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THE WALL STREET JOURNAL.

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Anger on the streets of Athens

European Pressphoto Agency

Striking truck owners protest outside the Transport Ministry in Athens on Thursday. The demonstrations came after the government ordered a civil mobilization to end a strike by truck owners that has starved Greece's already-slack economy of fuel.

BP's Hayward defends reign, spill response

By Monica Langley

LONDON—Tony Hayward, the embattled chief executive of **BP** PLC, is unrepentant about how the energy giant responded to the U.S.'s largest offshore oil spill.

In his first interview after agreeing to step down from the top spot this week, the chief executive said he did everything possible once the Deepwater Horizon rig exploded and sank in the Gulf of Mexico, by taking responsibility for the spill and spending billions of dollars to stop the spewing oil and clean up the shoreline.

He is cheered by evidence the environmental impact might be smaller than earlier predicted. At the onset of the spill three months ago, Mr. Hayward was attacked for saying BP could contain the spill and prevent an environmental disaster. That, plus a series of other missteps and failed efforts to stop the runaway well, made Mr. Hayward a toxic symbol in the U.S. for the unfolding mess.

"I became a villain for doing the right thing," Mr. Hayward said in the interview. "But I understand that people find it easier to vilify an individual more than a company." He said he realizes some of his comments, particularly his assertion that "I'd like my life back," were "wrong."

On the Obama administration, he said he resented the daily onslaught of criticism, but added: "I understood their frustration."

Mr. Hayward made clear he wished he could stay on, but decided that this would hurt BP as its tries to permanently cap the well, and repair the Gulf coastline and the company's public image.

"I didn't want to leave BP, because I love the company," Mr. Hayward said in the interview. "Because I love the company, I must leave BP." Earlier this week, BP announced he would step down as its chief executive Oct. 1

He added: "In America, the road back will be long but I believe achievable when the whole truth of the accident finally emerges and the Gulf Coast is restored....BP can rebuild faster in America without Tony Hayward as its CEO."

Mr. Hayward's reputation appears in better shape in the U.K., where BP is an establishment stalwart. Shell-shocked by his dramatic fall, the 53-year-old Mr. Hayward was greeted with a standing ovation as he held the first in a series of employee town halls at corporate headquarters Wednesday.

"If you keep clapping, I will cry," he said, with his voice cracking. "Having me as BP's public face has become untenable...it was a very tough decision" to agree with BP's board of directors to give up the reins. He reminded the crowd that 11 men died when the rig exploded. "That puts how we feel in perspective."

In his office lined with photographs of his family and

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Ocado's IPO buyers include Fidelity, other early investors

By Elizabeth Pfeuti

Ocado Group PLC's new shareholders look a lot like their old ones.

One-third of the shares sold in the online retailer's initial public offering last week were bought by two affiliates of asset manager **Fidelity**, according to regulatory filings.

Overall, at least half of the sale was taken up by existing investors, which include Fidelity, and regulatory filings show only one major new investor.

The IPO, which totaled £369 million ($575.1 million), had one of the worst debuts on the London Stock Exchange, even after the price was slashed below the initial price range because of a lack of demand. The shares, priced at 180 pence, ended at 165 pence on Thursday, down 8.3% from the issue price and 40% below the top of the initial price range, or 275 pence. Over the same period, the FTSE 250 Index of UK mid-cap stocks has risen 4.0%.

According to regulatory filings made by investors with holdings of more than 3%, Fidelity International Limited, a Bermuda-based asset manager, bought 28 million of the 205 million shares sold in the IPO. **Fidelity Management & Research** LLC, its U.S. affiliate, bought 37.7 million shares. Together, they bought 32% of the shares available for sale, a mix of new shares and some from existing shareholders, and own 13.2% of Ocado, according to those filings.

A Fidelity spokesman confirmed the size of the stakes but declined to comment further.

Fidelity first acquired a stake in Ocado, known for delivering groceries from Waitrose, in November 2009, according to the prospectus for the offering. Its investment came at the same time as one by **Generation Investment Management LLP**, the asset manager run by former U.S. Vice President Al Gore and ex-Goldman Sachs Asset Management Chief Executive David

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Bond boom gives companies a boost

By Mark Gongloff, Alex Frangos And Neil Shah

The global corporate-bond boom rolls on.

Investors, flush with cash, are once again pouring into bonds and getting good returns for their troubles. This demand for corporate bonds has driven their interest rates, which move in the opposite direction to their prices, to their lowest levels in years.

In response, companies world-wide—from global giants such as **McDonald's** Corp. to Indonesian telecommunications company PT **Indosat** and Spain's **Banco Santander** SA—are rushing to the bond market to take advantage of the low borrowing costs. Lower corporate expenses are a boon to corporate profits, which could in turn benefit economic growth and hiring.

However, while the bond boom may be driven partly by investor optimism, it is also a sign of lingering suspicion of the stock market and widespread anxiety that economic growth will be slower than usual.

Most companies are simply borrowing to refinance old debt, and many are leaving the extra cash on their balance sheets, bracing for the possibility of fresh crises or

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Dilemmas in the security review

[Agenda]

By Robert Fry

At one level, the British strategic defence and security review is all very simple: the army wants things to stay the same, the Royal Navy wants them to change and the Royal Air Force doesn't care so long as it can keep the aircraft. Less crudely, there is a view within the army that Afghanistan is vital for two reasons. First, anything resembling failure would be a disaster. Second, the theater gives us an insight into the nature of 21st-century conflict and shows how we should train, man and equip our forces to conduct it. This view, of course, assumes a continuing political appetite for the sort of expeditionary operations which have characterized the last decade.

The navy concedes the importance of Afghanistan but doesn't see it as a template for the future. It looks to maritime power—global without being intrusive and synonymous with the softer issues of trade and international law—to shape our strategic ambition. The navy to discharge this, though, might need a more constabulary look than current plans envisage. The RAF has no separate strategic narrative, but defines itself only in terms of its support to the other two services. Its aim will be to maintain the funding to continue the 100-year experiment of an independent air arm.

Each chief has laid out his service manifesto, but what are the core issues the review must seek to resolve? I will examine two: a more prominent role in Europe and strategic governance across Whitehall.

The special relationship needs no further review, but perhaps U.S. strategic objectives do. President Barack Obama is a post-Cold War president. The residual campaigns in Iraq and Afghanistan must be negotiated and an enduring counterterrorist doctrine defined, but, beyond that, nuclear proliferation and the Pacific Basin will dominate the U.S. strategic imagination. Britain may be part of a multilateral dialogue around the first of these issues but it will be a mute player in the second. Moreover, at a time when it has become a conventional wisdom that we are moving toward a multipolar world, would a measure of strategic equidistance between the recent and future powers not suit all the players?

Getty Images

The Royal Navy may not see Afghanistan as a template for the future.

Against this backdrop, the possibilities in Europe look beguiling. There is an ineluctable logic in recognizing that relevance on a world stage is more likely to be realized as a leading player within Europe than unilaterally or as an increasingly distant U.S. partner. Even with the wobbly euro and the ubiquitous austerity that will severely limit European defense expenditure, what if a confederation of the fiscally and militarily competent were to emerge from a re-defined European identity, in which Britain could be front and center? In these circumstances we may welcome a role, consistent with our size, geography and ambition.

The relationship between British and American forces has changed subtlety over a decade. Admiration for British tactical excellence is universal in U.S. military circles. But it is the U.S. which has shown the advantages of mass, adaptability and fixity of strategic purpose in bringing about something resembling an end state in Iraq and the possibility of honorable extraction from Afghanistan. Crucially, the U.S. military no longer has an intellectual reverence for the British grasp of small wars. Today, the U.S. takes lessons from nobody on counterinsurgency; it never did on conventional war, and so the traditional British role of mentor and moderator has been lost—another reason to look more closely to Europe.

Elsewhere, a quiet revolution is occurring in national strategic governance. British foreign and security policy has been conducted largely through the medium of military operations for the last 10 years, and the rest of government has begun to notice. In the absence of a war cabinet. the chiefs of staff committee, based in the Ministry of Defence and around a core membership of the service chiefs and the departmental permanent under-secretary, has set the strategic agenda for Iraq and Afghanistan.

