting chief of the maternal and infant health branch of the Centers for Disease Control and Prevention in Atlanta, who wasn't involved with the study.

Doctors should discuss not just

weight with patients, but also "nutrition in a meaningful way so the baby grows just right and mom and baby are healthy at the end," because it is also unhealthy for babies to be underweight, said Dr. Callaghan.

The concern is particularly high for women who begin their pregnancy overweight or obese; about 60% of all American women between 20 and 39 years old are overweight or obese, says the CDC.

Last year, new recommendations put out by the Institute of Medicine lowered the lower end of the range of weight that obese pregnant women should gain to 11 pounds from 15 pounds, saying they should gain no more than 20 pounds. Overweight women are recommended to gain 15 to 25 pounds, normal-weight women 25 to 35 pounds and underweight women 28 to 40 pounds.

The *Lancet* study included information about the amount of weight women gained during their pregnancy but not the mother's weight or body mass index—an indicator of amount of body fat—at the start of her pregnancy.

That limits the conclusions that can be drawn from the study, according to Kathleen Rasmussen, chairwoman of the Institute of Medicine committee that issued the new weight-gain recommendations. Women who start off heavier also tend to have bigger babies, and it isn't clear from these data how much of the higher birth-weight babies are due to weight gained during pregnancy versus the mother's starting weight, she said.

Job growth stayed weak during July

By SUDEEP REDDY

Job growth remained weak in July as employers continued to expand slowly, according to surveys released Wednesday.

Private-sector payrolls rose by just 42,000 last month, according to an estimate by **Automatic Data Processing Inc.**

The payroll firm's report with economic consulting firm **Macro-economic Advisers** showed employment increasing at small and medium-size companies but remaining flat at large firms. While an improvement from June's gain of 19,000 jobs, the report indicates employers remain reluctant to hire amid weak economic growth.

Meanwhile, the U.S. service sector expanded at a faster pace in July, according to the Institute for Supply Management's survey of purchasing managers. The ISM's overall nonmanufacturing index rose to 54.3 last month from 53.8 in June, while employment barely expanded. Any reading over 50 indicates expansion.

Economists expect the Labor Department's Friday employment report, which over the past year has posted stronger job growth than ADP's figures, to show that private-sector employers added about 100,000 jobs last month. Overall employment is expected to drop amid the continued loss of temporary Census jobs.

Private payrolls

Change from previous month, in thousands



Source: ADP

The expected increase in payroll jobs for July "is better than nothing, but it is not enough to generate a sustained decline in the unemployment rate, and we don't see this picture changing much until next year," said Ian Shepherdson, chief U.S. economist at High Frequency Economics.

A separate survey by outplacement firm **Challenger, Gray & Christmas** found that employers announced plans to cut 41,676 workers in July, up 6% from June's 39,358 jobs. But the firm said downsizing activity remained at its lowest level since before the 2001 recession.

U.S. NEWS

Tech devices steal spending from home goods

By EMMELINE ZHAO

Americans are spending more on electronics like iPads and flat-screen televisions and less on durable goods like furniture, washing machines and lawn mowers, according to government data released Tuesday.

The shift reflects a change in priorities for American consumers. After pouring money into all aspects of their homes during the previous decade, consumers are redirecting their purchases to eye-grabbing technology and socking away more of what's left over into savings. Apparel-company executives are worried that the lure of electronics will eat into their sales as the back-to-school season gets under way.

The shift reflects a change in priorities for American consumers. More are redirecting their purchases to eye-grabbing technology and saving more of what is left.

Outlays for televisions, computers, video and telephone equipment grew 1.8% in the first six months of this year from the first half of pre-recession 2007, the Commerce Department said Tuesday. By comparison, spending on appliances fell 3.6% during the same period, and spending on furniture decreased 11% during that time.

Overall, consumer spending stayed flat in June from the previous month, the Commerce Department said Tuesday. Meanwhile, the U.S. savings rate ticked up to 6.4% in June from the previous month, its highest point in a year and far above its pre-recession level.

