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Komorowski wins Polish presidency, as rival concedes

By GORDON FAIRCLOUGH AND MARCIN SOBczyk

WARSAW—The candidate of Poland's business-friendly ruling party, which wants to shrink the state's role in the economy and deepen ties with the rest of the European Union, won Sunday's presidential election, defeating a rival with a more traditionalist agenda.

Bronislaw Komorowski of Civic Platform won 53.1% of the vote, according to exit polls cited by public-television station TVP, while his opponent Jaroslaw Kaczynski, of the Law and Justice party, finished with 46.9%. Exit polls by another TV station, TVN, indicated a tighter race, with Mr. Komorowski winning 51.1% of the popular vote and Mr. Kaczynski taking 48.9%.

Mr. Kaczynski on Sunday night conceded, and congratulated Mr. Komorowski on his victory in the voting, which was moved forward after Mr. Kaczynski's identical-twin brother, the late President Lech Kaczynski, was killed along with dozens of other Polish dignitaries when his plane crashed on its way to a ceremony in Russia in April.

Mr. Komorowski's triumph means that Poland's president will belong to the same party as its prime minister. That will clear the way for Prime Minister Donald Tusk and his cabinet to push ahead a legislative agenda that includes moves to trim public spending and privatize remaining state enterprises.

"Polish democracy has won," said Mr. Komorowski in televised remarks Sunday night. Mr. Komorowski—the speaker of Parliament who has been acting president since the accident—also called for efforts to build "national unity" in a country where "divisions are too great."

Invoking the mass movement that led to the downfall of communism here two decades ago, Mr. Komorowski said: "There can be no freedom without solidarity—that was true 21 years ago and it's true today."

The close tally reflects the split electorate, with more traditional and Catholic rural voters siding strongly with the more socially conservative Mr. Kaczynski, and wealthier, urban Poles tending to back Mr. Komorowski.

Poles often refer to their

country as split between Poland A, more prosperous and outward-looking, and Poland B, which is less developed and having more trouble adapting to post-Communist life. Wealthy cities are separated from remote rural areas. People's prospects and outlook also differ with age and education level.

Geographically, there also is a stark divide between the western and northern parts of Poland, reclaimed from Germany after World War II, and the eastern and southeastern regions of the country, less affected by postwar population migrations, which tend to vote for candidates who have a more traditionalist agenda.

Mr. Komorowski is favored by Poland A and in the north and west parts of the country. Mr. Kaczynski is the choice of Poland B and the east and southeast of the country. Mr. Komorowski also emerged as the candidate favored by investors, in large part because he is considered more of a fiscal hawk than Mr. Kaczynski.

Mr. Komorowski has declared his support for the government's plans to cut spending to shrink Poland's

Please turn to page 4

Unbroken and unbowed



By beating Tomas Berdych to win Wimbledon on Sunday, Rafael Nadal took his number of Grand Slam titles to eight, joining such greats as Roger Federer (16), Pete Sampras (14), Björn Borg (11), and Andre Agassi (8). Special report inside: How tennis became a numbers game, pages R1-R8.

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The Quirk



Some Germans prefer to waive the flag that immigrant displays so proudly. Page 29

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Editorial & Opinion

'We might have been a free and great people together.' Page 14

Petraeus takes control, urges united support for Afghan war

By ALAN CULLISON AND PETER SPIEGEL

KABUL—Gen. David Petraeus took command of coalition forces under the pine trees near NATO headquarters in the Afghan capital Sunday, and called on civilian and military leaders to unite in their support for the war and show "we are in this to win."

Despite mounting casualties and a stiff insurgency, Gen. Petraeus vowed that the North Atlantic Treaty Organization coalition had a long-term commitment to Afghanistan and that "neither insurgents nor our partners in the region should doubt that."

The suddenness of Gen. Petraeus's assumption of command in Kabul was evident in

who was absent from the ceremony, in which he accepted the colors of the U.S. and NATO: Gen. Stanley McChrystal, his predecessor who was fired by President Barack Obama just over a week ago for making remarks that belittled some senior administration civilians in a Rolling Stone magazine article.

