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THE WALL STREET JOURNAL.

VOL. XXVIII NO. 115 — EUROPE — Thursday, July 15, 2010

DOWJONES A NEWS CORPORATION COMPANY

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THE WALL STREET JOURNAL. £1.50 Bahrain BD 1.50 - Egypt $1.75 (C/V) Jordan JD 2 - Kuwait KD 1 - Oman OR 2 Qatar QR14 - Saudi Arabia SR 14

U.S. lenders let standards slip in profit push

Signs of a new and potentially dangerous infatuation with risky borrowers are emerging in the U.S.

From credit cards to auto loans to mortgages, the hunger for new business as the crisis ebbs is causing some financial institutions to weaken lending standards and woo American borrowers who might not be able to pay.

Credit-card issuers mailed 84.8 million offers of plastic to U.S. subprime borrowers in the first six months of this year, up from 43.7 million a year earlier, estimates research firm Synovate. Nearly 8% of new car loans in the latest quarter went to borrowers with the lowest range of credit scores, up from 6.2% in 2009's fourth quarter, according to J.D. Power & Associates and Fair Isaac Corp.

Lenders say they learned their lesson when the real-estate bubble burst and are being careful as the credit spigot is loosened.

John D. Hawke Jr., the chief U.S. regulator of nationally chartered banks from 1998 to 2004, said an increase in lending to less-creditworthy borrowers isn't necessarily bad as long as institutions manage the risk properly.

"What got us into this mess was that underwriting was not based on the conventional approach of a borrower's capacity to pay," said Mr. Hawke, a partner at law firm Arnold & Porter LLP. "The most important question becomes: Are lenders resorting to flawed underwriting practices of the past?"

Kathleen Day, a spokeswoman for the Center for Responsible Lending, said the research group is "seeing banks re-enter the subprime market at a steady clip" and make loans to borrowers who can't repay.

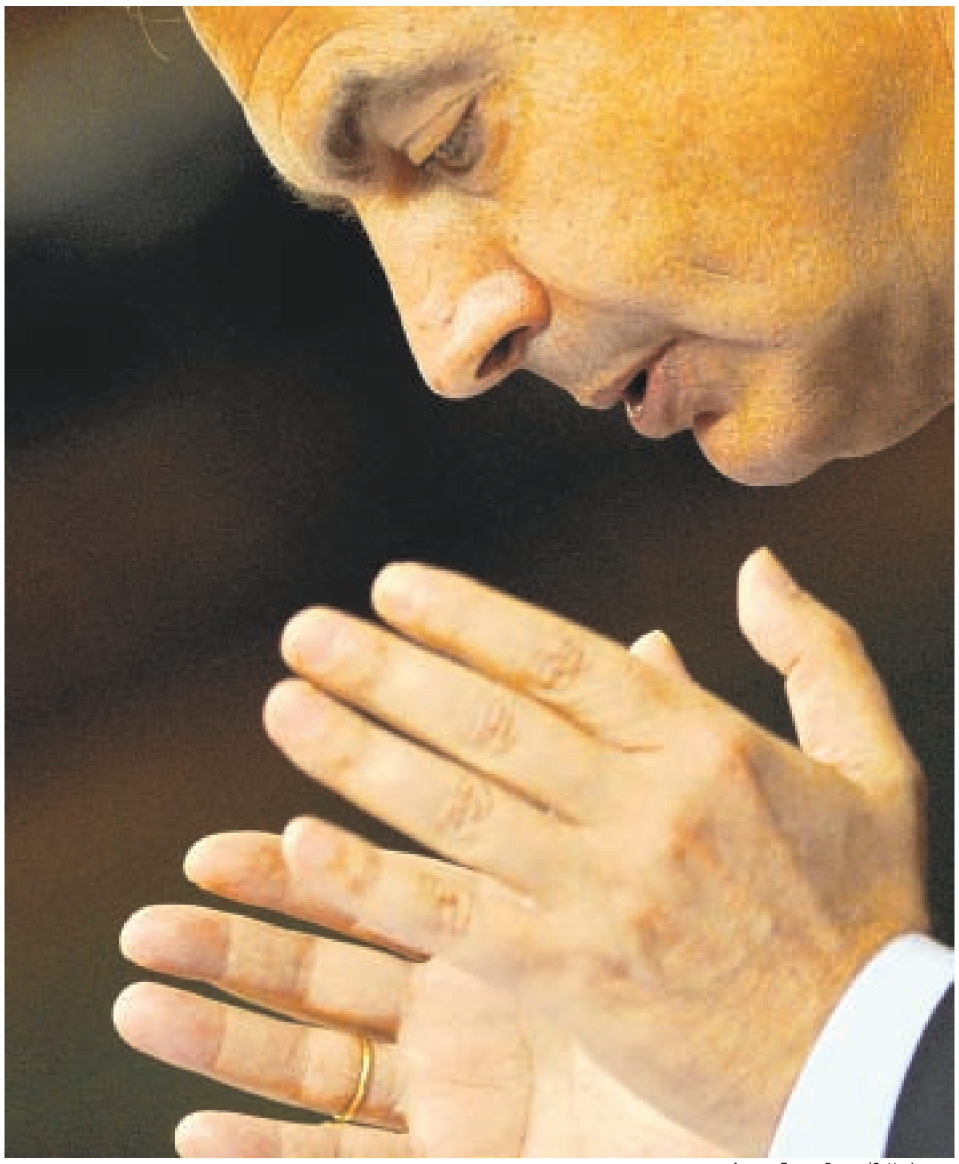
There is no doubt that the credit supply still is tight despite prodding by government officials to increase lending. Subprime borrowers got just 9%, or $44 billion, of all consumer loans in the fourth quarter, the latest period for which figures are available, according to Experian PLC and Oliver Wyman. That is down from 18% in 2007's second quarter.

But some lenders are starting to take more chances on consumer loans. Lenders said they are willing to stretch because borrowers who take on credit in the early stages of an economic recovery often are less risky and thus more profitable than those who borrow later.

Still, some borrowers that ran into trouble when the economy slumped find it hard to believe that lenders are interested in them again.

Malissa Peloquin, 40, of Bolingbrook, Ill., said she has received six credit-card offers since she and her husband emerged from bankruptcy in June. She still owes more than $73,000 in student loans.

Zapatero seeks allies in austerity drive



Agence France-Presse/Getty Images

Prime Minister José Luis Rodríguez Zapatero vowed to cut the deficit and kick-start the economy in Spain's annual State-of-the-Nation parliamentary debate. He reviewed measures taken to combat the economic crisis and asked for opposition parties to support them. **Article on page 4**

The Quirk

Europe's biggest port delays work on $3.8 billion scheme until seagull chicks decide to take off. Page 29

World Watch

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Editorial & Opinion

Osborne won in Brussels, but London will lose in the end. Page 11

Tax investigation targets Credit Suisse's offices

By David Crawford And Deborah Ball

Prosecutors in Düsseldorf, Germany, aided by possibly stolen bank data purchased by the government, raided 13 offices of **Credit Suisse** AG as the government searched for evidence that bank employees may have assisted customers in evading taxes.

Wednesday's action was the latest move in a widespread tax-evasion investigation that already has targeted about 1,100 suspects. A spokesman for prosecutors in the North Rhine-Westphalia state said the investigation began this year, based on Credit Suisse client information contained on a CD that was purchased this year from a confidential informant.

On Wednesday, 10 prosecutors, assisted by about 150 police officers, conducted searches of Credit Suisse offices in 13 German cities, including Berlin, Düsseldorf and Frankfurt/Main, a spokesman said. Based on evidence found on the disc, prosecutors are investigating whether unnamed Credit Suisse employees in Germany participated as accessories to tax evasion by providing illegal assistance to their clients.

The Credit Suisse branches searched by authorities deal only with clients holding assets in Germany, and not German clients with offshore accounts in Switzerland.

A Credit Suisse spokesman said the bank is cooperating with German investigators, but had no further comment on the raids.

The news comes amid a broad assault on Swiss bank secrecy and the country's status as a leading tax haven. The German case is the latest in which countries are using account data taken by bank employees to initiate investigations.

In another case two years ago, Germany paid €4.2 million ($5.3 million) to a bank employee to buy stolen data from a Liechtenstein bank to

Please turn to page 4

An institution that loves to travel

[Agenda]

By Patience Wheatcroft

Just a week ago, the European Parliament was clear: the three new European supervisory authorities it plans to establish to oversee the financial markets should all be based in Frankfurt. It was important, claimed the parliament, that the three should be in the same place "to ease interaction between the ESAs."

Never mind that this is an age when internet communication across continents is constant; when video-conferencing has reached a level of sophistication that can make thousands of miles vanish into inches, physical proximity was what the parliament demanded. Perhaps this attitude should not be surprising, since this is an institution which makes a monthly trek, at huge expense, from Brussels to Strasbourg.

The MEPs, however, are being overruled. At this week's Ecofin meeting of European finance ministers, U.K. Chancellor George Osborne won support for his argument that one of the three, the European Banking Authority, should be located in London. He had logic on his side, since London is Europe's largest financial centre and the Committee of Banking Supervisors, for which the EBA is a beefed up replacement, is currently based there.

Logic, however, is not the force that always prevails in the horse trading that goes on as legislation winds its way through the myriad corridors of Brussels. The last faint hopes of getting an agreement over the final shape of the three institutions—the other two will cover securities and markets and the insurance sector—before the summer break were finally dashed Wednesday. The parliament and EU finance ministers could not agree on the extent of the powers to be given to the new bodies. Not surprisingly, the parliament wants them to have more, the finance ministers less.