David Wu, a Los Angeles high school teacher, says he has spent about \$4,000 on new technology over the past two years that included a high-tech mobile phone and a large-screen television. The 25-

year-old says that because computers and other electronics are constantly evolving, he has an incentive to keep buying the latest items.

"With a toaster and microwave," he says, "as long as it works, I don't see myself buying a flashier one."

In all, Americans spent \$534 billion on durable goods of all sorts—items designed to last three or more years—in the first six months of the year, the Commerce Department said. That's 5.9% more than they spent on these items in the first six months of last year, and 7.5% less than in the first six months of pre-recession 2007.

Home sales remain sluggish, and while car sales are perking up, they remain far below pre-recession levels. Big U.S. auto companies reported Tuesday that their domestic sales improved modestly in July.

But it's electronics that are causing consumers like Spence Witten to reopen their wallets. Since September 2009, the 27-year-old has spent about \$8,000 on new electronics. Among his buys are Apple's iPhone 4, MacBook Pro, iPad and iPod. He also bought a Blu-ray video player and a \$2,000 stereo system.

Mr. Witten, who works in sales and marketing for a cyber-security company, said home improvements fell down the list of priorities as a result of his electronics purchases. He could use a new toaster, microwave, professional wardrobe and hardwood floors for his Washington home. "But who needs to eat and buy more ties?" he asked. "I mean, come on, I have a great computer."

The electronics boom alone isn't enough to improve the economy, says Chris Christopher, senior principal economist at IHS Global Insight. Consumer spending on technology accounts for about 1.2% of nominal gross domestic product, a marginal portion of economic growth. Spending on technology has held up relatively well during previous recessions.

"People have to be able to feel they can spend on big durable-good items and housing, and these are not doing well," Mr. Christopher said.



A customer looks at wide-screen TV sets at a Costco store in Mountain View, Calif. U.S. tech spending is strong.

"Even if technology is growing well in retail sales, it helps, but it's nothing that's going to pull us out of this low level of GDP growth."

Still, the trend toward buying electronics, often at the expense of other goods, is leaving its mark across the economy. The manufacturing sector, which has led the economic recovery, has been especially strong in technology-related businesses. **Corning Inc.**, for instance, last month reported its second-quarter profit rose 49% as sales increased 23%. Corning makes specialty glass used in computers and smartphones.

Apparel retailers say the shift is eating into their sales, too. "Electronics has taken a huge chunk out of the average household spending budget," said Eric Wiseman, CEO of apparel maker **VF Corp.**, maker of JanSport backpacks and Wrangler jeans.

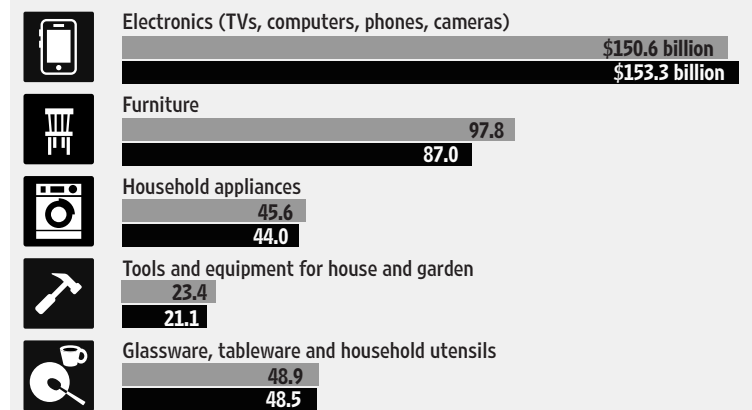
Apparel executives say the iPhone in particular has become an ornament in its own right. "It's a new fashion accessory, there's no doubt about it," said Richard Dickson, CEO of branded businesses at **Jones Apparel Group Inc.**, which includes Jones New York, Nine West and Anne Klein.