Since his arrival in Kabul Friday, Gen. Petraeus has made soothing the rancor among top U.S. officials a prominent theme of his public appearances, including attending a U.S. Embassy reception over the weekend hosted by Ambassador Karl Eikenberry, a skeptic of the troop surge who Gen. McChrystal openly criticized in the Rolling Stone piece. Gen. Petraeus

called Ambassador Eikenberry his "Ranger buddy"—a reference to both men's past tenure with the elite Army Rangers—and said he planned to work closely with the U.S. envoy, who himself is a former military commander in Afghanistan.

As if to reinforce the point, in his 11-minute address Sunday—made before the top echelon of coalition forces in Afghanistan, many of whom were appointed by Gen. McChrystal—Gen. Petraeus said "cooperation is not optional" and added that civilian and military efforts are "part of one team with one mission."

The change in command comes at a time that senior Pentagon officials, including

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PAGE TWO

Europe knows what it needs to do

[Agenda]

BY IRWIN STELZER



At a small, turn-of-the-century dinner party in Washington, arranged for a high EU official by the U.K. ambassador to the U.S., the official asked what the assembled experts thought would be the future role of Europe in world affairs. A colleague of mine responded, "Europe is irrelevant to the 21st century."

The heated denials that followed were not credible then, and are less so now. The good news for the future of the European Union is that its leaders now know that, and know what they have to do.

The bad news is that knowing what has to be done is quite a different matter from actually doing it.

The best and most obvious example is Greece. Policy makers know that eventually they will have to allow Greece to restructure its debt, but insist they won't. But that is only today's problem, and a trivial one compared with the more fundamental issues that threaten Europe's future relevance.

Europe's refusal to bear the burdens of maintaining a sensible world order has diminished its influence around the world. Ask anyone in the White House to name the three European Union presidents, and most will have trouble naming one.

Why bother communing with an area the size of America that won't spend enough on its military to police its own backyard, or make a meaningful contribution to the war on terror—Britain being the notable exception.

The spectacle of the president of the EU's largest country being forced to resign for suggesting that the deployment of German troops to Afghanistan, most of



The euro's survival depends on some politically unpalatable choices.

whom are kept at a great distance from any fighting, is a proper defense of the nation's self-interest tells a great deal about the reliability of Europe as an ally. Absent some great moral purpose, Europe won't fight, and given a great moral purpose such as stopping Serbian genocide its financially starved military doesn't have the resources with which to fight.

The eurocrats fight fiscal deficits but maintain the EU's democratic deficit at all costs.

At the time of the Washington dinner it was possible to deny the fact that a monetary union that does not include some central control of fiscal policy is not sustainable.

No longer. Wild deficit spending by Club Med countries has produced perhaps fatal strains on the euro.

Consider these facts: the world's central banks are reluctant to add to their piles of euros, rating agencies are increasingly skeptical of the quality of sovereign euro-zone debt, investors are hesitant to make funds available to European banks at anything like historic interest rates, and German voters are tired

of being the EU's ATM.

The question now is what is to be done that both ensures the survival of the euro and is also politically feasible.

On one thing the eurocracy agrees: It must not trigger an amendment to the Lisbon Treaty, lest voters be given another chance to let their masters know just what they think of the European Project, and torpedo it. Less kindly put, fight fiscal deficits but maintain the EU's democratic deficit at all costs.

Europe's leaders believe they can do what needs to be done without a treaty revision. Top of their list is to convert Europe's sclerotic economy into a dynamic one.

It is now obvious that annual growth of 1% just won't do, especially in a period of austerity. All save the unreconciled Left agree that labor-market reform is crucial. Even Spain and Greece are taking the first baby steps in that direction by making firing easier and less costly so that employers will be more willing to take on new staff.