A purist view would say that authorship of defense belongs not with a single department, but across government. A realist view would agree, but point out that needs must, and, in the absence of any dedicated body within government to oversee national security strategy, the Ministry of Defence has filled the gap. Both views are now being overtaken by the creation of the National Security Council, chaired by the prime minister, and the appointment of a National Security Advisor, a post currently held by a senior Foreign and Commonwealth Office official. Taken together, these initiatives redefine Whitehall's security architecture and, in many ways, this makes sense. How can the cross-departmental coordination implicit in the government's approach to security be achieved except with the levers being pulled at the highest level?

All Whitehall would concede that point, but seen from the Ministry of Defence it looks like marginalization. In the absence of the prime minister, the NSC is chaired by the foreign secretary, with the defence secretary acting as a member of the council but exercising no titular powers. The chief of the defence staff will attend only when required and there is no role for his fellow chiefs. Unstated but explicit is the elevation of the chief of the defence staff to a five-star role in what is a major revision of the existing system which sees the chiefs as co-equal and collegiate. What this means for the traditional right of access of individual chiefs to the prime minister is unclear, but it's unlikely to have been improved. It is now the NSA, operating from the Cabinet Office, which is charged with "integrating ... all arms of government contributing to national security."

Does any of this matter? Probably not. National strategy can only be conceived and discharged from the center of government. In addition, the dual responsibility which the chiefs have faced in making an intellectually altruistic contribution to strategic debate, and, simultaneously, acting as stewards of their individual services, represents an intolerable conflict of interest. But it probably doesn't feel like that on the MoD-side of Whitehall.

—Robert Fry is chairman of McKinney Rogers, a business consultancy, and a former deputy commissioner general of the coalition forces in Iraq.

What's News

■ **German unemployment** fell in July for the 13th straight month, putting Europe's largest economy on the brink of regaining all of the employment lost during the recession far earlier than many economists expected. **4**

■ **U.K. consumer confidence** slumped to the lowest level in 11 months in July, raising fears the economy could fall back into recession, a monthly survey showed. **5**

■ **BP is in talks** to sell its stakes in oil projects in Venezuela to its Russian joint venture TNK-BP, as part of an asset-disposal program. **19**

■ **Banco Santander's** second-quarter profit fell 8%, as weakness in the Spanish bank's home market offset a robust performance in Brazil and the U.K. **17**

■ **French police questioned** Labor Minister Eric Woerth as part of a preliminary probe into allegations of illicit campaign financing. **4**

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"They are accepting what markets should: that neither economy is healthy enough to stand up on its own."

David Cottle says the tone of U.S. and U.K. central bankers shouldn't shock

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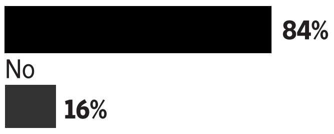

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NEWS

Colosseum seeks sponsors for restoration

Associated Press

ROME—Italian officials are seeking to raise some €25 million (about $32 million) in private money to finance the restoration of one of the country's iconic landmarks: the Colosseum.

The Culture Ministry says the government will accept bids from possible sponsors from Aug. 4 to Sept. 15. The ministry said sponsors funding the project will be able to "promote their image," but that ads will have to be compatible with the decorum of the 2,000-year-old arena.

Officials said the Rome city hall is also looking to charge tourists a few extra euros in tax for hotels and some museums.

The tax, which goes into effect Jan. 1, will apply to other tourism services, such as double-decker tour buses, restaurants set up along the bank of the Tiber river and tour boats, said Mauro Cutrufo, deputy mayor of Rome.

Reuters

The Italian government is seeking private money to finance the restoration of the Colosseum, a Roman landmark.

Evidence ties soldier to Afghan leaks

By Julian E. Barnes

WASHINGTON—Investigators have found concrete evidence linking Pfc. Bradley Manning with the leak of classified Afghanistan war reports, a U.S. defense official said.

A search of the computers used by Pfc. Manning yielded evidence he had downloaded the Afghanistan war logs, which span 2004-2009, the official said. It isn't clear precisely what that evidence is.

Pfc. Manning, 22 years old, worked in the intelligence operations of the 10th Mountain Division's 2nd Brigadein Baghdad. Although he was supposed to be examining intelligence relevant to Iraq, defense officials said Pfc. Manning used his "Top Secret/SCI" clearance to tap into documents around the world.

The investigation is also looking at who might have helped Pfc. Manning provide the documents to WikiLeaks, a Web-based group that earlier this week released 76,000 secret reports from Afghanistan.

Because of the focus on civilians who may have aided Pfc. Manning, the Federal Bureau of Investigation and the Justice Department have been brought into aid the investigation, which is being led by the Army Criminal Investigation Command.

Defense officials are also combing through Pfc. Manning's computers in a bid to figure out what other material he may have stolen as they try to anticipate what other material WikiLeaks may have.

WikiLeaks says it has at least 15,000 more Afghanistan documents the group withheld until some details could be redacted.

Military officials said the documents already released contain names of Afghans who have aided the allied force, information that could potentially endanger some of those people.

On Thursday, Defense Secretary Robert M. Gates told reporters that the U.S. had a "moral responsibility" to protect any individuals who might be in danger from the leaks. He also said the military was reviewing its rules for safeguarding classified information, the Associated Press reported.

Mr. Gates described the leak as a "mountain of raw data" that didn't shed new light on U.S. policy but could aid the enemy on the battlefield.

Chairman of the Joint Chiefs Adm. Mike Mullen said WikiLeaks "might already have on their hands the blood of a young soldier or that of an Afghan family."

Almost immediately after the release of the documents, investigators began focusing on Pfc. Manning, who had suggested in a series of Internet chats with a former hacker that he had obtained access to a similar cache of war logs from Iraq.

A request for comment to Pfc. Manning's military counsel wasn't immediately returned. In the past, the lawyers have referred all questions to public-affairs officers, who have declined to comment.

Pfc. Manning was charged by the military earlier this month with illegally taking and disseminating a classified video as well as secret State Department files.

Reuters

WikiLeaks founder Julian Assange speaks a news conference at the Frontline Club in central London on Monday.

Associated Press

An undated photo of Pfc. Manning.

BP's Hayward defends reign and response to oil spill

Continued from first page

various sailboats, Mr. Hayward reviewed data provided by a polling firm on BP's public reputation. It showed how **Toyota** Corp.'s image fell rapidly during the crisis over its sticky accelerator pedals, and is now recovering. BP's numbers have moved up slowly since the oil stopped flowing in recent weeks. One sign of hope: BP still scores higher than **Goldman Sachs Group** Inc., the investment bank that's become a metaphor for some of Wall Street's excesses.

The disaster has cost Mr. Hayward not only his job—he spent his 30-year career at BP—but also possibly a future executive role in the oil industry. He said he has given little thought to what comes next beyond helping the transition to his successor, Robert Dudley. After leaving the CEO spot, Mr. Hayward will become a board member with few direct responsibilities at BP's Russia venture, TNK-BP.

In his office, he has fielded calls from shareholders, other CEOs and government officials from around the world.

He has become something of a celebrity in the U.K., where many say he has been unfairly punished by the U.S. government and media.

Sitting with a friend recently at a London club, a stranger at a neighboring table sent over two large glasses of brandy. At a Houston restaurant last month, by contrast, he discreetly sat at a corner table with his back to the dining room.

At the town hall, the newly named chief executive, Mr. Dudley, told the employees, "It's a measure of the man that Tony is willing to step down, just when things are starting to go right." The new cap put on the runaway well has held, and reports mount that little oil is now reaching the Gulf coast.

The oil giant isn't out of danger. Its market capitalization is down sharply, its future in deep-water drilling in the U.S. remains under attack, and it faces criminal and civil probes as well as billions of dollars in damage claims.

At the town hall, Mr. Hayward displayed slides showing the company's improved financial and safety performance from his three-year tenure. "I'm going to lay down a challenge for that to continue," Mr. Hayward said.

Germany nears precrisis job levels

By Brian Blackstone

Bloomberg News

Job-seekers stand in line at the Federal Office of Employment in Nuremberg, Germany

FRANKFURT—German unemployment fell in July for the 13th straight month, putting Europe's largest economy on the brink of a milestone: regaining all the employment lost during the recession far earlier than many economists expected.

Germany's resilient labor market—aided by government subsidies aimed at keeping workers on payrolls at reduced hours—is in sharp contrast to the U.S. where, despite a much more rapid recovery in output so far, unemployment remains stuck near its recessionary peak.