Clothing retailers are using electronics to lure shoppers during the important back-to-school season, the second-biggest spending time period behind the holiday period. Teen retailer **American Eagle Outfitters Inc.** gave shoppers who tried on a pair of jeans their choice of free smartphone. **Macy's Inc.** partnered with **Microsoft Corp.** to exclusively feature the

Shift in spending

Americans' spending on durable goods* before the recession and now

■ First half of 2007 ■ First half of 2010



*At a seasonally adjusted, annualized rate

Source: Commerce Department

new Xbox 360 Kinect system.

Schaefer's TV and Appliance in Lincoln, Neb., has seen about a 25% increase in sales of Blu-ray video players over the last two years as consumers are slowly lured away from bulky washers and dryers toward flashy electronics. The number of flat-screen televisions going out the door keeps rising, said Schaefer's President Ron Romero.

Many hit by the weak economy cut spending on big-ticket items and services, including vacations. To substitute, families took "staycations" by taking time off at home and elected to upgrade their primary home entertainment, the television.

"The price point is coming down

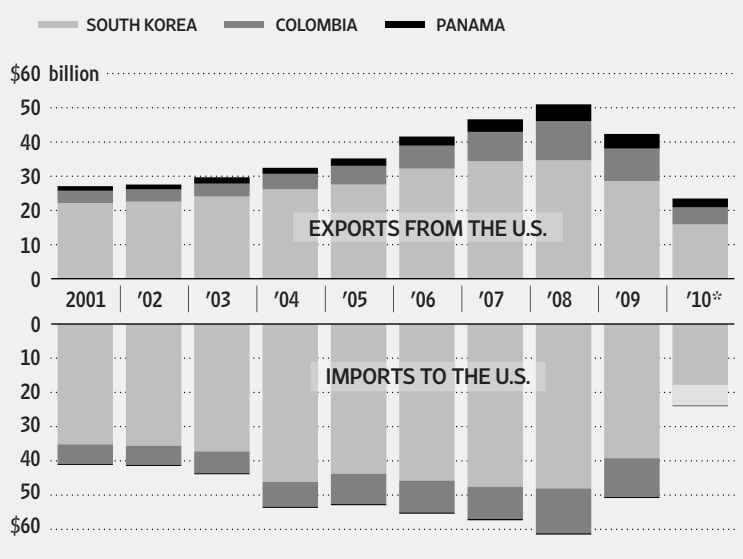
to where, even though the economy has had some tough times, it's becoming a compelling purchase," said Jordan Selburn, consumer-electronics analyst for market research firm **iSuppli**.

Sally Manesis, a 56-year-old from New Canaan, Conn., installed a \$5,000 home-entertainment system last fall, equipped with a 64-inch plasma television, surround sound and a Blu-ray video player. She says she thought about spending that money on a trip to Europe, but relaxing in the comforts of her home appealed to her more than travel.

—Elizabeth Holmes and Rachel Dodes contributed to this article.

Closer embrace

U.S. trade with three nations with which the Obama administration hopes to finalize free-trade deals



Obama pledges to protect workers in free-trade dealings

By ELIZABETH WILLIAMSON AND MELANIE TROTTMAN

The Obama administration is promising labor unions that it will enforce a range of worker protections in new trade pacts in an effort to win labor's support of a revised South Korea free-trade agreement.

President Barack Obama aims to present a new version of the agreement at the Group of 20 summit in Seoul in November and has made it a centerpiece of his efforts to boost U.S. exports and job growth. But he has run into resistance from labor and other groups that maintain that this and other free-trade deals don't

go far enough to protect workers' rights in partner countries or open markets abroad. The matter is particularly sensitive in advance of midterm elections in November.

In a related step, the Department of Labor and the U.S. Trade Representative's office said Friday they would consider filing a complaint against Guatemala for allegedly violating worker rights under an existing trade accord with the country. Administration officials say the effort is meant to reassure labor.

U.S. Trade Representative Ron Kirk told a gathering of metalworkers on Friday in Pennsylvania that his office was "expanding our en-

forcement playbook.... While USTR negotiators are seeking resolutions through dialogue, our Office of General Counsel is often laying the ground work to take legal action."

Labor leaders have opposed the deals in part because they say they don't protect worker rights abroad. In Korea, they contend that the agreements fail to open competitors' markets sufficiently to U.S. auto and beef exports and leave U.S. export-related jobs at risk.