Associated Press

Members of the European Parliament vote at its other home in Strasbourg.

That financial supervision failed in most of Europe is inarguably the case. The parliament's position is that "the only option for effective financial supervision is one based on a thorough reform of the current system, with the establishment of European authorities capable of taking effective action to avert crises and avoid taxpayer bailouts."

> **If you want the European regulator and all those jobs in your country, how much power would you give it?**

Yet national authorities are being strengthened to give them the power and duty to do just that. To what extent should the new EU bodies be able to interfere with their efforts? That is the area of contention it will be hard to thrash out, even after a summer break to allow tempers to cool. In the U.K., for instance, the government is clear that the new EU regulators should not be able to overrule the current Financial Services Authority or the new regulatory regime being established under the auspices of the Bank of England.

The European Parliament, though, wants the new bodies to be able to dictate directly to individual financial institutions where it deems a national regulator to be failing. It also wants them to have direct powers concerning important cross-border financial institutions.

National regulators warm to neither proposition. However, they do recognize that there is a potentially major problem with cross-border institutions. Banks have varying structures, inspired by various considerations, not least taxation. If their operations in a particular jurisdiction are merely deemed branches, then the national regulator's powers are limited. And as has been seen in instances such as the collapse of the Bank of Credit & Commerce, a bank that has a prime regulator elsewhere can inflict significant damage in a market place. So where there is an operation of any significance, as many "branches" in the City are, then the regulator wants their status to be changed to that of subsidiary. There are already negotiations under way as to how far and how fast such changes can be affected.

Back in Brussels, once the MEPs return from their summer break, the negotiations will resume. Behind the scenes, these are likely to take the line of "If you want the European regulator and all those jobs in your country, then how much power are you prepared to give it?"

Mad, bad and dangerous

The unedifying story of skullduggery now being revealed by Lord Mandelson, the former U.K. Labour minister lacks a little of the surprise element. Too many deliberate leaks over the years had provided plentiful insights into a governing party that was itself governed by in-fighting and ill-will. But if, as we now read, the then prime minister, Tony Blair, declared that his chancellor, Gordon Brown, was "mad, bad and dangerous," might he not have considered it his duty to ensure that such an individual did not remain as chancellor, let alone get hold of the keys to Number Ten?

The country is now paying a heavy price for the Blair/Brown years. This week, economist Geoffrey Dicks, a member of the Office of Budget Responsibility, warned that the prospect of a double-dip recession has increased as a result of the austerity package the U.K. faces.

That does not mean that the austerity budget the chancellor dubbed "unavoidable" should have been delayed, only that they will inflict real pain. Had the country's finances not been in such poor shape when the financial crisis hit, it would be less excruciating.

A star performer

Some institutional investors registered a protest vote against the remuneration policy at **Marks & Spencer** but the private shareholders who attended Wednesday's annual general meeting of the stores group were in no mood to carp. The share price may be less than half that of 2007 but as Sir Stuart Rose presided over what will be his final AGM at the group, they made it clear that they still regard him as a hero. Perhaps he could embark on a career showing other executives how, in an impeccable suit and with a smooth line in repartee, they might endear themselves to the public.

What's News

■ **U.S. Fed policy makers** raised the possibility last month that further monetary stimulus may be needed if the economy shows more serious signs of slowing. The officials also trimmed their 2010 growth forecasts at the June meeting for the first time in more than a year. 7

■ **The U.K.'s two main** measures of unemployment both fell in June and May, while employment rose by the largest amount in almost four years, data showed. 6

■ **The EU approved** British Airways' merger with Iberia and closer trans-Atlantic cooperation with Oneworld alliance partner American. 17

■ **Russia's Digital Sky** Technologies received a $388 million investment from a South African media company. 17

■ **The ex-CEO** of lender IKB was found guilty of market manipulation, Germany's first conviction stemming from the 2007 subprime crisis. 19

Inside

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

SUBSCRIPTIONS, inquiries and address changes to: Telephone: +44 (0) 20 3426 1234. Calling time from 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 International. Frankfurt: 49 69 9714280; London: 44 203 426 1111; Paris: 331 40 17 17 01.

Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Baslnevi.

Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003.

Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

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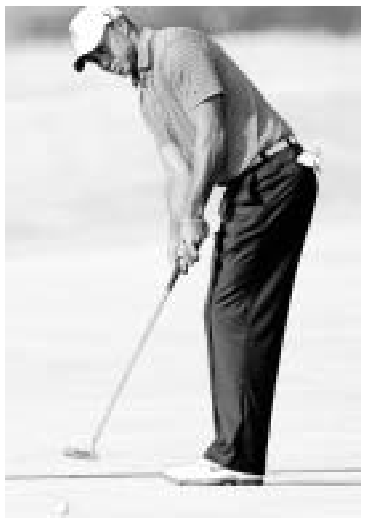
'Britain may not win the economic recovery race, but it's not going to be the biggest loser either.'

Neil Shah on how sterling's rise shows that U.K. fiscal policies are paying off

Continuing coverage



Our blogger provides the latest from St. Andrews at **blogs.wsj.com/dailyfix**

Question of the day

Q: Will Spain be able to avoid a Greek-like crisis?

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

Previous results

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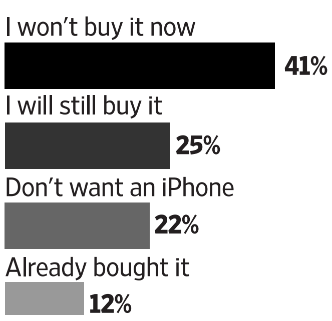


NEWS

Crisis tames the Pamplona bull run

[Letter from Pamplona]

By Joe Parkinson

Spaniards may be enjoying a nationwide fiesta in celebration of their World Cup victory, but here at the country's most famous annual festival—the running of the bulls—something is missing: Bullishness.

The Fiesta de San Fermines in Pamplona, northern Spain, has been a sure-fire winner for the Spanish economy. Many local businesses bank almost half their annual revenue over the eight-day period, during which the town's population swells with tourists lured by the festival's reputation for excess and the danger of the bull run, an 825-meter dash in which runners sprint as close to the bulls' horns as possible while the animals move from corrals at one side of the town center to the bullring at the other. Hundreds of runners are injured every year, and 13 have died since records began in 1925.

But this year, Spain's economic crisis has cast a shadow over the fiesta. Visitor numbers are down and prices are lower. Merchants who usually make a killing serving hordes of sangria-swigging patrons are bemoaning weaker sales. Local businesses report that more tourists are trading down to cut costs; buying cheap food and alcohol from supermarkets and gathering on the streets rather than cruising the taverns. Hotel room rates have slumped because of the lower demand.

Eioghan Tuckey, an Irish-born entrepreneur who has been running bars and restaurants in Pamplona for 12 years, says local business owners have been taken aback by the slide in demand.

"People weren't expecting it to hit as hard as it has. ... Less visitors have come this year, and those that still made it aren't spending money—people are coming into my restaurant asking for a glass with ice because they've bought their drinks from elsewhere," he says. "I think a lot of bars will shut down after the fiesta because they haven't made the money they expected to—morale here is sinking fast."

Hard data on footfall and spending at San Fermines, which finishes in the early hours of Thursday morning, aren't available. But evidence suggests the Spanish economic crisis has finally caught up with the fiesta.

Pamplona's city hall has cut the 2010 festival budget by more than 10%, to €2.5 million (around $3 million), and two Spanish TV networks that had been battling over rights to broadcast the morning bull runs have agreed to screen them jointly to save money.

The hospitality association of Navarra, the region in which Pamplona is located, concedes that though the festival has shown resilience in previous recessions, this year will be different.

"Previously, the festival has seemed immune to recession—but undoubtedly the number of people is down this year. ... Businesses here are cautious, and have been reporting fewer customers," says Nacho Calva, the association chief.

Not that you would know that from speaking to many of the revelers who line Pamplona's streets, dressed in white and sporting the bright red neckties that commemorate the beheading in the 4th century A.D. of St. Fermin, the city's first bishop.

"We came here to party—to forget about the economic situation and the difficulty of getting a job for a few days. ... There's nowhere in the world better than San Fermines to forget," says Xavi Bosque, a 23-year-old graduate student from Zaragoza, as he swigs sangria from a replica World Cup trophy.

There is much to forget. Spain is battling its deepest peacetime recession on record and the highest unemployment rate in the euro zone, at 20%. So far this year, the IBEX-35, the key index of the battered Spanish stock market, has slid 14%.

But despite the economic situation and sliding number of visitors this year, devotees of *El Encierro*, as the bull run is known, say it will take more than an economic crisis to stop people coming back to Pamplona.

New York-born restaurateur and celebrated bull runner Joe Distler has come to Pamplona every year since 1967, suffering a horn in his buttocks and broken ribs and arms, and undergoing a hip replacement along the way.

Mr. Distler says that though this year's festival was "empty" in comparison to recent years, the enduring appeal of the bull run will see people return when the economy recovers.

"I can't play baseball in Yankee Stadium or play basketball in Madison Square Garden, but in Pamplona I can run bulls with the greatest runners in the world," he says.

Associated Press

Revelers run on the treacherous Estafeta corner as a Jandilla ranch fighting bull falls during the festival, Wednesday.