The labor-market data, along with strong consumer-sentiment figures in the euro zone, pushed the euro to an 11-week high against the U.S. dollar, above $1.30, as investors grow increasingly convinced that the euro zone is on a more solid economic footing than seemed the case only weeks ago.

Still, Germany's export-dependent economic recovery remains at risk amid signs of softer growth in the U.S. and Asia, economists warn.

Unemployment in Germany, the world's fourth-biggest national economy, fell 20,000 in July to 3.2 million, the government's labor office said, putting it near the pre-recession trough of 3.19 million last seen in October 2008. Germany's jobless rate fell to 7.6%, its lowest in nearly two years, and well below last year's peak of 8.3%. The U.S.'s official unemployment rate crept down to 9.5% in June, after peaking at 10.1% last year.

Employment in Europe's biggest economy, reported with a one-month lag, grew 25,000 in June, and also is back near pre-recession levels. German politicians had feared joblessness would keep climbing past four million during the recession—which shaved 5% off Germany's gross domestic product last year—and beyond. Now, Germany's federal labor office says unemployment could fall below three million later this year, the lowest level in nearly 20 years.

Germany also is outperforming the rest of the euro zone. Unemployment has been stuck at 10% in recent months across the 16-nation currency bloc.

Germany's improved fortunes are spreading optimism through the currency zone. The European Commission's economic-sentiment index, which covers business and households, rose strongly in July, led by a sharp rise among German respondents. Some German industries already are running into a labor shortage. "We still have a lack of people to work on consulting jobs," said Lothar Kunkel, senior partner in Stuttgart at ConMoto Consulting Group, an 80-person firm that advises companies on procurement and supply-chain management.

Even when meeting with clients, "we are asked if we have people available that can join their companies," Mr. Kunkel said.

The German experience bucks the stereotype that the country's highly regulated labor market entrenches high unemployment and struggles to create jobs, especially after a recession. This time, it is the more-flexible U.S. labor market that is lagging, exhibiting both higher unemployment and a slower revival in hiring.

The truth, say economists, is that Germany is benefiting from a mixture of circumstances and good policy, and that the U.S. model remains better at moving labor from declining industries to new ones.

Germany has limited job losses in part because of a popular subsidy program for short-hours work, known as Kurzarbeit. Under the plan, companies reduce workers' hours but keep them on staff, with the government kicking in for some of their lost wages and social-security contributions.

At the peak last May, as many as 1.5 million workers were in the program. That has been cut to about half a million, as companies move workers back to full-time shifts to meet rising demand, particularly in the export sector. German unions also have made wage concessions to preserve jobs.

—Geoffrey T. Smith contributed to this article.

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French minister questioned in L'Oréal probe

By David Gauthier-Villars

Associated Press

Eric Woerth leaves a weekly cabinet meeting in Paris on Wednesday.

PARIS—French police on Thursday questioned Labor Minister Eric Woerth as part of a preliminary probe into allegations of illicit campaign financing and conflict of interest that have dogged President Nicolas Sarkozy and his administration for two months.

A prosecutor in the Nanterre suburb near Paris is looking into allegations that Liliane Bettencourt, the 87-year-old heiress to the **L'Oréal** SA cosmetics empire and France's richest woman, helped support Mr. Sarkozy's victorious 2007 campaign with illicit cash donations. A former accountant for Ms. Bettencourt told police in July that she withdrew cash that she was told would be handed to Mr. Woerth, in his capacity as treasurer of Mr. Sarkozy's conservative UMP party.

Mr. Woerth's lawyer, Jean-Yves Leborgne, said the minister told police at his Paris office that he had "never received any kind of political financing that wasn't in compliance with the law."

Prosecutors have no evidence that Mr. Woerth, who is in charge of a major pension-overhaul plan, collected illicit donations, said a spokeswoman for the prosecutor in charge of the preliminary probe. Ms. Bettencourt has said her contributions were legal.

Mr. Sarkozy has said allegations of illegal campaign financing were an attempt to smear him. With two years left in his term, the president is seeking to distance himself from the Bettencourt affair, which has pushed his approval ratings to record lows. Only about a quarter of French adults approve of his policies, according to a recent poll by TNS Sofres.

Police also questioned Mr. Woerth about his ties to Ms. Bettencourt and, more specifically, over whether he intervened to help his wife Florence get a job with the L'Oréal heiress.

Ms. Bettencourt's financial adviser, Patrice de Maistre, has told police that Mr. Woerth asked him in early 2007 whether he could meet with his wife—an experienced asset manager—and give her career advice. Mr. de Maistre recruited Ms. Woerth as a wealth manager in September 2007.

Mr. Woerth's lawyer said the minister told police that he mentioned his wife's profession "during a banal conversation with Mr. de Maistre—because both had had somewhat equivalent education." However, Mr. Leborgne said Mr. Woerth told police that he didn't intervene in the recruiting process.

Police also asked Mr. Woerth how, in July 2007, he came to give Mr. de Maistre one of France's highest honors, the Legion of Honor, at the time when his wife was discussing a job with him.

Mr. Woerth's lawyer said the minister told police that the distinction was given to Mr. de Maistre "under absolutely normal conditions."

Both Mr. Woerth and his wife, who resigned from her job with Ms. Bettencourt in June, have denied any conflict of interest.

The affair began three years ago, when Ms. Bettencourt's only child, Françoise Bettencourt-Meyers, filed a complaint with Nanterre prosecutors against a friend of her mother, saying he exploited Ms. Bettencourt's mental weakness to obtain lavish gifts. The matter took a political turn when Ms. Bettencourt-Meyers, in legal filings, cited recordings of conversations between her mother and Patrice de Maistre, Ms. Bettencourt's financial adviser. In the conversations—secretly recorded by a former butler of Ms. Bettencourt—Mr. de Maistre alludes to donations to Mr. Woerth and other UMP politicians. Mr. de Maistre has said all donations were legal.

EUROPE NEWS

Cameron, in India, advances British ties

By Paul Beckett

NEW DELHI—U.K. Prime Minister David Cameron wrapped up a visit to India on Thursday with one agreement on expanding cultural ties and a host of initiatives designed to propel the new "special relationship" that Britain seeks with its former colony.

The visit focused on expanding trade and investment and securing opportunities for British companies in India as well as increasing counterterrorism cooperation. How both countries deal with Pakistan was a prominent theme, with Mr. Cameron incurring criticism in Islamabad for suggesting repeatedly that the Pakistani government needs to do more to clamp down on terror groups operating on its soil.

Mr. Cameron, who became prime minister in May after 4½ years as opposition leader, has long called for a more robust relationship between the two countries.

Indian Prime Minister Manmohan Singh said at a joint news conference Thursday evening that the two sides had agreed on initiatives in economy, trade, science and technology, infrastructure development, energy and education. He provided few specifics.

Mr. Singh said the two countries would seek to double their trade over the next five years. British officials said they intended to cooperate on civilian nuclear energy, and Mr. Cameron said he would push for the creation of a free trade zone between India and the European Union.

Indian companies are now major employers in the U.K. manufacturing sector since the **Tata** Group of Mumbai purchased Anglo-Dutch steelmaker Corus in 2007, and luxury auto brands Jaguar and Land Rover in 2008. There are dozens of Indian information technology companies operating in the U.K. as well.

The most prominent concrete trade deal from the trip was Wednesday's announcement that the U.K.'s **BAE Systems** PLC and Rolls-Royce Group PLC will supply 57 Hawk advanced jet trainers and engines to India, valued at a total of over £700 million ($1.09 billion). There was a slew of smaller deals, too, such as an announcement by **Xchanging** PLC, a U.K. business processing company, to build a new center in the state of Karnataka.

U.K. Business Secretary Vince Cable said Thursday the U.K. had become complacent about its relationship with India. British officials played down the potential impact of new immigration rules that they plan to introduce to cap non-EU integration into Britain.

A scheduled Thursday meeting with India's most powerful politician, Sonia Gandhi, was canceled. A British official said Mrs. Gandhi had an unexplained "genuine emergency" and emphasized that the British took no umbrage at the cancellation.

WSJ.com

ONLINE TODAY: Read blog posts chronicling the U.K. delegation's charm offensive in India at **WSJ.com/indiarealtime**

Associated Press

The U.K.'s David Cameron and India's Manmohan Singh, meeting in New Delhi on Thursday, said they aim to boost trade between their countries.