If Mr. Obama is able to win labor's support, the deals would still need approval from Congress, which is also considering free-trade deals with Panama and Colombia.

WORLD NEWS

Terrorist group claims tanker attack

ABU DHABI—An al Qaeda affiliate said it attacked a Japanese oil tanker in the Strait of Hormuz last week, adding another twist in the mysterious incident and raising fresh concerns about the vulnerability of the important oil-supply route.

By Margaret Coker,
Nour Malas
and Summer Said

The United Arab Emirates took charge of the investigation of the incident amid suspicions of a militant attack, according to diplomats and government officials familiar with the situation.

U.S. Navy divers have also taken part in the probe of what happened to the supertanker, the *M. Star*, which docked after the incident at one of the U.A.E.'s main ports, according to a spokesman for the Navy's Fifth Fleet, which patrols the Strait of Hormuz.

A first set of tests on the tanker came up negative for explosives and a second set of tests is under way, according to officials familiar with the investigation.

The Strait of Hormuz is a major choke point through which 20% of the global oil supply travels each day. Connecting the Persian Gulf with the Gulf of Oman, it is the gateway for oil-rich Persian Gulf countries to get their energy resources to the world. Al Qaeda has threatened to attack shipping there in the past, though there have been no known attacks.

In a statement posted on a militant website and dated Aug. 2, the Abdullah Azzam Brigades, a group believed to be based in Egypt that has affiliated itself with al Qaeda, said they targeted the gigantic su-



The Japanese tanker *M. Star* arrives last week at the U.A.E. port of Fujairah, with visible damage to the vessel's hull.

pertanker with a suicide attack in what they hoped would be a dramatic blow against the global economy and oil markets.

"After midnight last Wednesday, the martyr hero Ayyub Al Tayshan blew himself up in the Japanese oil tanker *M. Star* in the Strait of Hormuz between the U.A.E. and Oman," the statement said.

The statement didn't give details about how the group attacked the vessel or selected that specific ship. However, it said the group deliberately chose the location of the attack, saying it wanted to "weaken the global infidel order that has as-

sumed authority over Muslim lands, looting their resources, and to lift the oppression of Muslims."

Oil markets on Wednesday had a muted reaction to the claim. Benchmark crude fell eight cents a barrel, or 0.10%, to \$82.47 on the New York Mercantile Exchange.

But oil analysts said if other incidents occur, insurance premiums and even oil prices are likely to increase. "If this incident transpires to be one-off, then the impact will be minimal, but if it is the start of a campaign in the region, the outcome will be more serious," said John Hall, chairman of EnergyQuote JHA,

a U.K. consultancy.

The late-night incident has been shrouded in mystery, with multiple claims made by Mideast officials about what damaged the tanker as it sailed through the narrow strait between Oman and Iran on route to Japan with a cargo of oil.

The vessel's owner, **Mitsui O.S.K. Lines Ltd.**, initially reported that the tanker had come under attack, with officials quoting crew members as seeing a bright flash that they said was likely an explosion.

The company said the vessel suffered damage to the hull near the level of the crew's quarters, but that

the crew suffered no casualties.

However, authorities in the U.A.E. and Oman quickly played down those reports, saying first that a rogue wave had hit the ship.

Later that same day, when the tanker docked at the Fujairah port in the U.A.E. for repairs, port officials said a large dent in the tanker's hull appeared to have been caused by a collision.

Some shipping and military experts said that the shape of the dent could have come from an explosion, but that not enough details from the investigation have been made public to make an educated guess about what happened.

Port officials declined to comment Wednesday. U.S. Navy spokesman Lt. Cmdr. Corey Barker declined to comment about the credibility of the claim of responsibility. Japanese foreign ministry officials declined to comment.

Junto Endoh, the general manager for Mitsui's office in Qatar, said the company still believes that the damage was consistent with an "outside explosion," but that the investigation is continuing.

Terrorist threats along the Strait of Hormuz have the ability to disrupt oil tanker and commercial sea traffic.