Not far behind must be other items on a growth agenda. Lower marginal income tax rates, fewer regulatory hurdles for entrepreneurs who seek to establish new businesses, a competition policy that makes cartels criminal ventures rather than mere fine-payers, an end to

the protection of overmanned national champions from the threat of takeover, and farmers from more efficient producers outside the EU.

It is not yet clear that even the threat of economic stagnation and international irrelevance can muster sufficient support for such radical measures in a union in which many states see markets as the enemy, rather than the driver of efficiency and higher living standards. Adam Smith and Milton Friedman haven't achieved iconic status in most EU countries.

Finally, if Europe is to be taken seriously as this century wears on, it will have to get its act together. One president of some consequence—a Tony Blair, perhaps—instead of three sharp-elbowed bureaucrats jostling for primacy. Most important, a stitching together of the Franco-German relationship.

This is not a matter of finding some way that the hyperactive Nicolas Sarkozy and the cautious Angela Merkel can accommodate each other's foibles. They are not forever. Their nations are.

But for now it matters that Ms. Merkel is inflation-shy, reluctant to reward profligacy, and unwilling to cede control over Germany's economic affairs to Brussels.

Mr. Sarkozy, meanwhile, would like to institute European economic management, and assert political control of the European Central Bank so as to soften its anti-inflation stance.

Germany is less shy of asserting its national interests as the World War II generation dies out, making it difficult for Mr. Sarkozy to continue the EU arrangement France found so attractive—Germany the horse, France the rider; Germany, with its strong balance sheet, the funder, France the spender. Resolve these differences or policy paralysis and irrelevance surely await.

—Irwin Stelzer is a director of economic-policy studies at the Hudson Institute.

What's News

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■ **U.S. Secretary of State Clinton** visited Azerbaijan following stops in Ukraine and Poland, on a tour aimed at promoting democracy and strengthening U.S. ties in Eastern Europe. 5

■ **Austrian police** are investigating evidence that a crime group funded protests last year aimed at toppling Georgia's president. 5

■ **Apple said** the signal-strength display of the iPhone is faulty, and the company plans to provide a free software update. 22

■ **The euro has more room** to rise, traders say, as concerns fade regarding the euro zone and doubts mount about the U.S. recovery. 23

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Previous results

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NEWS

Giant skimmer is next big hope in the Gulf

Ship from Asia has potential to collect as much oil-infused water in a day as smaller boats have in two months

BY ANN ZIMMERMAN
AND BRIAN BASKIN

NEW ORLEANS—Officials began testing Friday what they hope will become the world's largest oil-skimming vessel, able to gulp up huge volumes of crude spewing in the Gulf of Mexico from the well owned by BP PLC.

If successful, the ship has the potential to take in as much oil-infused water in a day as smaller skimming boats have collected in two months.

The A Whale ship, owned by Taiwanese company **TMT Group**, is the length of 3½ football fields and 10 stories high. It is designed to work close to the source of the spill where the oil is more concentrated. The smaller skimmers work from nearer the shore to about three to five miles out, where the oil is fairly dispersed.

"The ship is the best hope to date for an effective cleanup," said Edward Overton, professor emeritus of environmental sciences at Louisiana State University. He was asked by TMT to inspect the ship when it was docked in Norfolk, Va., last week.

Meanwhile, a U.S. presidential commission formed to evaluate the causes of the Gulf oil spill has set its first public meeting, July 12-13 in New Orleans. And oil-containment efforts continued to ramp up following last week's turbulent weather.

BP said Sunday that it continued



The A Whale, anchored on the Mississippi River last week, is designed to filter some 500,000 barrels of oily water a day.

to recover oil at a steady pace, collecting 25,195 barrels on Saturday. This brings the total amount of oil collected since the spill to about 607,400 barrels, BP said in an operational update on its website.

Before the A Whale can be pressed into service full time, it must pass certain hurdles. The ship, a cargo vessel that was retrofitted at TMT's expense to help with the spill, hasn't been tested in real-world conditions, so it is unclear whether it can effectively ingest the thin crude

that is flowing from the well, said BP spokesman Scott Dean. Chemicals called dispersants used to break down the oil also make it harder for the skimmers to pick up the oil.