U.K. consumer confidence slumped in July

Bloomberg News

Sale signs in London in July. British consumers are becoming more pessimistic.

By Ilona Billington

LONDON—U.K. consumer confidence slumped to its lowest level in 11 months in July, raising fears the economy could fall back into recession, a monthly survey released by polling firm GfK NOP showed Friday.

The confidence survey was conducted in the wake of the government's austerity budget.

Other U.K. surveys published Thursday suggest activity and prices in the housing market will fall again in the coming months, as fears over job security and earnings growth spread.

Friday's headline measure of consumer confidence dropped to minus 22 in July from minus 19 in June, worse than the minus 20 reading forecast by economists polled last week.

According to the survey, consumers are sharply more pessimistic about the economy in general and about their own financial situation in the coming year.

"Given that consumer confidence measures are normally good predictors of what the economy itself will do a few months later, the continuing slide in the index makes a double-dip recession look more of a possibility as each month goes by," said Nick Moon, managing director for Gfk NOP.

Fears over jobs and earnings also led to the first monthly decline in U.K. house prices in five months, according to U.K. lender Nationwide.

Its monthly survey showed house prices fell 0.5% on the month and rose 6.6% on the year in July. That compares with June's unchanged monthly figure and 8.7% annual increase. Economists had expected no change for the month and a 6.9% year-to-year gain.

"A combination of restrictive credit conditions and uncertainty about the future economic outlook continues to limit the pool of buyers to those with relatively large financial resources," said Martin Gahbauer, Nationwide's chief economist, adding that the outlook for house prices remains mixed.

But Bank of England lending data for June reported a second straight decline in the number of mortgage approvals—to 47,643, the lowest level since February. A slowdown in the amount homebuyers borrowed point to further price falls as well as fewer sales.

The bank also reported Thursday that the broad M4 money supply grew at a softer pace in June. The BOE's preferred money-supply metric, which excludes financial institutions whose activities distort underlying trends, edged up 0.2% in June after a 0.9% increase in May. In three-month annualized terms, money supply expanded 6%, also slower than in May, when the measure rose 8.9%.

Broad money lending contracted 0.3% on the month after a 0.2% decline in May. In annual terms, money lending fell 0.2%, after rising 0.5% in May, the slowest rate since the bank started charting the figure in the fourth quarter of 1998.

Meanwhile, the U.K. government said it plans to do away with the fixed retirement age of 65 next year, saying people who wish to continue working longer should be allowed to do so.

—Natasha Brereton contributed to this article.

London to widen reach of bonus rules

By Patricia Kowsmann

LONDON—The U.K.'s financial regulator plans to extend remuneration rules for the financial-services industry, in a move that could include imposing the changes on all banks, asset managers and hedge funds.

The move builds on rules on pay at banks that the Financial Services Authority has introduced over the past year. The amendments proposed Thursday also would align the U.K.'s policy on bonuses more closely with rules being imposed by the European Union, although the FSA said it "doesn't intend the final rules to be super-equivalent."

The regulator opened a consultation period on the changes, which closes in early October. It will issue a policy statement in November, and new rules will apply from Jan. 1.

Among the changes, the FSA said it will force companies to defer at least 40% of bonuses over at least three years, raising the level to 60% when the bonus is more than £500,000 ($779,301).

It also said at least 50% of any variable remuneration must be made in shares, share-linked instruments or the equivalent.

The FSA said that while the current rules apply to the largest banks, building societies and broker-dealers, the new ones should include more than 2,500 firms. That potentially includes hedge funds. The remuneration directive recently passed in Brussels technically covers hedge funds and other money managers as well as banks, but it leaves flexibility to national regulators as to how they implement it.

—Cassell Bryan-Low contributed to this article.

Drug dealer's bill of choice boosts the euro zone

[Brussels Beat]

By Stephen Fidler

Gangsters, drug dealers and money launderers are playing their part in helping shore up the financial stability of the euro zone.

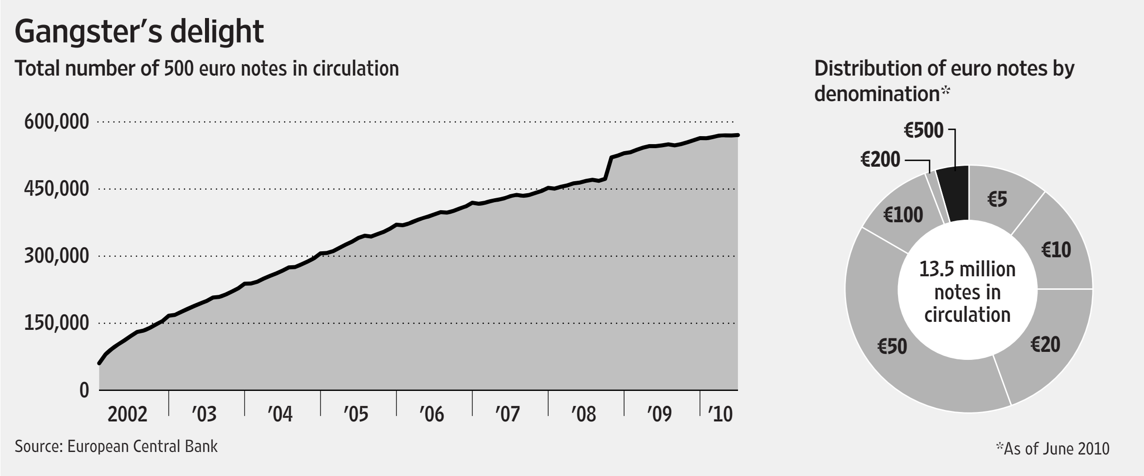
The key is their demand for high-denomination euro bank notes, in particular the €200 and €500 bills, which provides a big boost to the financial position of the European Central Bank.

The business of issuing euro notes, produced at almost zero cost, is "wildly profitable" for the ECB, says Willem Buiter, chief economist at Citigroup.

The big bills are increasingly "making the euro the currency of choice for underground and black economies, and for all those who value anonymity in their financial transactions and investments," he wrote in a recent research report.

Until the onset of the financial crisis, which gave both currencies a boost, euro notes appeared to be blowing U.S. dollar bills out of the water in terms of competition. After a surge in the 1990s, growth in demand for U.S. dollars started to moderate, slowing to just 1.1% a year in 2006-07, according to the Federal Reserve.

Enter euro notes and coins into circulation in January 2002. Then, the value of €500 notes outstanding was €30.8 billion ($40 billion). Today some €285 billion-worth of euro notes are in existence, an annual growth rate of 32%. By value, 35% of euro notes in circulation are in the highest denomination, the €500 bill that few people ever see. Most are probably held outside the EU.



Source: European Central Bank

*As of June 2010

In 1998, then U.S. Treasury official Gary Gensler worried publicly about the competition to the $100 bill, the biggest U.S. bank note, posed by the big euro notes and their likely use by criminals. He pointed out that $1 million in $100 bills weighs 22 pounds; in imaginary $500 bills, it would weigh just 4.4 pounds.

Demand for big notes may have been boosted by the post-9/11 clamp-down on electronic transfers, says Soren Pedersen, spokesman for Europol, the European police agency based in The Hague. He says police forces have found them in cereal boxes, tires and in hidden compartments in trucks. "Needless to say, this cash is often linked to the illegal drugs trade, which explains the similarity in methods of concealment that are used," he says.

But it's an ill wind that blows nobody any good. And the beneficiaries are the financial health of the ECB and its member governments.

The profit a central bank gains from issuing currency—as well as from other privileges of a central bank, such as being able to demand no-cost or low-cost deposits from banks—is known as seigniorage. It normally accrues to national treasuries once the central banks account for their own costs, and there are rules about how it is distributed at the 16-nation ECB.

However, this seigniorage is of new significance this year because questions are being asked for the first time about the financial health of the ECB.

It has taken hundreds of billions of euros of often questionable assets—it won't disclose exactly what—on to its balance sheet as part of its response to the global financial crisis. It holds more than €600 billion in collateral from banks to which it has made loans, and more than €400 billion in securities it holds outright, including government bonds.

The ECB's balance sheet has grown to almost €2 trillion. And it has a capital base of just €78 billion. With leverage of more than 25 times, that makes it look like a "hedge fund on steroids," says Mr. Buiter. On the face of it, it doesn't need to lose much on its dodgy assets to wipe out its thin cushion of capital.