Machismo and mayhem are all the fun of the fair

Exactly when or how the running of the bulls started during the festival of San Fermines is unknown. Originally, the festival was held in October—in memory of the patron saint of Navarre and first bishop of Pamplona who was martyred in A.D. 303. Later, from the 14th century, the early summer would see large cattle fairs take place in which bullfighting figured as entertainment.

In 1591, the San Fermines festival was moved to July 7 to be held at the same time as a major cattle fair, and perhaps because the weather at that time of year was better. It is not known when the running of the bulls through the streets developed as part of the festivities, but it is mentioned in 17th-century chronicles. Nor is it known why it started. But since bulls had to be driven through the streets to the bullring for the festival bullfights, it is thought that it developed as a competition between drovers to see who could do this the fastest. The drovers soon realized the bulls would move faster if they were chasing someone, rather than being driven—and no doubt they and the local daredevils also relished the opportunity for a display of machismo.

Basel talks likely to dilute proposals

By Damian Paletta
And David Enrich

Bank regulators and central bankers gathered in the Swiss city of Basel this week for two days of closed-door meetings are poised to dilute proposals floated in December, after intense lobbying from big banks and some governments, so they can reach a global compromise by a November deadline.

Amid wide agreement that banks need to hold bigger capital cushions than they did before the global financial crisis so they can absorb big losses, this week's talks are focused on resolving several key disputes:

What counts as capital? How much should banks be permitted to borrow? How much ready cash should they hold? How flexible should rules be to different national banking systems? How long should banks have to comply with the stiffer standards to avoid an unwelcome credit crunch?

An accord at the Basel Committee on Banking Supervision will have a more global and, in some instances, more potent impact on bank profits, lending and investing than the sweeping financial regulatory bill that the U.S. Congress is expected to pass this week.

"There is all the stuff in the [U.S.] financial reform bill, but this is more important in terms of the direct cost for banks," said Hal Scott, a financial-regulatory scholar at Harvard Law School.

The talks, which conclude Thursday, bring to the table 44 agencies from 27 countries, each with their own priorities. The French are demanding changes that would allow their three largest banks—**Société Générale** SA, **Crédit Agricole** SA and **BNP Paribas** SA—to continue owning insurance subsidiaries without penalty. The Germans and French want banks' minority investments in other institutions to count toward capital standards.

The Japanese have raised concerns about no longer counting deferred tax assets as capital. U.S. officials want U.S. banks, such as **Bank of America** Corp. and **J.P. Morgan Chase** & Co. to continue to be allowed to count mortgage-securitization rights as capital..

Among the major flashpoints is the design of a limit on how much banks can borrow—a "leverage ratio." Negotiators from several countries, including Germany, which is worried about the impact on **Deutsche Bank** AG, want regulators to be given discretion over how rigidly to enforce the new ratio, rather than having binding global rules. Others say that would undermine the intent of the rule. Officials have said they would begin with an "observation period" for the leverage ratio, and there is now a disagreement over what to do after that.

Progress this week in Basel is essential to move toward an agreement in time for G-20 leaders to celebrate when they gather in Korea in November. To reach that end, there's talk among participants and bankers about shelving some contentious issues, an approach that has been dubbed informally "if in doubt, take it out" by insiders. Other provisions may be moved from a must-do section, known as Pillar 1, to Pillar 2, items on which national regulators have more discretion.

The delicate economic landscape in Europe has added complications, amid worries that too-stringent rules will mean less credit. "I think there's a growing feeling among finance ministers that...growth is anemic. Do you really want to threaten a fragile recovery?" Stephen Green, chairman of **HSBC Holdings** PLC, said in an interview. "I think this will end up in a sensible way."

To reduce resistance to the rules and ease the impact, regulators are moving toward allowing banks to "grandfather" portions of existing capital that wouldn't count under new rules and to insulate banks from having to replace certain types of capital. They are also likely to allow between five and 10 years to comply with the new capital rules, according to those close to the talks.

Bankers, and some governments, warn that forcing banks to be overly cautious in an effort to avoid another global meltdown could produce a persistent credit crunch and weaken an already fragile economy. But significant moves by the Basel Committee to back away from its initial proposals to win global agreement will provoke criticism that regulators are caving to industry pressure and missing a chance to impose restraints that could reduce the risk of future costly crises.

The Basel Committee, chaired by Dutch central banker Nout Wellink, sets standards that national regulators are encouraged to adopt. It meets in the 19-story cylindrical office tower that houses the **Bank for International Settlements**, a consortium of the world's central banks. The global financial crisis exposed flaws in bank capital standards issued in 2004 that the new accord, Basel III, is supposed to rectify.

Delegates at this week's meetings discussed studies by Basel staff and others that estimated the likely impact of the proposed rules. They show that the version outlined in December could require banks world-wide to raise nearly $1 trillion in new capital, according to people briefed on the process. That's considerably less than the multitrillion-dollar estimates published by some industry groups, but enormous nonetheless.

Disagreements are fueling speculation that governments may balk at the accord, a notion fueled last week Michel Pebereau, chairman of BNP Paribas. "I think it would be better to have good, adapted regulation in Europe than to try to have a global regulation in which Europe will not be able to have growth in the future.

—David Gauthier-Villars, Marcus Walker and Atsuko Fukase contributed to this article.

The Bank for International Settlements in Basel

Agence France-Presse/Getty Images

Basel basics | A look at the international banking accord under negotiation in Switzerland

UNOFFICIAL NAME	Basel III, which derives from the Swiss city in which the pact is negotiated. The prior two versions were agreed to in 1988 and 2004.	
OVERALL	**The goal:** Require banks to maintain stronger, less-risky financial profiles	**The hitch:** Implementation of the rules is likely to take up to a decade
CAPITAL	**The goal:** Require banks to hold thicker capital cushions to insulate them from losses	**The hitch:** Countries are haggling over definitions and seeking exemptions for local banks
LIQUIDITY	**The goal:** Require banks to hold more long-term, stable funding	**The hitch:** The proposal could cause huge funding shortfalls for banks world-wide
LEVERAGE	**The goal:** Require banks to cut down on risk-magnifying leverage	**The hitch:** Europe wants individual countries to have discretion, rather than a global rule

Spanish premier vows to cut big budget deficit

By Jonathan House

MADRID—Spanish Prime Minister José Luis Rodríguez Zapatero on Wednesday stressed his commitment to cutting the country's yawning budget deficit and revamping its sluggish economy as new Spanish central bank data showed that local banks, largely frozen out of international capital markets, borrowed a record amount from the European Central Bank in June.

"These are momentous, crucial times for Spain—for [its] immediate future and for the coming decades," Mr. Zapatero said in Spain's annual State of the Nation parliamentary debate.

Also Wednesday, **Banco Español de Crédito** SA, or Banesto, kicked off the second-quarter earnings season for Spanish banks by reporting a 14% annual decline in second-quarter net profit to €198.7 million ($251 million), as the result of higher provisions for bad loans and higher funding costs.

Spain is grappling with the collapse of a housing boom that is weighing on the country's banks, has sent unemployment past 20% and opened up a double-digit budget deficit. Following the meltdown of Greece's public finances, investors have become increasingly concerned about problems in Spain, the euro zone's fourth-largest economy, prompting a selloff of euro-zone financial assets. Spain's risk premium—as measured by the yield spread between its 10-year bonds and 10-year German bunds—last month hit its highest level since the creation of the euro in 1999.

The actions put further pressure on Mr. Zapatero, who lacks a parliamentary majority. Parliament passed the austerity measures by one vote in May, and opposition leaders have said they won't support Mr. Zapatero's budget for 2011, which could force him to call early elections by year end. Recent opinion polls show Mariano Rajoy, head of the conservative Popular Party, would win elections if they were held today. Mr. Zapatero, nevertheless, said Spain's economic situation is improving.

Spanish banks raised €126.3 billion in funding from the ECB in June, up 48% from €85.62 billion in May, according to data the Spanish central bank published Wednesday. The June borrowings are the largest on Bank of Spain records dating back to 1999.

—Christopher Bjork contributed to this article.

■ Banesto shows healthiest lenders can still post robust earnings. 19

Credit Suisse offices raided

Continued from first page

chase tax evaders. In March, **HSBC Holdings** PLC disclosed that a former employee had handed over to French officials account details for 24,000 current and former clients of its private bank. Since then, Spain and Italy have begun tax-evasion inquiries using information they received from the French.

The decision to purchase bank data from confidential sources is controversial in Germany because theft cannot be ruled out. Uwe Dolata, a senior police detective and financial-crime spokesman for the Association of German Police Detectives, says German police routinely pay confidential sources who assist in solving major crimes.

"Abetting hundreds of cases of tax evasion would be a major crime," Mr. Dolata said. The choice, he said, is between paying the informant or allowing tax evasion to go unpunished.

The Credit Suisse case involves data on one or more CDs purchased from an informant in February by finance ministry officials in North Rhine-Westphalia. The information included bank-client account data from an unnamed Swiss bank, according to a person familiar with the purchase.

Johannes Mocken, spokesman for prosecutors, confirmed that the investigation began this year based on information contained on a CD. He declined to provide details on how his agency obtained the initial evidence.

Düsseldorf prosecutors are conducting tax-evasion investigations against about 175 residents of North Rhine-Westphalia, based on evidence contained on the CD. Düsseldorf prosecutors have passed on evidence from the CD to colleagues in other German states who have opened more than 900 related investigations, Mr. Mocken said.

An evaluation of the client data contained on the CD led prosecutors to suspect that Credit Suisse staff in Germany assisted tax evasion. However, Mr. Mocken said the evidence on the CD is incomplete. For example, it doesn't contain the names of the Credit Suisse employees.