Unlike smaller skimming boats—mostly converted fishing boats—that bring the oily water back to shore for disposal, the A Whale is designed to separate oil from the water and then discharge cleansed water back into the sea. The vessel could collect some 500,000 barrels of oily water a day.

In the last two months, as estimates of how much oil is escaping into the Gulf increased from 1,000 barrels to as high as 60,000 barrels a day, some local and federal elected officials have criticized the federal response—particularly the number of skimmers marshaled to the scene—as inadequate.

One deterrent to getting more skimmers to the Gulf is a federal requirement under the Oil Pollution Act of 1990 that both the U.S. Navy and state jurisdictions around the

country had to have a certain number of skimmers on hand in the event of an oil spill.

Earlier this week, the Coast Guard and EPA issued a temporary rule relaxing the federal skimmer requirements through December, freeing up the number of skimmers available to be used in the Gulf. But some politicians still decried how long it took to get the change approved.

"The president and his administration need to be moving heaven and Earth to get those ships there tomorrow," Sen. George LeMieux (R., Fla.) said in an interview Friday. "In fact, they should have been there 50 days ago."

The administration defended the spill cleanup efforts in a statement Friday. "...In early June we aggressively increased our focus on skimmers to combat the oil leaking from BP's well," said Coast Guard Adm. Thad Allen, who heads the federal spill response team. Adm. Allen said Friday there are 550 skimmers of various sizes working in the Gulf today, up from 100 large skimmers at the beginning of June.

If the A Whale performs well, BP or the federal government could contract with TMT to work in the Gulf. TMT, a privately owned shipping company, invested tens of millions of dollars to turn the ship into a skimmer.

—Anna Raff contributed to this article.

Contest over Norilsk continues to heat up

BY ALEXANDER KOLYANDR

MOSCOW—A boardroom fight at Russian miner OAO **Norilsk Nickel** between two of the country's richest businessmen reached a new high over the weekend, as the results of a shareholder meeting June 28 were questioned by the company's ousted chairman, Kremlin power broker Alexander Voloshin.

Mr. Voloshin, once a chief of staff to Russian Presidents Vladimir Putin and Boris Yeltsin, refused to sign off on the protocol of the annual general meeting, citing what he said were violations of corporate best practices, the company's charter and Russian corporate law.

With the move, rare in Russian corporate practice, Mr. Voloshin threw his voice in support of aluminum company **UC Rusal Ltd.**, the owner of a 25% stake in Norilsk, which accused the management of the miner of "manipulation" in elections for the board.

Although not signing the protocol doesn't annul the election of the new board, it attracts attention to the company. Rusal, led by its de facto controlling shareholder Oleg Deripaska, and **Interros Holding**, owned by billionaire Vladimir Potanin, who also holds a 25% stake, are fighting for control, following a short-lived truce.

In a letter sent to the secretary of the Norilsk meeting and copied to company Chief Executive Vladimir Strzhalkovsky July 2, Mr. Voloshin said shareholders were casting their votes, based on "nontrue" information presented to them at the beginning of the meeting. He wrote that

the quorum figure, announced before the voting, differed from the total announced number of the votes cast at the meeting. At the beginning of the meeting, the quorum figure was 75.07% of all shareholders, while at the end, the total share of the votes cast was 92.82%, Mr. Voloshin said. "The majority of the shareholders, bar the selected ones, were de facto misguided about the real number of the voters and had to cast their votes, based a wrong information," he wrote.

Norilsk didn't deny the difference between the figures, but played down the issue. A Norilsk spokeswoman on Sunday said the company saw no wrongdoing during the meeting as "the quorum is announced before the voting, while shareholders may register their votes until the end."

Rusal and Interros said that they have had an agreement to vote for four of their representatives each, plus two two directors, associated with the state. Rusal had to cast its votes for Mr. Voloshin, while Interros for a first deputy chairman of state-controlled bank OAO **VTB Group**, Vasily Titov.