Here is where seigniorage comes in. In recent years, the profits on its issue of new paper currency alone have been running at €50 billion a year. In 2008, the year of the Lehman Brothers crisis, it was €80 billion. If you added up what it earns on low-cost bank reserves—now more than €361 billion—it is really generating huge annual profits.

Even with very conservative assumptions about future growth of currency in circulation—at, say, 4% a year, which is in line with the ECB's 2% inflation target plus a margin for economic growth—Mr. Buiter estimates the net present value of the capital stored in future seigniorage profits from the central bank at between €2 trillion and €6.9 trillion. The ECB, he says, is "super solvent." And part of the reason for that derives from the willingness of crooks to hold their cash in euro notes.

Unsurprisingly, an ECB spokeswoman says there is no plan to withdraw high-value notes, national equivalents of which were used in six member states before the euro was launched. They will be retained when a redesigned series is issued in coming years. Though accounting for 40% by value of the bank notes in circulation, the two big bills account for 6% of the total number of notes. Replacing them with small denominations would increase production and processing costs, she says.

EU to overhaul market rules

Reuters

LONDON—European Union regulators on Thursday proposed radical changes to the way the region's securities markets operate so that investors have a complete snapshot of prices currently fragmented by fierce competition.

Heavy lobbying by bourses for their new rivals to face the same tough rules as themselves appears to have paid off. In-house trading by big banks also face tougher rules.

The European Commission, the EU's executive arm, is reviewing the markets in financial instruments directive, a set of EU rules introduced in 2007 and known as MiFID.

The Committee of European Securities Regulators is advising the Commission on drafting amendments to MiFID and has recommended major changes that will change business models of stock exchanges, brokers, banks and new trading venues.

One key recommendation is the mandatory creation of a consolidated "tape," or "pipe," that contains all the prices from share trades across the whole market to give investors a comprehensive view.

"The efficient development of a European consolidated tape for shares on the basis of clear rules and a viable economic model involving the industry is amongst a number of key proposals which should deliver major transparency benefits," said Sally Dewar, a managing director at Britain's Financial Services Authority and co-author of the CESR proposals.

CESR wants a revised MiFID to say that unless the market comes up with a consolidated tape within about two years, the watchdog can set one up.

The recommendations include lessons from the financial crisis on the need for more transparency and the demands on regulators to keep up with big advances in trading technology.

However, regulators are keeping their powder dry for now on what to do about high-frequency trading or ultra-fast computer-aided trading that has come to represent a major chunk of volumes on exchanges.

Lobbying by exchanges for new rivals to face the same tough rules as themselves appears to have paid off. In-house trading by big banks also face tougher rules.

There could still be some recommendations made to regulate high-frequency trading.

CESR is due to become a more powerful pan-EU markets authority from next year and wants specific powers to issue binding guidelines to regulate any change in trading technology.

CESR also held off from requiring banks to post prices before they complete a trade in the vast over-the-counter or off-exchange market.

The Commission, which typically takes on board most of CESR's recommendations, will make formal legislative proposals early in 2011 which will need approval from EU governments and the European Parliament.

Bond boom gains pace

Continued from first page

leaner growth ahead.

July is on pace to be the strongest July for global high-yield-bond issuance on record, according to data provider Dealogic, with $24.3 billion issued so far.

Investment-grade borrowers around the world have issued more than $133 billion in debt during July, the second-highest July on record behind July 2009, according to Dealogic.

The U.S. accounts for most of the new-bond market, but borrowers have been busy elsewhere, too.

Corporate-bond sales around the world so far have reached about $1.4 trillion this year, lagging behind the record $2.1 trillion pace for the same period last year. But offerings were largely put on hold during May and part of June as the sovereign-debt crisis took hold in Europe.

"There is a big calendar building," said Steven Miller, head of the Leveraged Commentary and Data group at Standard & Poor's.

The flood of new debt has come amid a broader sense of relief that a European crisis has been averted for the time being. That has helped lift stock and bond prices.

At the same time, worries about the prospect of slower U.S. economic growth mean the Federal Reserve will keep interest rates low for a long time, typically a boon to bondholders.

And investors are still willing to buy corporate bonds at historically low yields because cash itself yields virtually nothing.

In the past week, Indosat raised $650 million, and managers of the sale said so many investors wanted to get in on the sale that the company could have raised $10 billion. The company paid interest of 7.45%.

McDonald's raised $450 million by selling a bond maturing in 10 years. The burger chain is paying just 3.5% annual interest, a record low for a large batch of debt issued by a U.S. corporate borrower.

Investors have enjoyed high returns from corporate bonds so far. Investment-grade bond returns, which track the money given back to investors in the form of price increases and regular coupon payments, are up nearly 8% this year. In contrast, stock-market returns have been roughly flat.

Some observers question whether the bond market can continue to generate such returns.

"I looked at McDonald's debt and felt marginally the same as if I'd eaten five Big Macs in a row," said Jason Brady, portfolio manager at Thornburg Investment Management in Santa Fe. "It's a great company, but I don't need to own a low-A-rated corporate risk at 3.5%; it doesn't make a lot of sense to me."

U.S. NEWS

Panel charges Rangel with 13 ethics violations

By Devlin Barrett
And Brody Mullins

WASHINGTON—A House committee on Thursday charged Rep. Charles Rangel (D., N.Y.) with 13 counts of ethics violations, after last-minute talks to settle the case remained unresolved.

The charges against Mr. Rangel, a 40-year veteran of the House, are related to his solicitation of donations for a City College center named after the congressman. He was also charged with using a rent-stabilized apartment as a campaign office in New York; failing to report income from a vacation rental in the Dominican Republic; and for a "pattern of submitting inaccurate and incomplete financial disclosure statements" to Congress.

The House ethics committee detailed the allegations during a brief hearing that marked the start of what will be the congressional equivalent of a public trial—unless lawmakers on the panel and Mr. Rangel agree to settle the case.

Before the hearing began Thursday afternoon, lawyers for Mr. Rangel and for House ethics investigators reached a tentative and preliminary settlement, people familiar with the events said. Any settlement must be approved by the 10-member ethics committee. It was unclear whether the committee reviewed the proposal. Details of the agreement, including any proposed penalty, could not be learned.

"Let me be clear that Mr. Rangel, under these rules, was given opportunities to negotiate in the settlement phase. We are now in the trial phase," said Rep. Michael McCaul (R., Texas), the senior Republican on the panel, as the hearing began.

Mr. Rangel did not attend the session, but several of his lawyers did.

Rep. Jo Bonner (R., Ala.) said the Harlem Democrat "may have broken the rules of the House and brought discredit to this body at a time when the American people have such little faith in our ability....It is the duty of the House to punish its members for disorderly behavior."

Republicans are still in a position to block a settlement deal and force Mr. Rangel into a trial, which would take place in the weeks before congressional elections this fall. Many Democrats fear the proceedings would damage them politically just before voters go to the polls.

It is not known whether the Republicans on the ethics panel think the plea deal includes a tough enough penalty for Mr. Rangel. At least one of the five Republicans on the panel must vote with all five Democrats to approve any pact.

Earlier on Thursday, House Speaker Nancy Pelosi of California said the ethics charges should come to light even if that could have a negative impact on Democrats' election prospects this fall.

"The panel will work; it's bipartisan; the political chips will have to fall where they may," she told reporters at a press conference. She denied that Mr. Rangel's ethics problems show that she has failed to deliver on a promise to "drain" an ethical swamp in Washington.

Mr. Rangel made it clear he was bracing for a difficult day. "Sixty years ago, I survived a Chinese attack in North Korea, and as a result I haven't had a bad day since," the combat veteran told reporters. "But today, I have to reassess that statement."