The possibility of an al Qaeda naval attack has been a key concern for U.S. officials since the 2000 bombing of the USS *Cole* while docked in Aden, Yemen.

The Abdullah Azzam Brigades is named for Abdullah Azzam, a now-deceased religious mentor of Osama bin Laden. It is thought to be based in Egypt, and until now has claimed attacks only within Egypt.

—Tahani Karrar-Lewesley, Julian E. Barnes and Spencer Swartz contributed to this article.

Pakistan faces food shortage

By ZAHID HUSSAIN

ISLAMABAD—The United Nations warned Wednesday that a food shortage could threaten the lives of thousands of people trapped in floodwaters in northwestern Pakistan as six U.S. Army helicopters joined the relief effort.

A U.S. Embassy spokesman said four CH-47 Chinook and two UH-60 Blackhawk utility helicopters arrived in Pakistan on Wednesday as part of the U.S. government's continued assistance to Pakistan for humanitarian-relief operations.

Bad weather hampered helicopter flights, which are the only means of ferrying relief supplies to some remote areas in the Swat Valley and Kohistan districts. Relief organizations said Wednesday that food supplies could not reach the Swat Valley and several other areas cut off after infrastructure and communications links were destroyed. Dozens of bridges and roads were washed away by the water.

Amjad Jamal, a spokesman for World Food Program, said at least 1.8 million people urgently need regular food supplies. "People have lost their food stocks and crops and they have no means to obtain supplies," he said. The loss of farm produce is one reason for the serious food shortages, the U.N. has warned.

Millions of people who earlier were forced from their homes in the Swat Valley by fighting between the army and Taliban militants now find



Flood victims in Nowshera raise their hands for relief supplies Wednesday.

themselves in the midst of another calamity. Analysts and security officials fear the disaster could affect the campaign against militants who are still active in the region.

On Wednesday, Taliban militants struck in Peshawar, killing a senior police officer who was involved in the campaign against the Taliban, as well as three other people.

Police said a suicide bomber on foot blew himself up when the car driving Sifwat Ghayur, the regional commander of the Frontier Constabulary, stopped at a traffic signal in the city's main commercial area, Mr. Ghayur, his guard and two others died. The insurgents have proved re-

silient despite recent setbacks due to the military crackdown.

Floodwaters Wednesday ravaged hundreds of villages in Pakistan's Punjab province, killing dozens and destroying thousands of homes.

Aid workers warned that bloated rivers would soon surge into the country's south, and said Pakistanis should be prepared for more evacuations.

An army spokesman said about 30,000 people have been rescued from the submerged areas in south Punjab. At least 47 people have been killed in the province, according to Pakistan's National Disaster Management Authority.

U.N. tried to avert clash on Israel-Lebanon line

By JOE LAURIA

UNITED NATIONS—U.N. peacekeepers said they tried to delay the Israeli tree-pruning operation that led to a deadly border clash Tuesday with Lebanese soldiers, but said the tree was in Israeli territory.

Alain Le Roy, the head of the U.N. peacekeeping, said Israel had notified the U.N. Interim Force in Lebanon, known as UNIFIL, at 6:30 a.m. local time Tuesday of its intention to prune a cypress tree near the border. Mr. Le Roy said the tree was clearly on the Israeli side of the Blue Line—the border between the countries demarcated by the U.N.

It was, however, on the north side of Israel's "technical fence," in Israeli territory, he said. "Israel has every right to be on the north side of the fence," he said.

When the U.N. immediately notified the Lebanese side of Israel's tree-pruning operation, the Lebanese "had reservations," he said. Israel agreed to delay the operation until 11:40 a.m. "We were asking for more time to facilitate an agreement," Mr. Le Roy said. "We needed more time."

Mr. Le Roy said Lebanon doesn't agree with the demarcation of the Blue Line at the point of the incident and that that was "probably one of the reasons why the Lebanese contested the fact that the Is-

raelis had the right to cut the tree." Both sides agree, however, that the U.N. has the right to determine the Blue Line and has decided the tree is on Israeli territory, he said.