But the voting led to Rusal having just three its representatives on the board, including Mr. Deripaska, while Interros got four. Mr. Titov, two independent directors and three managers of Norilsk were also elected.

Rusal boycotted the new board meeting, which elected Mr. Titov as chairman. VTB is one of the largest lenders to Interros. Interros said that it wouldn't prevent the extraordinary general meeting.

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EUROPE NEWS

Lagarde upbeat on stress tests

French official says Europe's banks are solid

By NATHALIE BOSCHAT

AIX-EN-PROVENCE, France—France hasn't made a choice between austerity and stimulus, Finance Minister Christine Lagarde said Sunday, describing the French economic policy as a mix of spending cuts and measures aimed at boosting demand.

The robustness of the recovery and the ability of banks to survive a second downturn was a recurring theme at an economic conference here.

Ms. Lagarde said European stress tests will show European and French banks to be solid.

The European Union's internal markets commissioner, Michel Barnier, said he was confident Europe would have the tools to quickly deal with any problems exposed by the stress tests, which seek to show how a bank could handle extreme crises.

Under pressure from the U.S., which was worried about the exposure of European banks to the sovereign debt of euro-zone countries such as Greece, Spain and Portugal, European leaders agreed at a recent summit to disclose the results of stress tests being carried out on European banks.

These tests target around 100 of the Continent's largest banks and their results will be published on July 23, she said.

Ms. Lagarde straddled the two sides of the international debate on the necessity of stimulus measures to preserve the global recovery. Going into the Group of 20 summit in Toronto last month, nations were split on how fast to withdraw stimulus measures aimed at supporting

demand and starting to cut deficits.

The U.S. in particular urged its European counterparts, most of which have unveiled sweeping deficit-reduction plans in recent weeks, to take all necessary steps to safeguard growth.

"There is no choice between austerity and stimulus," Ms. Lagarde said at the conference in Aix-en-Provence. "Our policy is a subtle mix between growth-friendly spending cuts and letting play out the remainder of our stimulus package," she said.

The French government has committed to reducing the public deficit as a percentage of gross domestic product from a projected 8% this year to 3% in 2013, and to this end has said it will freeze state spending for three years and cut operating costs 10% by 2013.

The aim is to generate €100 billion (\$125.61 billion) of savings by 2013, half of which will come from spending cuts and the closure of tax loopholes, and the other half from an increase in tax receipts due to the return of growth, according to the French government plan.

European Central Bank President Jean-Claude Trichet said at the conference Sunday that reducing deficits and putting in place sustainable fiscal policies are key to restoring confidence, which will in turn foster growth.

"We are in a period when we have to manage budgets very cautiously...You may call that austerity if you want, I call this rigorous fiscal policies," Mr. Trichet told reporters on the sidelines of the conference.

"If you want sustainable growth, then you have to restore confidence



French Finance Minister Christine Lagarde, right, with Stephen Green, HSBC Holdings' chairman, at Sunday's conference.

and to do that you need to have balanced and sustainable fiscal policies in place," he added, stressing this would fuel household, business and investor confidence alike.

"This is in the interest of long-term growth," he said.

Mr. Trichet ruled out the risk of a double-dip recession as a result of austerity plans being carried out in several European countries at the same time.

"It is clear that we are experiencing a recovery at the global level, which is confirmed particularly in emerging countries but also in the industrialized world," Mr. Trichet said.

He said the recovery shouldn't be taken for granted in developed countries and should be strengthened by structural reforms.

The French finance minister also expressed confidence that stress tests currently carried out on European banks will show European and French banks to be healthy.

"You will see that banks in Europe are solid and healthy," Ms.

Lagarde said, adding: "I am not worried about my banks."

Mr. Barnier said the tools currently put in place by the EU to strengthen regulatory oversight in Europe will enable governments to deal with any problems revealed by stress tests.

"It will also be time to use the set of tools developed by the European Commission to enhance supervision and risk management and to create resolution funds...You have a set of tools to correct [potential problems]," Mr. Barnier said.