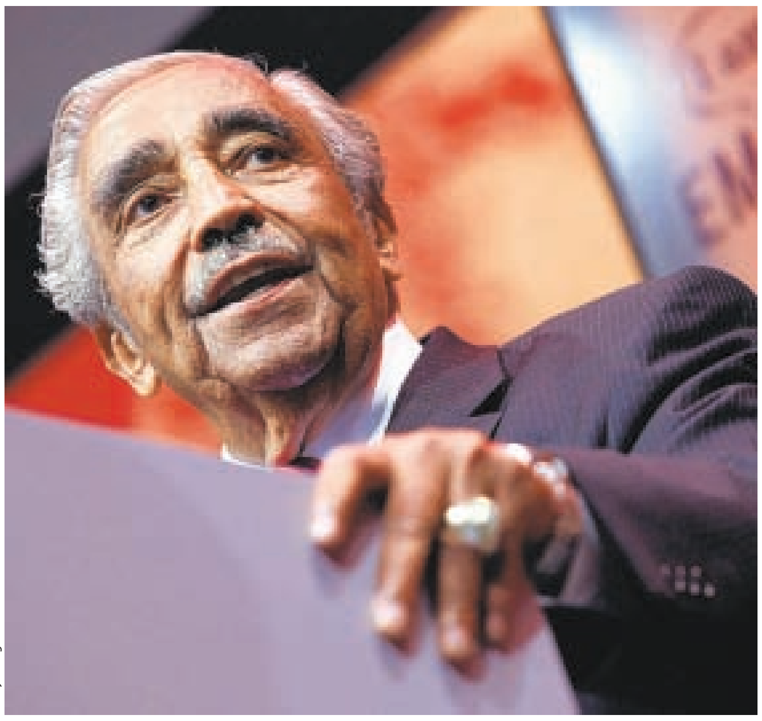
In recent days, Mr. Rangel, 80 years old, has held out hope for a settlement. A major sticking point in the talks has been Mr. Rangel's contention that he did not willfully break any rules. He has insisted that whatever his transgressions, they were honest mistakes. The wording of the House ethics panel's findings about Mr. Rangel's alleged violations has also been at issue, according to a person familiar with the case.

Talks between Mr. Rangel and ethics investigators dragged on for months. Last week, the ethics panel, formally known as the Committee on Standards of Official Conduct, announced it had found enough evidence of wrongdoing against Mr. Rangel to begin a public hearing to determine whether to convict him.

Democrats have been privately and publicly urging Mr. Rangel to settle the case, and he has said he hoped to do so. In the last week, four House Democrats have called on Mr. Rangel to resign.

Mr. Rangel is running for a 21st term in Congress. This year, he has a handful of primary opponents, but none with a large campaign account or widespread popularity.

—Eliza Gray contributed to this article.



Getty Images

Democratic Rep. Charles Rangel speaks on Wednesday in Washington.

U.S. NEWS

Army encounters increase in suicide rates

By Julian E. Barnes

A sharp increase in U.S. Army suicides is likely due to an increase in a range of stresses on soldiers both at home and in war zones, a top Army officer said Thursday.

A 15-month-study on the sharp rise in suicides over the last two years found 160 suicides among active-duty personnel, 1,713 suicide attempts and 146 deaths from high-risk behavior, such as drug abuse, in the year ended Sept. 30, 2009.

Gen. Peter Chiarelli, the vice-chief of staff of the Army who has led the effort to reduce suicides, said that 79% of suicides were soldiers who had one deployment or had yet to be deployed.

But Gen. Chiarelli said it wasn't just the stress of war that weighed heavily on soldiers, but also stresses from back home.

"For us to blame this just on the war would be wrong," he said.

Because deployed soldiers can stay in touch daily with family, they are often asked to help handle issues involving money, children and personal relationships.

For the first half of 2010, there have been 80 suicides of soldiers on active duty and 42 among reserve soldiers, Army data show. For the comparable six months of 2009, there were 88 suicides among active-duty soldiers and 65 suicides among reserve soldiers. In recent years, the Army's suicide rate has risen above the civilian population.

According to the latest National Statistic on suicides and open-verdict deaths among the U.K. Armed Forces, produced by Defence Analytical Services and Advice, in 2009 there were eight suicides in the U.K. armed forces.

For the 26-year period 1984-2009, 737 suicides occurred among U.K. regular armed forces personnel: 718 among males, and 19 among females. This was statistically significantly lower than male suicide rates in the general U.K. population.

U.S. Army data also show the suicide rate is higher on forward-operating bases where soldiers have easy access to phones and computers with which to call home, and lower in more primitive outposts.

"We need to help families understand the importance when their soldiers are deployed of not dragging them back into a life at home that they have very little ability to try and fix," Gen. Chiarelli said.

The Army's 15-month study also contained more than 250 recommendations aimed at curbing suicide rates. Gen. Chiarelli said that one of the more important steps is reviving past practices that helped officers and others monitor at-risk behavior in soldiers and intervene.

Army officials said that some unit leaders may look the other way when they learn of infractions in order to make sure they can deploy with a full complement of troops. But Gen. Chiarelli said failing to track infractions can mean that soldiers who need help can fall through the cracks.

Gen. Chiarelli noted that only 21% of suicides involved soldiers with multiple deployments.

—Will Lyons contributed to this article.

Americans cut back on visits to doctor

Drop in usage raises questions about whether patients are using less health care as they shoulder more of the cost

Insured Americans are using fewer medical services, raising questions about whether patients are consuming less health care as they pick up a greater share of the costs.

By Avery Johnson, Jonathan D. Rockoff and Anna Wilde Mathews

The drop in usage is showing up as health-care companies report financial results. Insurers, lab-testing companies, hospitals and doctor-billing concerns say that patient visits, drug prescriptions and procedures were down in the second quarter from year-ago levels.

"People just aren't using health-care like they have," said Wayne DeVeydt, WellPoint Inc.'s chief financial officer, in an interview Wednesday. "Utilization is lower than we expected, and it's unusual."

Others say consumers are beginning to forgo elective procedures like knee replacements. "We have a very weak economy and it's just a different environment for the elective parts of health care," said Paul Ginsburg, a health economist who runs the Center for Studying Health System Change and has been analyzing health-company earnings. But "this could go beyond the recession. Being a less aggressive consumer of health care is here to stay."

Continued weak demand could eventually put downward pressure on spiralling health-care costs, a long-sought goal of policy makers. It could also force insurers to lower premiums.

The new trend comes amid a broader drop in health-care use as more Americans lose their jobs and their health insurance. Such cutbacks have happened before in recessions, but the drop seems to be more pronounced this time, industry analysts say.

More Americans are buying high-deductible health plans that force them to bear more of the upfront costs for health services. Some 18 million Americans bought high-deductible plans this year, compared with 13 million last year, according to Paul Mango, a director at consulting firm McKinsey & Co.

At the beginning of the year, Dan and Natalie Johnson, of Gig Harbor, Wash., used the website eHealthInsurance.com to buy a new plan with a high deductible, now set at $5,500 for their family. Their previous coverage had no deductible.

Now, the couple says they are thinking twice before scheduling doctor visits.

Recently, when their 16-year-old daughter's allergy prescription ran out, Ms. Johnson called the allergist's office to ask for a renewal, without coming in for an appointment, as she would have done under their previous insurance.

And this spring, their son, 14, got his athletic physical at a local urgent-care clinic that charged just $40, instead of a doctor's office, which would have cost about $90. "We don't want to go through our savings going to the doctor," says Ms. Johnson, a photographer.

All this raises the question of whether, after a year of national attention on out-of-control health costs before the federal health overhaul passed in March, the trend portends a lasting change in the way Americans use the medical system.

Just a year ago, insurers reported surging health-care usage. Back then, more consumers were signing up for Cobra, the federal program that allows people who have lost their jobs to keep their insurance. The government had extended a subsidy to cover 65% of the cost of the coverage, which can be prohibitively expensive.

However, the Cobra subsidies only covered the unemployed for 15 months, and many people have hit the limit and dropped coverage. What's more, people who have lost their jobs since the end of May don't qualify for the Cobra subsidies.

To be sure, the change in behavior could be short-lived. On an earnings call last week in which it reported a decline in hospital usage, UnitedHealth Group Inc. said it thought utilization would rise again in the second part of the year, as Americans exhaust their deductibles and insurers start paying for services. Both Aetna Inc. and WellPoint said the utilization fall-off was new as of this year, and they had not seen the trend previously even as the economy has deteriorated. Some insurers also cited an unusually mild flu season this year as a temporary factor.

What's more, the federal health overhaul could cause usage to surge again. The new law will hand insurance cards to many Americans in 2014, which could unleash pent-up demand.

Utilization has ticked down in previous recessions, and tends to take a year or two to change because of how far in advance employers and insurers design their health plans, said Carl McDonald, an analyst at Citigroup Investment Research. He said the last time he saw utilization fall off was in 2003, adding that usage also dipped in the early 1990s. But he added the drop is bigger this time than in previous recessions.