Mr. Le Roy said that only 20% of the Blue Line has been agreed to by both sides and officially demarcated by the U.N.

A U.N.-led commission met Wednesday to discuss the incident with both sides, he said. The commission will try to resolve who fired the first lethal shots, Mr. Le Roy said. Lebanon says it first fired warning shots and that Israel responded with deadly fire, while Israel says Lebanese snipers targeted the senior Israeli officer, who was killed. Two Lebanese soldiers and a Lebanese journalist were killed in the ensuing incident.

An Indonesian battalion of the U.N. force was on the scene, he said. "We did our best to try to prevent it," Mr. Le Roy said. "We were unable to."

Israeli Defense Minister Ehud Barak sought Wednesday to calm the situation. "I hope we will have a quiet summer and things will return to their normal course," he told Israel Radio, the Associated Press reported. Lebanese Information Minister Tarek Mitri said Lebanon had approved further tree pruning Wednesday under UNIFIL supervision.

WORLD NEWS

Blast strikes near Ahmadinejad

By FARNAZ FASSIHI

An explosive device went off near the convoy of Iranian President Mahmoud Ahmadinejad on Wednesday in the western city of Hamedan, prompting speculation and denials that the attack was an assassination attempt on the president. No injuries were reported, according to Iranian media.

Iranian media initially reported that a handmade grenade was thrown at the president's motorcade as it was passing through the city from the airport to the sports arena. Crowds of supporters had packed

the streets along the way waving at the president and chanting slogans of support. Pictures show Mr. Ahmadinejad waving at the crowd from the open roof of his vehicle.

The report of the grenade attack was quickly removed from Iranian news websites and Iranian officials vehemently denied it was an attack against Mr. Ahmadinejad. Officials attributed the explosion to a firecracker targeted at a minibus carrying journalists driving about 100 meters behind the president's car, Khabar Online, a government-affiliated news service, reported.

One man was arrested, Iranian

news websites reported. Fars News, a semi-official news agency close to the Revolutionary Guards, said the firecracker was a celebratory gesture to welcome the president to Hamedan.

Mr. Ahmadinejad appeared at the sports stadium as scheduled shortly after the explosion and delivered a defiant speech. He didn't mention the attack, but his speech was peppered with rhetoric against the U.S. and West and the recent economic sanctions targeting Iran.

"Our enemies should know that the free-thinking people of Iran will smash them under their foot," Mr.

Ahmadinejad said.

He had said on Monday at a conference with Iranian expatriates in Tehran that he believes Israel wants to kill him.

"The stupid Zionists have hired mercenaries to assassinate me," Mr. Ahmadinejad said, official Iranian media reported.

Ever since the controversial presidential election in June 2009, when Mr. Ahmadinejad secured a second term in office despite allegations of fraud, he has been battling a grass-roots opposition and widespread discontent with his administration.



European Pressphoto Agency

Mr. Ahmadinejad in Tehran Monday.

Kenyans vote on new constitution

By SARAH CHILDRESS

NAIROBI, Kenya—Voters cast ballots Wednesday to decide whether to adopt a new constitution in Kenya, a pivotal event that could help to quell ethnic and political tensions that sparked mass killings two years ago.

The new constitution—which among other landmark changes would put checks on executive power and introduce a bill of rights to protect civil liberties—has been championed by President Mwai Kibaki and Prime Minister Raila Odinga. The political rivals had agreed to allow the drafting of a new constitution as part of a deal brokered to end nearly two months of ethnic violence that left more than 1,300 people dead in early 2008, after a disputed presidential election.

The new constitution also paves the way for Parliament to overhaul laws related to land ownership. The issue of property has troubled Kenya since independence from the U.K. in 1963, when the country's new leaders doled out land along tribal lines.

The U.S. has strongly backed the new constitution. Washington is eager to see lasting political stability come to a country that remains the economic engine of East Africa, a tumultuous region that includes Somalia and Sudan.

On Wednesday, voters lined up before dawn at polling stations across the country, some waiting hours to vote. Daniel Okukle Maguge, a 37-year-old who sells flowers for a living in the Kibera slum, said he was content to wait the entire day to cast his ballot.