The commission wants member countries to set up a tax on banks in order to finance funds to help the orderly failure of troubled financial institutions.

Mr. Barnier said he was confident a compromise would be found between European governments regarding the bloc's new regulatory framework.

The commission wants to set up three European supervisors—one for banks, one for insurers and another one for securities mar-

kets—which would have the power to issue binding regulation for these industries in Europe.

But some countries, such as the U.K., fear this might diminish the power of national supervisors.

"What we are saying is, that on a continent where half of the banks in one country belong to other countries, there could be a systemic risk due to cross-border financial institutions...and that therefore you need a European radar that can rely on national supervisors," Mr. Barnier said.

He added that he trusted the new European supervisors would be in place early next year.

Ms. Lagarde said that banks' capital buffers must be increased and their quality improved in order to prevent future crises, but she warned that this shouldn't be done at the expense of credit growth.

She said France favors instituting a tax on banks to reduce risk over a capital surcharge, adding that such a tax should target banks' riskiest activities.

Komorowski tops Polish poll

Continued from first page
budget deficit to 3% of gross domestic product in 2012 from more than 7% last year. But during the campaign, he and Mr. Kaczynski made similar promises to protect the country's pension system—one of the biggest costs in the budget.

Mr. Komorowski's victory is nonetheless expected to boost Polish assets, said BNP Paribas economist Michal Dybala. "Based on past experience, we would expect the zloty to rally by 2% and spreads to fall by around 30 basis points over the next week, as the market would probably take the view that fiscal

consolidation is likely," he said.

With the government facing parliamentary elections in 2011 and Mr. Kaczynski's Law and Justice party strengthened by its stronger-than-expected showing in the polls, Mr. Dybala and other analysts say that any drastic government spending cuts aren't likely in the near term.

"Mr. Tusk won't have any excuses for a lack of reforms, and yet there won't be any risky ones because of the local elections later this year and a general election next year," said Tomasz Lysakowski, a political scientist at the Warsaw School of Social Sciences and Humanities.



Voting on Sunday in the village of Mackowa Ruda, in eastern Poland.

Austerity seen boosting fraud

By PAUL HANNON

LONDON—Cuts in spending and staffing in the public sector are likely to lead to a pickup in public-sector fraud in the next few years, business-services firm PricewaterhouseCoopers LLP said in a report published Monday.

Governments around the world are slashing spending in an effort to narrow budget deficits that widened sharply during the financial crisis and the severe recession it engendered. In the U.K., the government is set to cut spending in departments other than those concerned with health and overseas aid by 25% over the next five years, and according to a leaked Treasury document that will likely involve 700,000 job cuts.

Measures of that kind create the conditions most likely to lead public-sector workers to consider fraudulent actions, according to a survey of senior public-sector executives in the U.K. and elsewhere.

"Our experience tells us that economic pressures have a direct effect on people's ability to rationalize fraudulent actions," said Ian Elliott, a partner at the firm.

The survey was conducted in July to November 2009. A total of 3,037 respondents completed an on-

Risky business

Percentage of organizations reporting* each type of fraud in the past 12 months

Asset misappropriation	69
Accounting fraud	28
Bribery and corruption	22
IP infringement, including theft of data	6
Illegal insider trading	5
Espionage	5
Money laundering	3
Tax fraud	3
Market fraud involving cartels colluding to fix prices	2
Other	3

Source: PricewaterhouseCoopers's Global Economic Crime Survey conducted July–November 2009; 177 respondents from government and public-sector organizations

line questionnaire, and of those 177 were from government and public-sector organizations.

Globally, 37% of respondents from the public sector reported that their organization had suffered economic crime in the previous 12 months, a higher proportion than in the private sector. In the U.K., the proportion was even higher, with 52% reporting economic crime in the previous 12 months and 77% be-

lieving that budget cuts would increase the risk of fraud.

Public-sector fraud can take many forms, including stealing, false accounting, and bribery. According to the firm's survey, the second of these may become more common when workers are under increased pressure to meet targets.