EUROPE NEWS

Associated Press

A nationalist tries to attack police in the Ardoyne area of Belfast on Tuesday.

Belfast violence due to social ills

By Quentin Fottrell

DUBLIN—Nights of rioting in Belfast, Northern Ireland, involving children as young as nine, have more to do with the social and economic problems plaguing the U.K. province than widespread political unrest in the wake of the annual July 12 Protestant marches, observers say.

In recent days, images flashed around the world of police trying to control violence in the mainly Catholic Ardoyne area of North Belfast, with crowds throwing petrol bombs and makeshift barricades set alight by protesters.

But authorities called the civil unrest "recreational rioting."

They say the riots, which have left more than 80 police officers injured, were due to a small group of dissident Republicans who hope to spark a return to the political violence of the past but lack the support of the Republican Sinn Fein party or the majority of Catholics in Northern Ireland.

Micheal Martin, the Irish Republic's minister for foreign affairs, said Wednesday that the rioters are accidental partitionists—those who support the separation of Northern Ireland from the rest of the island of Ireland rather than supporting the long-term goal of a united Ireland. "Sadly, those in the front line of public disorder appear to be mostly young people from disadvantaged areas looking to break the boredom of a long and inactive summer," he said.

"The fact that significant rioting has continued in Belfast and elsewhere and that we witnessed an attack, involving robbery, arson and vandalism, on a train carrying innocent civilians through Lurgan is evidence of sinister forces at work," Mr. Martin added.

Social-networking websites used to rally young people and a long, hot summer in areas with high unemployment have proved an explosive mix. While unemployment fell 0.1% in the U.K. as a whole in the three months to May, it rose 0.6% in Northern Ireland, the latest official data show. And while Northern Ireland's overall unemployment rate of 7% is lower than the 7.8% rate in the U.K. as a whole or 13% in the Republic of Ireland, analysts say it's much higher in disadvantaged areas of Belfast.

Alistair Finlay, assistant chief constable at the Police Service of Northern Ireland, Wednesday criticized Northern Irish First Minister Peter Robinson of the Democratic Unionist Party and Deputy First Minister Martin McGuinness of Sinn Fein for not taking the lead and speaking out against the violence sooner.

"I am disgusted at the outright thuggery and vandalism that has taken place over the course of the last 48 hours," Mr. Robinson said in a statement. "There is no excuse and no place for violence in civilized society."

Mr. McGuinness, a former member of decommissioned armed dissident group the Provisional Irish Republican Army, said he and Mr. Robinson were working on legislation to deal with "contentious" political parades: "Our experience demonstrates that the way to deal with any disputes or contention is through dialogue and agreement."

The 1998 Belfast Agreement established a Northern Irish assembly, but violence still occasionally breaks out during the Protestant marching season, which marks Prince William of Orange's victory over the Catholic King James II at the Battle of the Boyne in 1690.

Father Gary Donegan, a priest in Ardoyne, told BBC Radio that young boys and girls took part in the riots, then posted their photographs online. "I was directly confronted by a nine-year-old," he said. "It was a bit like a Euro Disney theme park for rioting. It was just ludicrous."

EUROPE NEWS

Rush to print | Some of the U.K.'s most powerful Labour figures are penning their memoirs, or considering doing so, now that the party is out of power

Peter Mandelson
Key ally to both Blair and Brown, now in House of Lords
Book: 'The Third Man,' out Thursday

Tony Blair
Prime minister, 1997–2007
Book: 'The Journey,' out in September

Gordon Brown
Prime minister, 2007–May 2010
Understood to be working on a book, no set release date

Alistair Darling
Chancellor of the exchequer under Brown
Has said he is considering writing a book

Alastair Campbell
Blair's communications chief
Book: Updated version of diaries, out in volumes throughout 2010

Sarah Brown
Brown's wife
Book: 'Behind the Black Door' (working title), out in 2011

L-R: Agence France-Presse, European Pressphoto, AP, Reuters, Getty Images (2)

The Labour Party's losses, writ large

By Alistair MacDonald

Senior figures from Britain's former Labour government are already churning out tell-all memoirs, just two months after their party's 13-year run in power ended—and judging from the first major title out of the gate, it appears that Labour's political exile will begin with its former leaders carving each other up.

The first in an expected flood of memoirs—"The Third Man," by former business minister Peter Mandelson—will be published Thursday by **News Corp.**'s HarperCollins unit. (News Corp. owns Dow Jones, publisher of The Wall Street Journal.) In the book, Lord Mandelson, nicknamed "the Prince of Darkness" for his alleged manipulation of the press and his colleagues, lives up to the moniker with some painful revelations about the two prime ministers he served, Tony Blair and Gordon Brown.

Lord Mandelson beat his senior colleagues into print, but they will have the opportunity to return fire in months and years to come. Mr. Blair's memoir, "Tony Blair: A Journey," is set to be published Sept. 1 by Hutchinson, a U.K. imprint of **Bertelsmann** AG's Random House. Mr. Brown and his wife, Sarah, are writing their own books, and former finance chief Alistair Darling is mulling his own version of events.

Lord Mandelson's book—which will be published later in the U.S.—doesn't make pretty reading for Messrs. Blair and Brown. The former business minister and one of the chief architects of the political movement known as New Labour depicts an explosive and dysfunctional relationship between then-Prime Minister Blair and his Treasury chief, Mr. Brown.

Mr. Blair is portrayed as at times indecisive and weak, unable to keep Mr. Brown at bay as he pressured his friend Mr. Blair to leave No. 10 Downing St. so Mr. Brown could take the prime minister's job.

Before Labour won power in 1997, Messrs. Brown and Blair made a number of informal deals in which Mr. Blair would become Labour Party leader but cede swaths of domestic policy to Mr. Brown, according to Lord Mandelson, in an account backed by others; once in power, Mr. Blair would move aside at the end of the party's second term.

These agreements—and Mr. Brown's belief that Mr. Blair had reneged on the deal—poisoned their relationship and British politics for a decade, according to Lord Mandelson's account. Mr. Blair made way for Mr. Brown in 2007, in the middle of Labour's third term, when Mr. Brown walked into Downing Street just as the global downturn began.

According to the book, Mr. Blair likens Mr. Brown to a "Mafiosi" who was "mad, bad and dangerous.

"There is no one to match Gordon for someone who articulates high principles while practising, the lowest skulduggery," Mr. Blair is quoted by Lord Mandelson as saying.

Mr. Brown comes across in the book as paranoid and bad-tempered, a headline-obsessed politician who repeatedly clashes with his own ministers, including Mr. Darling.

Spokesmen for Messrs. Blair and Brown declined to comment.

Labour lawmakers have been split in their reactions to Lord Mandelson's book. Some say it merely confirms what political insiders and newspaper readers have long known; others have criticized the book for charting the party's fractious nature, which they see as an act of disloyalty.

Mr. Blair's former spin doctor, Alastair Campbell, challenged Lord Mandelson's version of events.

"In getting out his version of the election aftermath, he could have done worse than ask to see my diaries of the time," Mr. Campbell wrote on his blog.

That won't be hard: Immediately after the U.K.'s May election, Mr. Campbell issued an updated and unexpurgated version of his previously published diaries. He plans to release further volumes with the details he previously held back because they might have damaged the party while it was still in power.

After Lord Mandelson's book, the next major release will be "Tony Blair: A Journey," which Mr. Blair's publisher, Hutchinson, promises will provide "an insight into the man, the politician and the statesman, charting successes, controversies and disappointments with an extraordinary candour."

Peter MacDonald, an academic at Oxford University who has written on the publishing industry, says political biographies can command large sales and advances in the U.K., but the coming glut of them may "put the market under huge pressure."

Competing with Mr. Blair's book, with a release the same day, will be "Decline and Fall," the diaries of one of his former ministers, Chris Mullin.

"It is getting fairly crowded, but I have a niche of my own," Mr. Mullin says. The retired lawmaker says former party leaders and the most senior ministers always use their memoirs to justify their careers, whereas his book is a more irreverent view of politics from a lower rung.

The releases add to a New Labour bookshelf already brimming with memoirs from officials who left government earlier, and from their wives. This includes Mr. Blair's wife, Cherie, and the biographies of former Home Secretary John Prescott and his wife, Pauline.

While the books rake over Labour's past, they may also affect its future: The party is currently looking for a new leader. In his book, Lord Mandelson talks of the negative effect on Mr. Blair's government of briefings by Mr. Brown's closest aides. They include Ed Balls, Mr. Brown's closest adviser for a decade, who is now a contender for the party leadership. Mr. Balls has denied that he played a negative part in government.

British jobless claims decline

By Ilona Billington

LONDON—The U.K.'s two main measures of unemployment both fell in June and May, while employment rose by the largest amount in almost four years, data showed.

The developments will be welcome news to the coalition government ahead of spending cuts that are expected to result in a sharp cut in public-sector jobs.

The Office for National Statistics said the widely watched claimant-count measure of unemployment fell for a fifth straight month in June, by 20,800 to a 15-month low of 1.46 million, bringing the jobless rate to 4.5%. The rate was the lowest since February 2009 and was roughly in line with economists' expectations.

That compared with a 31,100 drop and a rate of 4.6% in May. The ONS revised its claimant-count estimate for May after originally reporting a decrease of 30,900.

Meanwhile, the international measure of unemployment also fell.

The ONS also reported that employment rose 160,000 in the three months to May to 28.9 million, the largest increase since August 2006.