The declines in utilization has boosted profits for insurers, who set their prices to cover anticipated medical costs. Insurance industry prices and profits have been under fire by Democrats and regulators this year. Insurers have justified high premiums by pointing to out-of-control medical costs. But the recent drop in usage could make it difficult for insurers to argue that continued price increases are necessary.

On Wednesday, Aetna said usage of health-care fell in the second quarter, feeding a 42% increase in profits. WellPoint reported a 4% earnings bump, saying that hospital admissions and usage of prescription drugs had dropped compared with a year earlier.

After the earnings releases, Rep. Pete Stark (D., Calif.) called on the companies to reduce their premiums since they are paying out less in medical care. In an interview, Aetna's chief financial officer Joseph Zubretsky said companies might eventually have to do just that. "If utilization stays down, it will have a favorable impact on rates," he said.

One company reporting evidence of lower utilization is CVS Caremark Corp., the drugstore giant. In its earnings announcement Wednesday it said it is seeing a drop-off in new prescriptions for maintenance drugs tied to a decline in physician visits.

People are "visiting fewer primary care doctors and specialists," said Chief Executive Tom Ryan, in a conference call with analysts.

Last week, Quest Diagnostics Inc., a laboratory-testing company, told investors that its volume fell 2.6% in the first quarter and 1.3% in the second partly because of decreasing physician visits. In addition, AmSurg Corp., an outpatient-surgery company, reported that same-store procedures declined by 2.6% compared to a year earlier.

Another sign that people are forgoing doctor visits or getting less care came from athenahealth Inc., which provides billing services and electronic health records for more than 1,700 medical groups. It said last week that the number of claims filed per physician, as well as the average value of the billing for each visit, had dropped from a year earlier.

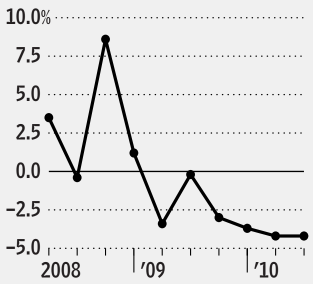
Physician visits and hospital admissions are dropping this year, according to Thomson Reuters' healthcare business, which surveys doctors and hospitals. Doctor visits have declined each month this year, including a 7.6% drop in May 2010 from May 2009. Likewise, hospital admissions dropped in three of the first four months of this year compared to those months last year, including being down 2.3% in April 2010 from April 2009.

Katie Orlinsky for The Wall Street Journal

The ambulance entrance to the emergency room at Jamaica Hospital in Queens, N.Y.

Staying away

Patient visits to physicians' offices, change from year earlier



Source: UBS Investment Research analysis of IMS Health data

U.S. NEWS

Fall fight for House pits momentum versus money

[Capital Journal]

By Gerald F. Seib

In a political campaign, money and momentum are both nice to have. In this year's race for control of the House of Representatives, we'll find out which is more important.

Heading into the fall campaign season, most would agree that Republicans have momentum on their side. They are benefiting from economic and deficit anxiety, as well as diminished approval ratings for President Barack Obama and the Democratic-controlled Congress. Most importantly, their party's base seems highly motivated to show up at the polls in November.

But to a surprising extent, Democrats enter the campaign season with a distinct money advantage in the battle for the House. The most vulnerable House Democrats—freshman and sophomore members elected from swing districts—have compiled campaign war chests far bigger than those their Republican opponents bring to the races. Those Democrats, as a result, will have ample resources to spread their message and reach out to their base. The question will be whether the money advantage is enough to offset the momentum advantage.

House Democratic leaders did one thing right in this cycle: They cajoled and compelled their young and vulnerable caucus members to start raising money early.

The best way to illustrate this underappreciated disparity is to look at the House members who have the toughest districts to defend this year. There are 19 House Democrats running for re-election who first won in 2006 or 2008 in districts that Republican contender John McCain carried in the last presidential race. By definition, these Democrats haven't been in office long enough to be considered well-entrenched in their positions. And by virtue of the 2008 presidential vote, it's clear they come from districts that are prone to flip to the Republicans under the right circumstances.

An examination of Federal Election Commission records shows that, as of June 30, these 19 especially vulnerable House Democrats had a combined $23.2 million in campaign cash on hand, compared with just $7 million for their leading Republican opponents. That's a cash advantage of more than three to one heading into the thick of the campaign season.

Fifteen of the 19 Democrats had more than $1 million in cash on hand, compared with just one of the Republican opponents.

In some cases, the Democrats' cash advantage is enormous. One of the House's most vulnerable Democrats is freshman Rep. Kathy Dahlkemper of Pennsylvania's Third Congressional District, which Mr. McCain carried with 51% of the vote. Yet the FEC reports show that Ms. Dahlkemper had more than $1 million in cash as of June 30, almost 10 times the $103,508 reported by Republican opponent Mike Kelly.

Similarly, Rep. Gabrielle Giffords of Arizona's Eighth District, first elected from her swing district in 2006, reported $2.2 million in cash. The Republican considered most likely to win the Aug. 24 primary, former state Sen. Jonathan Paton, had $286,477 in cash on hand, some of which figures to be consumed in his effort to win the Republican nomination.

The money advantage such imperiled Democrats enjoy is no accident. Amid their many problems, House Democratic leaders did one thing right in this cycle: They cajoled and compelled their young and vulnerable caucus members to start raising and banking money early, because of the difficulties an incumbent party almost always has in the midterm election after a new president takes office.

Many of the vulnerable new Democrats were enrolled in the party's Frontline program, which gives newer members party help in raising money and building campaign teams and strategies. The Democratic Congressional Campaign Committee says that the 42 members of its Frontline program have an average of more than $1.1 million in campaign cash on hand.

To all of this, Republicans say, essentially: So what?

First, they note that they are closing the money gap. More importantly, they argue that a national political wave will overwhelm money advantages, and that they are riding such a wave in 2010.

Ken Spain, communications director for the Republicans' House campaign committee, says Democrats should recognize as much from their own recent experience on the other side of the equation. When Democrats took control of the House in 2006, he says, many of the Republicans they defeated had similar monetary advantages, which proved insufficient to hold back a national Democratic wave.

"We don't have to outspend the opposition to win in a year like this," Mr. Spain says.

Still, it's better to have money than not, and Democrats can at least hope it helps them to reach their voters and drive home a message that at the moment seems eclipsed by Republicans' anti-Obama themes. "People want to hear: What's your plan for bringing back jobs?" says Democratic Rep. Tom Perriello, a Virginia freshman. With $1.7 million on hand and an almost eight-to-one cash advantage over his foe, Mr. Perriello will, if nothing else, have the resources to spread his answer to that question.

Associated Press

Attorneys gather outside the James A. McClure Federal Building in Boise, Idaho, on Thursday.

Lawyers appeal for rights of venue in oil litigation

By Dionne Searcey

BOISE, Idaho—Louisiana plaintiffs' attorneys appealed to a federal judicial panel on Thursday to send the sprawling oil-spill litigation to a judge in New Orleans, which they said is ground zero for the mess that has paralyzed lives like nowhere else.

They were among the roughly 250 attorneys who showed up at the federal courthouse here to make their pitch for a venue, including everywhere from Texas to Mississippi to South Carolina, to send the more than 300 civil cases filed against **BP** PLC and others. The suits include federal economic, environmental, racketeering and personal-injury claims.

BP, rig-owner **Transocean** and other defendants want the cases to go to Houston, where they have corporate offices and an environment more sympathetic to the oil industry.

Arguing for New Orleans was Stephen Flynn, an attorney for the U.S. Justice Department, who said the agency believed it would at some point have environmental claims against defendants.

He was joined by New Orleans plaintiffs' lawyers who laid out appeals for keeping the litigation close to home. "If after the Sept. 11 attacks this panel had sent all those cases to Houston or brought in a judge [from elsewhere] to sit in New York, the public would be outraged," said New Orleans plaintiffs' attorney Allan Kenner.

The panel will decide in coming weeks whether to consolidate the cases, which is likely, and then where they will be heard and before which judge or judges. Attorneys have suggested importing a judge from outside the Gulf to hear the suits in a New Orleans court, splitting the cases and sending them to various judges or picking one judge to handle all suits, at least initially.