"Linking pay to performance is also likely to be a possible driver of fraudulent activity," the firm said.

EUROPE NEWS

U.S. seeks to warm ex-Soviet ties

By MARC CHAMPION
AND GORDON FAIRCLOUGH

First came a “reset” of U.S. relations with Moscow. Now, the administration of President Barack Obama is trying to reboot ties with Russia's neighbors.

Secretary of State Hillary Clinton visited Azerbaijan on Sunday, the U.S.'s Independence Day, following stops in Kiev on Friday and Poland on Saturday. She was scheduled to travel to Armenia later Sunday, and then to Georgia. Her aides say the tour is aimed at promoting democracy and strengthening U.S. ties in the region; some analysts say the combination will require all of her diplomatic skills.

In Azerbaijan, Mrs. Clinton held talks with President Ilham Aliyev, who stressed the urgency of his country's territorial dispute with neighboring Armenia, according to the Associated Press.

The gas-rich country's leaders have been seething for the past year as the U.S. pushed hard for a border-opening deal between Turkey and Armenia, Azerbaijan's rival. Baku felt the U.S. ignored vital Azeri interests by not linking the talks—now in deep freeze—to resolving the long-simmering conflict in Nagorno Karabakh that has left Armenian-backed forces in control of a swath of Azeri territory.

The perceived U.S. neglect, analysts say, has begun to alienate the ally to the point that it may threaten U.S. energy and security interests. Azerbaijan has directed more of its natural-gas sales toward Moscow and shored up relations with Tehran. Baku has also begun to warn of the possibility of a renewed war over Armenian-held lands, a conflict that would likely disrupt critical pipelines for Caspian basin oil and gas that the U.S. was instru-

mental in getting built.

At a news conference later with her Azeri counterpart, Elmar Mammadyarov, Mrs. Clinton said they had discussed the territorial dispute at length, the AP reported. “The final steps toward peace are often the most difficult, but we believe peace is possible,” she said.

Azerbaijan, which is holding two political bloggers in jail, appears to be a tough nut for Mrs. Clinton's democracy drive to crack at the same time it seeks to restore damaged ties. Mr. Obama last year singled the country out, along with Zimbabwe, for jailing reporters; the country's election process has also been widely criticized. Mrs. Clinton said that she raised the issue of freedom of expression in her talks with Mr. Aliyev, the AP reported.

Saturday, the U.S. and Poland formally amended their missile-defense agreement to conform with the Obama administration's new plan to protect the U.S. and its allies from missile attacks—especially those that could be launched by Iran. Foreign Minister Radoslaw Sikorski said Mr. Obama's new approach to missile defense, which relies initially on already-available weapons systems, is more likely to “be effective” and would protect Poland and the rest of Europe “from a bigger range of threats.”

When Mr. Obama decided last year to scale back an initiative of the George W. Bush administration to construct an antimissile shield in Europe that would be able to knock down incoming intercontinental ballistic missiles, some critics said he risked alienating U.S. allies.

Mrs. Clinton said the new strategy is a better way to deal with “evolving missile threats, especially from Iran,” and would be able to protect parts of Europe more quickly than the Bush plan.



Hillary Clinton waves as she leaves Baku, the capital of Azerbaijan, on Sunday.

She also sought to reassure Russia that the missile-defense effort wasn't directed against its arsenal of ballistic missiles. “We believe the threats that we all face are common ones,” she said, reiterating a U.S. invitation to Moscow to join in missile-defense efforts.

In Poland, Mrs. Clinton reiter-

ated Washington's insistence that Russia end its “occupation” of two contested parts of Georgia, where Russian troops remain after Russia's military incursion in 2008.

While Russia's neighbors Ukraine, Azerbaijan, Armenia and Georgia each pose difficult challenges, to some degree the bar is

low for this trip: For 18 months, Washington has appeared indifferent toward allies that had been aggressively embraced by the Bush administration. The trip by Mrs. Clinton represents a chance for a fresh start.