"While the latest labor market data is broadly encouraging, we have significant concerns about the jobs outlook," said Howard Archer, chief U.K. and euro zone economist for IHS global Insight. "Unemployment may very well continue to fall in the near term, but there is a very real danger that it will start to head back up later this year and then increase in 2011."

The government's new budget watchdog, the Office for Budget Responsibility, forecasts that total unemployment will rise this year but should fall from 2011 through 2015.

The data, while encouraging, revealed some worrying trends. There was a rise of 279,000 in part-time workers in the three months to May from a year earlier to 7.8 million. That is the largest level and percentage—around 26%—of the work force in part-time jobs since records began. This partly explains the better-than-expected numbers.

U.K. taps defense chief

Associated Press

Associated Press

Gen. David Richards

LONDON—Britain's Ministry of Defense said Gen. David Richards, the head of the British Army, will become chief of the defense staff in October. The post is Britain's most senior military commander.

Gen. Richards, a former NATO commander in Afghanistan, is taking over from Air Chief Marshal Jock Stirrup, who is leaving the top position six months early. Sir Jock was appointed by Britain's Labour government, which lost power in May's general election to a Conservative-Liberal Democrat coalition.

Prime Minister David Cameron congratulated Gen. Richards and thanked Sir Jock, who he said "served with real distinction." The defense ministry said that it hasn't been decided who will take over from Gen. Richards in the army.

Gen. Richards said last month that he believes talks with the Taliban should begin "pretty soon." U.S. officials have expressed skepticism about such timing, because the insurgents believe they are winning.

U.S. NEWS

Rousing the animal spirits of business

[Capital]

By David Wessel

Optimistic forecasters say the U.S. economy is likely to grow at a bit better than a 3.5% annual pace over the next 12 months, but even they say that will leave unemployment at a still-high 9% or so a year from now. The moderately pessimistic, whose ranks are growing daily, foresee growth a full percentage point or more slower. The seriously pessimistic are talking "double dip."

A new Wall Street Journal survey finds that nearly half of 46 private forecasters queried said the U.S. won't return to 5.5% unemployment until 2015 or later.

The surest way to bring the unemployment rate down faster is for the U.S. economy to grow more rapidly. On that score, a scan of the economic landscape is discouraging.

Consumer spending? That seems unlikely to propel the economy to 4% or better growth if wage increases are scarce and Americans remain shell-shocked by the collapse in housing prices and the ups and downs of 401(k) retirement accounts. Housing? It may rebound in percentage terms, but from a very low level. Exports? The rising U.S. dollar and sluggishness in Europe don't bode well.

Government? The oomph from federal fiscal stimulus is fading, and Congress isn't interested in administering another dose. State and local governments, meanwhile, are cutting spending and raising taxes.

It's an extraordinary moment: With nearly five jobless workers for every job opening, their home states cutting staff and services and the outlook darkening, Congress—clearly noting public antipathy to government spending—has decided to talk about, not act on, reducing the budget deficit and go home for the summer. Federal Reserve officials are at least contemplating contingency plans, though Fed Chairman Ben Bernanke appears disinclined to do anything soon, given divergent views among his colleagues.

Which leaves business.

Business investment accounts for only 10% of gross domestic product, but moves up and down significantly with executives' outlook for the economy, the availability of credit and what John Maynard Keynes, the 20th-century economic giant, famously labeled "animal spirits," now known by the more clinical term "confidence." One thing—perhaps the only thing—that could quicken the pace of economic growth would be for businesses to turn optimistic and invest and hire.

That's why talk of big business being ticked off at President Barack Obama, and being somewhere between confused and outraged about tax, health, energy, environment and trade policy, is more than just gossip. A lot of business executives seem to be at a tipping point. If they're feeling good and the economy is perking up, more will pursue new investment or hiring. If they're depressed by talk of a double-dip recession, fiscal austerity and beating up on business—whatever the merits of the specifics—they won't.

Other than attempts at smoothing executives' ruffled feathers with photo ops and task forces, what might government do to spur investment and hiring? The president, for good reason, is focused on vexing long-run problems like energy, climate change, immigration and education. But none of those are likely to produce more jobs and business investment in 2011.

The fundamental problem is clear in the accompanying chart. After a borrowing binge, the U.S., particularly consumers and financial firms, are trying to reduce their debts. The question is how fast to let that happen. The cold-turkey approach, a rapid deleveraging, means a very weak economy. Government policy has been aimed at slowing the pace of deleveraging by increasing government borrowing to offset shrinking private borrowing. Now that is no longer politically feasible.

"At a time when many people are trying to cut back in their personal lives, it is difficult to persuade the public that driving up the deficit is a good idea—even though it actually is a good idea, especially if combined with a clearer plan for long-term consolidation," Goldman Sachs economist Jan Hatzius wrote recently.

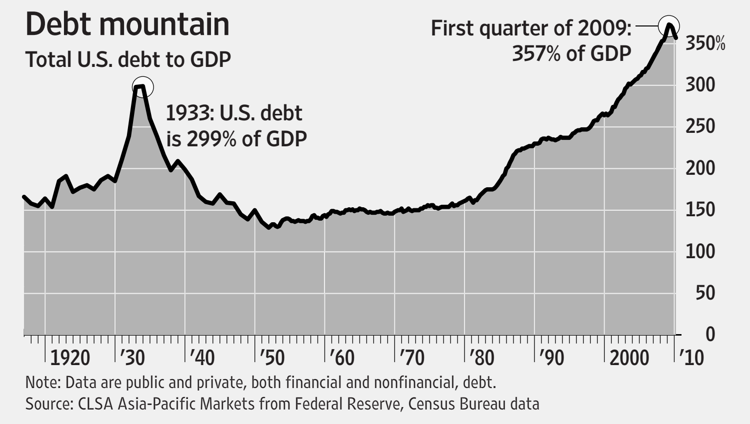
If more deficit-widening stimulus is a non-starter, then what? Look for more politically palatable alternatives to gain favor if the economy deteriorates. The weaker the economy, for instance, the more likely Congress will be to renew the Bush tax cuts for a year, despite the deficit talk, to avoid the braking effect of letting taxes rise in 2011.

There's talk in Washington about a federal highway and surface transportation bill, the one form of spending about which some deficit-phobes are enthusiastic. Or perhaps a public-private infrastructure fund of some sort that would leverage taxpayer money and draw some cash out of corporate coffers, and might help beleaguered state governments at the same time. Or, with BP replacing Goldman Sachs as the corporate villain of the month, perhaps there will be a move to raise taxes on oil companies (which might become a stealth gasoline tax) and use that money to cut other taxes to encourage hiring or business investment—a "deficit-neutral" way to spur growth.

Or perhaps there will be quiet talks with bank regulators about not moving too rapidly to implement new rules for banks being negotiated at Basel.

Or perhaps there will be talk—never advertised, of course—of the administration backing away from tightening some regulations that, though popular with Democratic voters, may be more economically costly than proponents admit.

The moment for watchful waiting is passing.



Note: Data are public and private, both financial and nonfinancial, debt.
Source: CLSA Asia-Pacific Markets from Federal Reserve, Census Bureau data

Fed policy makers discussed new stimulus

By Tom Barkley

Federal Reserve policy makers raised the possibility at last month's policy meeting that further monetary stimulus may be needed if the U.S. economy shows more serious signs of slowing.

Given the "relatively modest" worsening in the economic outlook, Fed board members agreed that no further accommodation was needed at the time, according to minutes of the June 22-23 policy-setting meeting released Wednesday.

However, members said they would need to consider further stimulus "if the outlook were to worsen appreciably," according to the minutes, which were released with the usual lag. The Fed officials also trimmed their 2010 growth forecasts at the June meeting for the first time in more than a year, saying a soft job market will restrain growth.

In a sign consumer spending is slowing and draining steam from the economy, the Commerce Department reported Wednesday that U.S. retail sales fell for a second straight month in June.

Retail sales fell 0.5%; economists surveyed by Dow Jones Newswires had forecast a 0.3% decline. The bigger-than-expected drop followed an upwardly revised 1.1% drop in May. Originally, May sales were estimated falling 1.2%.

Meanwhile, U.S. business inventories rose again in May, but under expectations, signaling concern that consumers may spend more conservatively as the pace of recovery slows.

Last month's statement by the Federal Open Market Committee was more downbeat than in previous meetings, as the job market recovery was starting to show signs of weakness and European turmoil was making financial conditions "less supportive" to the economy.

While much of the talk of the previous meeting, in April, had focused on when the Fed would start selling the $1.25 trillion of mortgage-backed assets it had bought up during the crisis, talk of taking additional steps to support the economy resurfaced at the June meeting.

However no board members brought up possible concrete steps, such as reviving asset purchases, according to the minutes.

Instead, there was a general consensus that asset sales should be put on hold for a while given the potential upward pressure that could put on interest rates, though a few members supported starting the sales fairly soon.

"Most participants continued to judge it appropriate to defer asset sales for some time; several noted the modest weakening in the economic outlook since the Committee's last meeting as an additional reason to do so," the minutes said.

So far, the Fed has let the mortgage-related debt it acquired mature or get paid off without reinvesting the proceeds, while rolling over its holdings of maturing Treasury securities into new Treasurys of similar maturity.

The Fed plans to start selling its mortgage assets to return to an all-Treasury portfolio, with most members continuing to believe that should happen only after starting to bring short-term rates up from all-time lows.