"I want this new constitution. I need it for my daughters," he said. "Almost everything will be different" if the draft is approved.

The most recent polls indicate the proposed constitution is likely to pass. While preliminary results could be available as soon as Thursday, the final count isn't expected for days. To be approved, the constitution must earn majority support, and win at least 25% of the votes cast in five of Kenya's eight provinces.

Some religious critics of the draft say they want a new constitution—just not this one. They have focused on controversial issues such as abortion, which they believe can be too easily obtained under the draft language. They are also concerned that it allows Kenya's Muslim minority to use Islamic courts to resolve family matters, such as questions of inheritance. The majority of Kenyans are Christian.



Kenyan election officials help a woman vote in Nairobi's Kibera slum during Wednesday's constitutional referendum.

Although the voting process was largely calm on Wednesday, the 2007 balloting for president also proceeded smoothly until the results were announced.

The ensuing violence was initially directed at supporters of Mr. Kibaki, who is a member of the Kikuyu tribe. The Kalenjin ethnic group and members of the Luo tribe, both of whom supported Mr. Odinga, carried out most of those attacks, but the violence also spurred reprisal killings, and attacks against and by minor tribes allied to those major groups.

The bloodshed in Kenya came at a huge cost. The economy, which ground to a halt in 2008, is only now beginning to recover. The social wounds are taking longer to heal,

and include lingering distrust among the country's tribes.

Many analysts and Kenyans aren't expecting violence this time. That is largely because much of the

Many analysts and Kenyans aren't expecting violence, as much of the country is likely to approve the constitution, and the main rival politicians have united in support.

country is likely to approve the constitution, and the main rival politicians have united in support.

In Kibera, East Africa's largest slum, where violence flared after the latest election, voters were watchful but calm. Graffiti scrawled on the corrugated metal walls of some informal shops read: "Peace Wanted Now," and "Keep peace, Kenyans." Several voters proudly showed off T-shirts wearing similar slogans in Swahili, the national language.

This is the second time Kenyans have voted on a new constitution. In 2005, Mr. Kibaki, the president, pushed hard for a draft to be approved. His rivals, including Mr. Odinga, opposed it. The constitutional referendum turned into an up-or-down vote on Mr. Kibaki's administration. That draft was rejected.

Three children killed in China in knife attack at kindergarten

By BRIAN SPEGELE

BEIJING—A man wielding a knife killed three children at a kindergarten in eastern China's Shandong province, the latest in a string of attacks that has shocked parents and has forced government leaders to focus on the underlying causes of the violence.

Police have detained a 26-year-old man, Fang Jiantang, who admitted to killing the children, the state-run Xinhua news agency said Wednesday. Xinhua described the man as self-employed. There was no immediate word on what motivated his murderous rampage.

The three children died at the school, and three other children, along with four teachers, were taken to a hospital, Xinhua said. The attack occurred in Zibo, a manufacturing city with a population of more than four million.

The assault took place Tuesday afternoon, but Xinhua didn't issue a report until a day later.

Reached for comment, officials at the education bureau of the Boshan district of Zibo said Communist Party officials in Beijing had ordered them not to release details of the attack.

Since March, more than 20 children and adults have been killed in at least seven attacks across China.

The attacks have worried senior Chinese leaders who acknowledge that deeper issues in Chinese society may be fueling the violence.

"We feel sorry in our hearts for the murders and the children's deaths. We need to not only adopt serious security measures, but also tackle the deeper causes behind these problems," Premier Wen Jiabao told a Hong Kong television station after the attacks in May.

Rising social and income inequality, political corruption and only rudimentary treatment for those suffering mental-health problems are factors typically cited as behind the attacks.

The government announced in late June it planned to build or renovate 550 psychiatric hospitals in the next two years in what appeared to be a response to the school attacks.

Problems in mental-health treatment are particularly acute in the countryside, where treatment for patients is often hard to obtain.

—Gao Sen and Bai Lin contributed to this article.