For the New Orleans attorneys, who are representing fishermen, waterfront resorts and others hurt by the spill, one kink in their plans could be whether the panel can find a judge in their city without ties to oil. In the Eastern District of Louisiana in New Orleans, only four judges remain officially standing, and attorneys Thursday said there are questions of conflicts swirling about three of them. Others on that bench have recused themselves.

The panel showed keen interest in the status of New Orleans Judge Carl J. Barbier, asking lawyers for thoughts on his status. Some defendants have tried so far unsuccessfully to have him recused because he sold off Transocean and Halliburton Co. bonds about a month after oil suits came before him.

San Francisco attorney Elizabeth Cabraser, a veteran of mass-tort cases who is arguing for the suits to be heard in Mississippi, told the panel that the spill was the highest-profile incident in the country "and is going to call for a jurist beyond reproach."

Defendants cited judicial conflicts in New Orleans as among the reasons to move the case to Houston. David Beck, an attorney representing blowout preventer-maker Cameron International Corp. said Houston offered at least nine judges without oil conflicts.

BP's outside attorney Andrew Langan said Houston's dockets were less crowded than those in New Orleans. And Donald Godwin, representing Halliburton, said Houston judges know how to keep cases moving along.

Transocean's outside lawyer Kerry Miller said Houston "has the machinery and the infrastructure set up to begin the just and efficient handling of these cases."

Plaintiffs' attorney Mark Lanier of Houston also argued for his hometown, saying that since some parishes in New Orleans had sued BP, the city's jury pool was tainted.

Judge John G. Heyburn, the chief judge on the panel, said the judge who ultimately oversees the case would be fair, regardless of venue.

"What federal judges do and have done in case after case and time after time is consider cases in a fair way that not only involves the interest of their community but of other communities," he said.

Of the mass of lawyers assembled Thursday, only 23 were permitted to offer arguments before the panel. Most had only two minutes to do so, barely enough time to utter a haiku before a red light flashed to inform them their time was up.

Cleaners seek line in the sand

By Jeffrey Ball

GRAND ISLE, La.—Scientists and public officials are hashing out which stretches of shoreline need the most intensive cleaning from the oil that has washed ashore after a well exploded in the Gulf of Mexico.

Millions of barrels of oil have gushed into the Gulf from the BP PLC well, inundating some delicate marsh lands and fragile beaches.

On seemingly similar stretches of coast, officials are starting to pursue varying levels of treatment, sparking another debate about whether doing too much to counteract the oil could be worse for the environment than doing too little.

Beaches that draw vacationers—"amenity beaches," in oil-spill-industry lingo—are being cleansed more aggressively than beaches on national seashores.

Washing the sand may please tourists, officials say, but it could kill ecologically important critters living on the beach.

Federal, state and local government officials are starting to meet with BP representatives to discuss how they will decide when the cleanup has gone far enough.

WORLD NEWS

China reporter wins an apology from the police

Loretta Chao/The Wall Street Journal

The Economic Observer, above, successfully challenged local authorities' response to a series of investigative articles.

By Loretta Chao

BEIJING—A showdown between a Chinese business reporter and local police who put him on a wanted list for articles criticizing a local company ended with city officials ordering the police to apologize, in an episode viewed as a victory for the country's increasingly feisty media.

Qiu Ziming, a reporter for the Economic Observer, wrote a series of articles for the newspaper starting last month that accused managers at **Zhejiang Kan Specialty Material** Co., a Shenzhen-listed paper manufacturer, of illegal activities including insider trading and embezzlement. On July 23, police in Suichang County, where Kan Specialty Material is located, added Mr. Qiu to a list of wanted criminals for "damaging a company's business reputation." Mr. Qiu and his family went into hiding to avoid being detained, according to a person familiar with the matter.

The police move prompted widespread criticism, as word of the affair spread over the Internet through Twitter-like microblogging services that are becoming increasingly popular in China. Then, on Thursday afternoon, the public security bureau in Lishui City, which oversees Suichang County, issued a notice on its website announcing that the Suichang authorities would be required to apologize and to remove Mr. Qiu from the list because the detention order didn't meet legal requirements.

Kan Specialty Material has steadfastly denied wrongdoing, and the merits of Mr. Qiu's accusations couldn't be independently confirmed. Mr. Qiu couldn't be reached for comment.

The rapid retreat of authorities in the face of public criticism was hailed by some media advocates as a triumph in a country where government officials and corporations frequently use their clout to try to suppress unpleasant news.

"Definitely, this should be considered a victory for public opinion, and a credit to the increasingly open media, especially new media," said Du Junfei, a journalism professor at Nanjing University. Bolder actions taken by the media and expression of public opinion on the Internet "have become a kind of mechanism that pushes society forward in today's Internet era."

For decades China's media generally marched in lockstep with propaganda authorities, but in the past decade an increasingly commercial-minded media have stepped up reporting on scandals and corruption. That reporting is also more widely read, thanks to the Internet, which now has some 400 million users in China.

While the central government still ultimately has the power to dictate coverage, in practice it often tolerates investigative coverage provided it doesn't target top national leaders or question the Communist Party's monopoly on power.

In Mr. Qiu's case, the Economic Observer took the unusual step of releasing a public statement challenging the local authorities for putting Mr. Qiu on a wanted list. The statement said that "journalists and others were repeatedly threatened and offered inducements" leading up to the publication of Mr. Qiu's articles. The person familiar with Mr. Qiu's situation said Kan Specialty Material offered the reporter thousands of dollars in cash, and offered the newspaper tens of thousands of dollars, if they didn't publish the articles.

A Kan Specialty Material spokesman said the company never offered bribes to Mr. Qiu or to the Economic Observer. The spokesman said that the company did ask the local police to investigate articles that were harming its reputation, but that Kan Specialty Material didn't ask the authorities to target Mr. Qiu. "Our company has always operated business based on the law," the spokesman said.

The Suichang County police couldn't be reached for comment.

Many Chinese Internet users who had followed Mr. Qiu's story expressed their approval of the decision. One user writing under the name "Piao Sang" on the microblogging website of Sina.com called the news a "victory for public credibility." But the user added that this was "also another blemish on the record of law enforcement authorities."

—Sue Feng in Beijing and Bai Lin in Shanghai contributed to this article.

IMF exhorts China to lift consumption

By Andrew Batson

BEIJING—China's trade surplus is set to balloon again unless the government takes more steps to support domestic consumption, including letting its currency strengthen, the International Monetary Fund warned in its annual review of the nation's economy.

The assessment by the IMF staff, published Thursday, reflects the growing concern among some economists and officials that a shift toward a more sustainable pattern of global economic growth could be stalling as the worst of the crisis recedes and countries return to business as usual.

Some of the report's conclusions—including its contention that China's currency is "substantially" undervalued—were disclosed by the IMF earlier this week.

The fact that the report, known as an Article IV review, was released at all marks an improvement in the sometimes-testy relationship between China and the fund. China had blocked the IMF from publishing a review since 2006. The dispute was resolved only when the IMF backed away from calling China's currency "fundamentally misaligned" and substituted in the term "substantially undervalued."

Publication of the report was also eased by the removal of a footnote that explained in detail the IMF's calculation of the extent of undervaluation.

Using different methodologies, says Cornell University economist Eswar Prasad, who formerly headed the IMF's China desk, the IMF had calculated a range of possible undervaluations: 5%, 15% or 27%.

IMF China Mission Chief Nigel Chalk didn't comment on the footnote but said a "stronger renminbi is needed but exactly how strong is very difficult to say because the economy is changing so rapidly."

The debate over currency policy is only part of the discussion over the broad direction of the Chinese economy, which both the IMF and China's government agree still depends too much on exports. Supporting domestic consumption instead "will reduce China's reliance on external demand and better insulate the economy from shocks in overseas markets," the IMF said.

China gave domestic demand an enormous boost with its stimulus program to combat the effects of the financial crisis, resulting in a surge in imports of raw materials and equipment to feed a construction boom. As a result, China's current account surplus—the broadest measure of its trade balance—fell sharply, reaching 4.5% of gross domestic product in the first quarter of this year, less than half the peak level of nearly 11% of GDP in 2007.

For China to ensure that its trade surplus continues to decline will be "an exceptionally complicated exercise in macroeconomic engineering" that "will require concerted action on multiple fronts," the IMF said.

—Bob Davis contributed to this article.