At the June meeting, some officials suggested using the proceeds from mortgage sales to buy Treasurys of comparable duration to speed the transition without tightening financial conditions.

The Fed also discussed changing the strategy for dealing with Treasury holdings, though no decisions were made.

One member favors halting any reinvestments to shrink the balance sheet more quickly.

"Many saw benefits to eventually adopting an approach of reinvesting in bills and shorter-term coupon issues to shift the maturity composition of the portfolio toward the structure that had prevailed prior to the financial crisis," the minutes said.

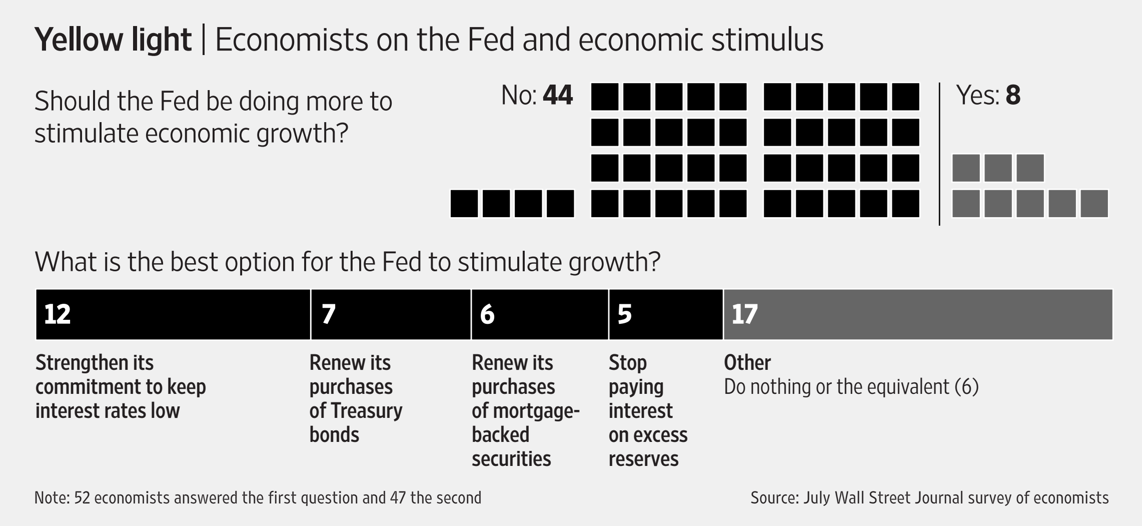
Recent disappointments in the job market and broader economic front have pushed back market expectations of future tightening well into next year and fueled speculation that the Fed will need to resume asset purchases.

In addition to a resumption of job losses and the decline in retail sales last month, reports showing a widening trade gap and slower inventory buildup have convinced economists to mark down their second-quarter growth forecasts. Weak price pressures, including a second straight drop in import prices last month, have even raised the specter of deflation.

Along with the minutes of its June 22-23 Federal Open Market Committee policy meeting, the Fed on Wednesday released new projections for gross domestic product, the broad measure of economic activity.

Fed officials projected GDP would rise in a range of 3.0% to 3.5% this year. That is down a little from its last projection made in the spring of 3.2% to 3.7% growth. The last time the Fed officials lowered their growth forecast for 2010 was April 2009.

—Jeff Bater contributed to this article.

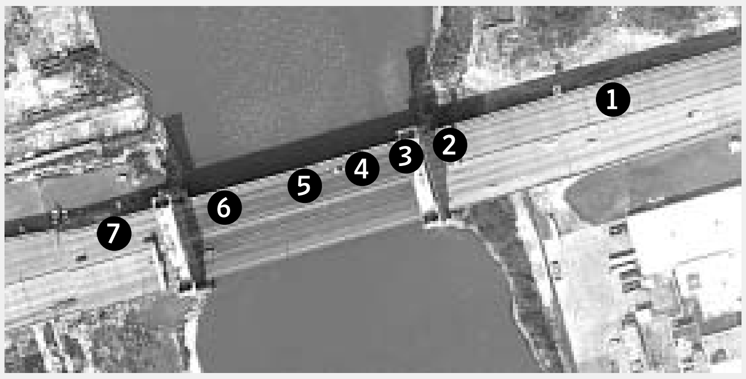


Note: 52 economists answered the first question and 47 the second
Source: July Wall Street Journal survey of economists

Bridging accounts of killings

Federal prosecutors charged six New Orleans police officers in a probe of shootings on the Danziger Bridge that killed two people and wounded four others.

This account of the Sept. 4, 2005, shootings, by Officer Michael Hunter, who was present, comes from court documents:



Note: Locations are approximate, based on Michael Hunter's testimony
Source: Justice Department; Bridge image: Google Earth

1. Hunter and officers working from a temporary station at the Crystal Palace reception hall respond to a radio call of shots fired at police near the Danziger Bridge. They drive west to the bridge in a Budget rental truck.

2. Hunter sees people 'casually walking on the roadway of the bridge' and fires a warning shot. The people scatter and hide behind concrete barriers.

3. Hunter stops the truck, and **Sgt. Kenneth Bowen** fires an assault rifle toward the people.

4. Sgt. Robert Gisevius fires an M4-type assault rifle, and **Hunter** fires his handgun toward civilians running toward the crest of the bridge. After seeing no threat from the people hiding behind the barrier, **Hunter** shouts, 'Cease fire.' Shortly after, **Officer Robert Faulcon** fires repeatedly at the people 'in a sweeping motion.'

5. Hunter and **Bowen** drive to the crest of the bridge where they meet **Gisevius**. **Gisevius** says the people running on the west side of the bridge fired at him. They enter an unmarked car driven by an officer of the Louisiana State Police and drive west across the bridge.

6. The officers see three men running near the foot of the bridge.

7. Two of the men, brothers **Lance and Ronald Madison,** run down the right side of the road. As the unmarked car pulls to a stop, **Faulcon** fires a shotgun round at the back of **Ronald Madison** as he runs away. **Madison** is later pronounced dead along with **James Brissette**.

Six officers charged in shootings

By Evan Perez
And Devlin Barrett

NEW ORLEANS—U.S. prosecutors Tuesday charged six current or former police officers in connection with shootings on a bridge in New Orleans that left two dead and four wounded in the chaotic aftermath of Hurricane Katrina.

Victims and witnesses accused the police of firing indiscriminately and without warning on civilians on the Danziger Bridge in New Orleans on Sept. 4, 2005. Officers initially claimed the shootings were justified because they were fired upon, but federal prosecutors said the officers were not in danger and the civilians were not armed.

On Wednesday, three officers—Sgts. Robert Gisevius and Kenneth Bowen and Officer Anthony Villavaso—pleaded not guilty, the Associated Press reported. They will remain jailed at least until a hearing Friday, the AP said.

The racially charged case has become perhaps the most vivid and painful example of the confusion and lawlessness that pervaded the city after the storm. Most of the officers involved are white; the victims on the bridge were mostly black.

The case is one of several from the Katrina aftermath that have remained under investigation as the city nears the fifth anniversary of the storm. A state prosecution of the officers collapsed.

Attorney General Eric Holder, appearing at a news conference in New Orleans, said the unsolved cases arising from Katrina were among the first things he inquired about when he took office in 2009. "We will not tolerate wrongdoing by those who have sworn to protect the public," he said.

Charged with the shootings and alleged civil-rights violations are: Messrs. Bowen and Gisevius, Robert Faulcon, and Mr. Villavaso. Charged in an alleged cover-up of the shootings are Arthur Kaufman and Gerard Dugue.

Court documents filed by Justice Department prosecutors provide clinical details of an alleged shooting spree by law enforcement officers, based largely on statements from officers who have pleaded guilty to their own roles.

Times-Picayune/Landov

Lance Madison is arrested after a shootout on the Danziger Bridge as violence erupts in the wake of Hurricane Katrina.

The incident began when officers piled into a Budget rental truck to respond to a radio report of shots fired around the bridge. One officer allegedly shot a severely mentally disabled man in the back. Another kicked the man as he lay dying on the ground, prosecutors allege.

Prosecutors say that Messrs. Kaufman and Dugue, supervisors in the department, joined the four officers to falsify a police report and investigation of the incident. Mr. Kaufman brought a gun from home and claimed to have found it on the bridge that day, and then created fictitious witnesses to bolster the police version of events, the indictment alleges.

One police lieutenant told a fellow officer something to the effect of, "We don't want this to look like a massacre," according to the documents.

But federal prosecutors won the cooperation of five officers who admitted to helping orchestrate a cover-up of what a federal judge called the "raw brutality" of police that day.

In April, one of the cooperating officers, Michael Hunter, appeared in court to plead guilty to conspiracy to obstruct justice. Mr. Hunter read from a document, known as a factual basis, which describes his version of the events that day.

He said that as the officers approached the bridge they saw a handful of people casually walking across. Mr. Hunter said warning shots were fired out the window of the truck and people scattered, some jumping behind a concrete barrier separating the road from the pedestrian walkway. None appeared to have weapons.

That's when another officer began firing an assault rifle toward the civilians taking cover. The officer is identified in the Hunter plea documents as Sergeant A. Other documents filed identify the firing officer as Mr. Bowen.

Mr. Hunter, armed with a handgun, and another officer, with an M4-type assault rifle, began firing at other civilians who were running westward away from the officers. None of the civilians appeared to be armed. Mr. Hunter said he then ordered police to "cease fire."

Frank DeSalvo, the lawyer for Mr. Bowen, accused prosecutors of dangling the death penalty to try to keep the defendants from getting released on bond.

"All along, they've been trying to crack these guys to get them to say things that aren't true," Mr. DeSalvo said. "I'm not worried about them getting the death penalty. They ought to be worried about getting a conviction. There's a lot of imagination in this indictment."

A lawyer for Mr. Faulcon did not return calls seeking comment, while an attorney for Mr. Dugue said: "It is a tragedy that Gerard Dugue was indicted. He is going to fight this to the end." Mr. Kaufman's lawyer, Stephen London, did not immediately respond to phone messages. Eric Hessler, a lawyer for Mr. Gisevius, said the indictment wasn't a surprise, the AP reported. "We're certainly ready to begin the process of defending him."

Gary Bizal, a lawyer representing one of the wounded civilians, Jose Holmes, called it "incredible" that prosecutors were able to flip so many of the police suspects to get their testimony. "Because there were so many people involved, that may have made it a little easier to get to the bottom of it all," he said.

The charges come as Justice Department civil rights division lawyers, at the invitation of New Orleans Mayor Mitch Landrieu, conduct a broader probe of the New Orleans Police Department to root out what he called endemic corruption of a department plagued by incompetence long before Katrina.

Mary Howell, attorney for the family of Ronald Madison, the 40-year-old disabled man killed at the Danziger bridge, said many in the city hope the Justice Department and the city can make long-term fixes to the police department. "This is a deeply troubled department," she said.

Pentagon to Congress: Get moving on budget

[Washington Wire]

It's now an annual ritual within the Department of Defense: As the end of the fiscal year draws closer, the Pentagon's leadership pleads with Congress to pass a wartime supplemental budget.

This year is no exception. Secretary of Defense Robert Gates recently warned that the department would have to start doing "stupid things"—shifting funds from operations and maintenance accounts within the regular budget to pay for military operations in Afghanistan and Iraq—if the $33 billion bill wasn't passed by the July 4 recess.

That deadline came and went, and Mr. Gates visited Capitol Hill this week to deliver a message: This time we really mean it.

Passage of the bill, which would in part pay for the increase of troops in Afghanistan, has stalled in part over Republican objections to domestic spending provisions that were tacked on to the House-passed version. Following a meeting Tuesday with Mr. Gates, Sen. Mitch McConnell (R., Ky.), the Senate Republican leader, took a swipe at Democrats in the House.

"He wanted us to pass it before the Memorial Day recess, and the Senate did pass it before the Memorial Day recess," Mr. McConnell said. "The Democrats in the House have added—put a lot of add-ons on top of it, and sent it back to us again."

Mr. Gates has now delivered a new deadline. According to Mr. McConnell, the Pentagon chief said the supplemental "has to be done by the end of this month" or the Pentagon will not be able to keep paying the troops. Also, defense contractors are worrying about possible delays or interruptions in contracts.

—Nathan Hodge

A Palin re-engagement

News that may not thrill 2008 Republican vice presidential candidate Sarah Palin: Daughter Bristol is engaged to Levi Johnston, the father of Bristol's baby who spent much of 2009 dishing on the former Alaska governor.

"We got engaged two weeks ago," 19-year-old Bristol told celebrity tabloid US Weekly. "It felt right, even though we don't have the approval of our parents."

Bristol and Levi were engaged during the 2008 campaign, but broke up shortly afterwards. Levi said the romance was rekindled three months ago as they worked out custody plans for son Tripp.

Sarah Palin and husband Todd released a statement read on NBC's "Today" show. "We obviously want what's best for our children," they said. "Bristol believes in redemption and forgiveness to a degree most of us struggle to put in practice in our daily lives."

—Susan Davis

WORLD NEWS

Karzai endorses use of village forces

By Alan Cullison
And Habib Zahori

KABUL—The Afghan government endorsed a controversial U.S. plan to establish village security squads around the country, in a bid to create a grass-roots counterbalance to the resurgent Taliban.

The development comes amid rising coalition casualties throughout the country. Eight U.S. soldiers died late Tuesday and Wednesday in attacks across southern Afghanistan, where the North Atlantic Treaty Organization is deploying thousands of fresh troops.

The government had long balked at the idea of empowering local security forces, fearing they could end up fostering regional armies and warlords, and ultimately feed the insurgency. But the U.S., which has been testing the strategy on a small scale, has wanted to expand it.

U.S. Gen. David Petraeus, who was named commander of NATO forces in Afghanistan two weeks ago, pushed for the plan, having overseen the use of local forces as a centerpiece to counterinsurgency in Iraq.

In daily meetings with Afghan President Hamid Karzai at the presidential palace in Kabul, Gen. Petraeus was able to overcome Mr. Karzai's doubts, officials close to the matter said.

On Wednesday, Mr. Karzai's security council broadly endorsed a plan. The government released few details, but said the new forces will fall under the command of Afghanistan's Interior Ministry. Mr. Karzai ordered the interior minister to draw up a command structure.

Western officials have cast the planned police forces as akin to neighborhood watch groups whose members will be lightly armed, locally recruited, and on a government payroll.

The new village squads are intended to make up for the failure of Afghan security forces—especially police—to control remote districts.

Reuters

Afghan police forces in Kabul. A new plan will set up village police squads in remote locales regular police don't reach.

Officials said the plan to establish local police forces would be overseen by the government and by U.S. Special Operations forces, who will provide training. "Our pledge is that it will be an Afghan-led effort, to prevent it from getting out of control," said German Brig. Gen. Josef Blotz, spokesman for NATO in Afghanistan.

Gen. Petraeus saw local forces in Iraq effectively counter a Sunni insurgency during the darkest moments of the war there. In Afghanistan, U.S. special forces have been keen to foster similar groups, but so far have done so only on a small scale.

Gen. Blotz said that 7,500 personnel would initially be recruited, in districts where Afghan national police are absent.

More details are expected after the government hosts an international conference on aid to Afghanistan in Kabul next week.

The Afghan government has stressed that it only wants to see the local police forces fostered as a stop-gap measure, and that they will be absorbed into the national police and army as security improves.

Afghan officials say the populace also needs to be persuaded to support the plan. Militias of any kind are a highly charged issue because of Afghans' brutal memories of armed groups that pillaged the country during its nine-year civil war. Many of those groups were handed their first weapons by the Soviet-backed government, who fostered the militias to fight U.S.-financed mujahedeen.

But U.S. officials insist that some local armed forces have proved highly effective, such as a unit in Paktika profiled in an article in The Wall Street Journal earlier this month, and in one locale in the Arghandab district of Kandahar, which has been a traditional bastion of Taliban strength.

The broader question is whether such groups can be deployed on a larger scale without creating havoc.

Parliamentarian Nadir Khan Katawazai, who represents Paktika Province, said local armed groups will improve security if the Americans and the Afghan government are careful about the local dynamics and traditions of Afghanistan.

"If these groups are allowed to operate without supervision, it will pose a danger to Afghanistan's future and will be an utter failure," said Wahid Mujhda, an independent Kabul-based analyst.

Coalition commanders are under pressure for a quick fix in Afghanistan as reports of casualties fuel opposition to the war in NATO countries.

In the attacks Wednesday, Three of the Americans were killed when an insurgent rammed a car laden with explosives into the gate of an elite police force headquarters in Kandahar city Tuesday night. Other insurgents followed with a small-arms attack.

The other five Americans were killed in a firefight and an attack using an improvised bomb that demolished their vehicle.

Nine Afghan civilians also died in Helmand province when their vehicle hit an improvised mine, officials said Wednesday.

While the coalition says security has improved in the province since a surge in coalition troops earlier this year, progress is slower than expected. This week the Afghan government replaced its governor for Marjah, an area coalition forces seized from insurgents in the first major offensive of the surge earlier this year.

A spokesman for Helmand province said that the official, Abdul Zahir, had been replaced because of dissatisfaction with the speed of overhauls. At the time his appointment by the Afghan government, Mr. Zahir had been showcased by the coalition as a professional who could help quickly deploy a "government in a box" in Marjah.

NATO's enthusiasm for Mr. Zahir cooled when it was discovered he had served four year in a German prison for attempted second-degree murder.

India to launch new effort against rebels

By Vibhuti Agarwal

NEW DELHI—The Indian government, faced with an increasingly violent insurgency, proposed Wednesday to increase and coordinate efforts to counter Maoist rebel activity across a vast swath of central India.

The proposed "unified command" would pool resources in the four states worst affected by the Maoist group, also known as Naxalites after the village of Naxalbari in the state of West Bengal where the insurgency began in 1967. No timeline was given for the formation of the coordinating body.

The Indian home ministry also pledged to put more government resources at the disposal of the states, but stopped short of engaging the military or of taking the lead in anti-insurgency measures.

For the past few months, the government has been deliberating about how to stem the Naxals' expansion after several setbacks to police and paramilitary forces, including the murder of 76 paramilitary troops in the Dantewada district of the central Chhattisgarh state in April. The attack was the rebels' deadliest.

From January to June, there have been 1,103 incidents of violence perpetrated by the left-wing extremists, according to a home-ministry statement released Wednesday. Some 209 members of security forces lost their lives, while 97 extremists were killed and 1,341 apprehended.

The government has debated whether to deploy troops against the rebels but recently decided against it, maintaining its overall position that the matter was an internal one for states to handle with police and paramilitary forces.

But Home Minister P. Chidambaram told reporters Wednesday that, "the efforts of the state governments assisted by the central paramilitary forces have met with mixed results" in view of the increased violence over the past six months.

He asked the governments of Chhattisgarh, Jharkhand, Orissa and West Bengal to create a unified command force for carrying out anti-Naxal operations. The home ministry would assist state governments by sharing intelligence, funding the modernization of police forces and providing logistics and other support, he added.

The government will appoint a retired army officer to head the unified command force. It will also deploy special police officers and offer more helicopters to help with the movement of security forces, supplies and evacuated populations.

European Pressphoto Agency

Indian soldiers inspect the site of an attack in Chhattisgarh, India, in April.

A group headed by India's Planning Commission, the government's internal think tank, will be set up for the implementation of development programs designed to boost local economies and employment prospects, and so possibly win locals away from the rebels.

"The Naxals are part of society and require an integrated approach," Nitish Kumar, chief minister of the eastern Bihar state said in New Delhi.

The moves came as Prime Minister Manmohan Singh, who has called Naxalism the gravest internal-security threat that India faces, held a meeting of the chief ministers of Naxal-affected states.

The daylong meeting at the prime minister's residence in New Delhi was attended by senior officials from the states of Orissa, Chhattisgarh, Maharashtra, Andhra Pradesh, Bihar, West Bengal and Jharkhand.

WORLD NEWS

Bloomberg News

Yoshimi Watanabe, head of Your Party, outlined economic-policy goals in an interview in Tokyo on Wednesday.

Japan's new influence

Your Party chief seeks an active central bank to ponder price targets

By Yuka Hayashi
And Takeshi Nakamichi

TOKYO—The Bank of Japan faces new political pressure to move more aggressively against deflation, as Japanese lawmakers set the economic policy agenda following the ruling party's crushing election defeat.

Your Party, a powerful new force in parliament after Sunday's election, and a potential policy partner for embattled Prime Minister Naoto Kan, is planning to turn up the heat on the central bank to reverse a decade of declining consumer prices that has sapped the economy.

In an interview, Your Party chief Yoshimi Watanabe discussed his plans to require the BOJ to play a more active role in boosting the economy, including setting an inflation target taking responsibility if it fails to deliver results. That responsibility could come either through more frequent testimony in parliament, or possibly by forced changes in leadership.

The central bank should also take into account the impact on the yen's exchange rate when it sets its policy, the lawmaker added.

"Insufficient monetary easing has been simply the only reason why Japan hasn't been able to conquer its deflationary gap," Mr. Watanabe said. "Thus, the government and the Bank of Japan should form an accord and share a price-stability target."

Mr. Watanabe is just the latest Japanese political leader to challenge the BOJ's independence. Policy makers long have been frustrated with what they consider the central bank's insufficient concern for deflation.

Within the ruling Democratic Party of Japan, some 130 lawmakers have formed a group to study ways to conquer deflation and called for steps such as inflation targeting and purchases of long-term government debts by the central bank. Mr. Kan, as finance minister earlier this year, suggested the BOJ adopt an inflation target, and take more steps to lift the economy, though he later toned down that argument.

There are some inflation-targeting advocates even in the Liberal Democratic Party, the former conservative party that generally maintained a friendly relationship with the BOJ.

BOJ officials have countered by saying the trend for inflation-targeting has lost momentum around the globe. They say an excessive focus on price stability caused central bankers to miss global financial imbalances caused by keeping credit too easy, fueling the latest financial crisis. The BOJ also indicated that realizing Japan's long-term growth potential demands that lawmakers curb Japan's huge outstanding debt.

Mr. Watanabe said Your Party's ultimate goal is to push up Japan's core consumer-price index to 2%, bringing the index within one percentage point of that goal in the next two to three years. Japan's core CPI excludes volatile fresh-food prices and includes energy prices.

Your Party, formed just this past August, is in a sweet spot. With a simple platform of administrative overhaul and small government, the party boosted its presence in Sunday's upper-house election to 11 seats from just one.

Singapore's growth leads Asia recovery

SINGAPORE—Singapore's economy expanded a faster-than-expected 26% in the second quarter as manufacturing output hit a record, prompting the government to sharply raise its growth forecasts and sending the local dollar to a three-week high.

By Gaurav Raghuvanshi,
Sam Holmes
and Costas Paris

The Monetary Authority of Singapore won't stand in the way of the local dollar's rise, a person familiar with the central bank's thinking said.

The tiny city-state's growth is leading Asia's strong recovery, which is helping to pull the rest of the world out of the economic crisis. Asian central banks have recently become more aggressive in raising interest rates to pre-empt inflation, even as Europe's debt crisis and a slowing U.S. economy are casting a shadow over major economies.

With demand in export markets sluggish, Singapore's Ministry of Trade and Industry said the economy's sizzling growth will likely moderate, even as GDP for the first quarter was revised up to 45.9%—the fastest on record going back to 1975—from an earlier estimate of 38.6%.

"The exceptionally strong growth experienced by the Singapore economy in the first half of 2010 is therefore not likely to be sustained into the second half of the year," the ministry said in a statement. "While year-on-year growth rates in the second half will be healthy, sequential growth from current levels of economic activity will be low."

Citigroup also noted the expected shift ahead. "Expect a slowdown" in the second half, two Citigroup economists wrote in a research report. "Given signs of easing momentum and a slowdown in the U.S. and China," third-quarter GDP data should pull back 11% from the current torrid pace and be "broadly flat" in the fourth quarter—though they added there were strong chances growth could come in higher than they expect.

In the second quarter, manufacturing output rose 45.5% from a year earlier, accelerating from the first quarter's 38.2% expansion.

GDP grew 19.3% year-to-year in the second period, accelerating from the first quarter's 16.9% and beating the Dow Jones survey's forecast of a 16.5% rise. First-quarter growth was revised up from 15.5%.

The government raised its full-year growth forecast to 13%-15% from its May estimate of 7%-9%.

That is stronger than most economists' projections but still achievable, said CIMB economist Song Seng Wun. "I suppose the only question now is how much more juice is left, but the forecasts are realistic," Mr. Song said, describing 2010 as likely to be a tale of two halves.

The stronggrowth lifted the Singapore dollar, with the U.S. currency falling to S$1.37421, its lowest since June 21, from S$1.3858 before the announcement. The central bank likely won't intervene to curb the Singapore dollar's rise unless the U.S. dollar falls to around 1.3600, said the person familiar with MAS thinking.

The MAS uses the trade-weighted exchange rate, rather than interest rates, as its main policy tool because trade flows dwarf the island's domestic economy. The central bank now targets a "gradual and modest appreciation" for the Singapore dollar within an undisclosed trading band.

The person familiar with the central bank's thinking said that at this point "there are no thoughts about further tightening by the MAS when it meets in October" for its next scheduled policy review.

But other economists are entertaining such thoughts. If the economy's rapid growth continues, the MAS may tighten by "re-centering" its targeted band for the Singapore dollar, HSBC economist Frederic Neumann wrote.

"There's no more slack left in the economy, and the MAS may want to re-center again in October," Mr. Neumann said. "With numbers like these, it's certainly on the table."

Inflation remains relatively modest, with the government forecasting in May that consumer prices would rise 2.5% to 3.5% for the full year. Wednesday's report doesn't give new inflation figures.

Vietnam suspends chairman of Vinashin

By Vu Trong Khanh
And Patrick Barta

HANOI—Vietnam's prime minister suspended the chairman of one of the country's biggest companies amid concerns it could be on the verge of bankruptcy after a period of aggressive expansion.

Pham Thanh Binh, chairman of Vinashin, a state-run shipbuilding conglomerate, was removed to allow a review of his performance while police investigate alleged wrongdoing, the government said in a two-sentence statement Wednesday.

Efforts to reach Mr. Binh and a government spokesman were unsuccessful. A receptionist at Vinashin said no one was available to discuss the matter.

The government move marked a setback for Mr. Binh and a blow to Vietnamese efforts in recent years to promote its many state companies, which continue to dominate key sectors of the economy even as Vietnam opens up to foreign investment.

Prime Minister Nguyen Tan Dung encouraged the companies, which include Vinashin, Vietnam Electricity Group, and state oil giant Vietnam Oil & Gas, or PetroVietnam, to expand rapidly in recent years in a bid to build bigger conglomerates that could better compete with international companies gaining a toehold in Vietnam. The push was modeled in part on how South Korean companies, known as chaebols, expanded in earlier years.

PetroVietnam moved into banking and tourism, while Vietnam Electricity invested heavily in telecommunications. The unlisted Vinashin, for its part, borrowed $3 billion to finance expansion into new shipping lines and manufacturing businesses to support its shipbuilding operations. It also expanded into finance, stock-trading and brewing beer, making it Vietnam's ninth-largest state-run company by assets.

Vinashin

A Vinashin shipyard in Vietnam. The conglomerate's chairman was suspended.

Many economists criticized the push, though, saying it crowded out private investment and encouraged state entities to take risks in businesses they didn't fully understand. When Vietnam's economy showed signs of overheating in 2008, officials started to reconsider the push and told state companies to focus more narrowly on their core businesses, though many of the companies kept growing.

Some of the companies have thrived, economists say. But investors and analysts have long worried that one or more would stumble under the debts they accumulated during periods of rapid expansion. Vinashin, which has the full name Vietnam Shipbuilding Industry Group, has total debts of 80 trillion Vietnamese dong ($4.2 billion), while its total assets are 90 trillion Vietnamese dong ($4.7 billion), reported online news provider VnExpress, which is run by the Ministry of Science and Technology.

—Nguyen Anh Thu contributed to this article.