“After the Bush administration, the only trajectory was downwards. There had to be a recalibration” of U.S. involvement in the region, said Thomas de Waal, Caucasus expert at the Carnegie Endowment for International Peace. After being too disengaged, the Obama administration “is beginning to get the balance right,” he said.

Ukrainian President Viktor Yanukovich is a poster child for disappointed hopes in the so-called color revolutions that brought pro-Western governments to power in Georgia, Ukraine and Kyrgyzstan during the Bush administration. Mr. Yanukovich has moved to tighten relations with Moscow, abandoning his predecessor's commitment to join the North Atlantic Treaty Organization. Thursday, hours before Mrs. Clinton arrived, Ukraine's parliament adopted a law declaring Ukraine a nonaligned state.

“NATO's door remains open,” Mrs. Clinton said Friday at a meeting with Ukrainian Foreign Minister Kostyantyn Gryshchenko.

Georgian leaders have suffered a special letdown since the early years of the Rose Revolution, when President Bush visited the capital, Tbilisi, to address a huge crowd and Georgian President Mikheil Saakashvili enjoyed routine phone calls with the U.S. leader. While Mr. Saakashvili has yet to be received in the Obama White House, Georgian officials say they accept the U.S. reset with Moscow.

—James Marson in Kiev
and Samantha Shields in Tbilisi
contributed to this article.

Crime group said to fund anti-Georgia rallies

By DAVID CRAWFORD

BERLIN—Austrian police are investigating evidence that an organized crime group with operations across much of Europe funded protests last year in Georgia that were aimed at toppling the country's president, Mikheil Saakashvili.

According to a report prepared for prosecutors in early 2010 by Vienna police and reviewed by The Wall Street Journal, the alleged crime organization is based in Georgia and funds itself through theft, blackmail and money laundering, primarily in Western Europe.

The report alleges that an Austria-based Georgian businessman raised money that was used to fund protests in early 2009.

In April 2009, opposition demonstrators held largely peaceful protests in Georgia's capital, Tbilisi, that lasted days and were attended by tens of thousands of people. The report doesn't say whether investigators believe those were the same as the protests it alleges the Georgian group was planning.

The group's goal in attempting to remove Mr. Saakashvili's government was to “use corruption and intimidation to exert influence over the Georgian economy and politics in order to shield itself from the threat of criminal prosecution” in Georgia, the report said.

Tbilisi's April 2009 protests wrapped up peacefully, with Mr. Saakashvili saying that democracy comes with demonstrations. Strengthening democracy will be on the agenda this week, as Secretary of State Hillary Clinton is due to visit Georgia on Monday.

Last year's peaceful protests stood in contrast with those in 2007, when Mr. Saakashvili was criticized for authoritarianism after Georgian police cracked down on demonstrators using tear gas and rubber bullets.

Georgian officials said at the time the protests were in fact an attempted coup organized by Badri Patarkatsishvili, a U.K.-based Georgian businessman. Georgia's government secretly filmed an aide to Mr. Patarkatsishvili as he apparently attempted to bribe a senior Interior Ministry official to take part in the 2007 coup.

Mr. Patarkatsishvili confirmed at the time that his aide offered a \$100 million bribe, but said it was to ensure there was no violence. He died in 2008. The Austrian report doesn't mention Mr. Patarkatsishvili and there is no evidence of a link between him and the alleged attempts to foment a coup last year.

The allegations of the 2009 protest plans are part of a broader 46-page police report on the activities of the group, which it refers to only

as a “Georgian Organized Crime Organization.” The report, which includes details from as recently as this year and says it is based primarily on information gathered by wiretaps, alleges the group has roots in Georgia, an exiled leadership base in Greece and henchmen in Spain, Austria and Germany.

A spokesman for the Austrian federal police investigative service said 48 suspects were arrested throughout Europe in March in connection with the group's broader activities. He declined to comment further on the arrests or on the report.

Georgia's embassy in Washington declined to comment on the Austrian report.

The report says the group's allies include Igor Giorgadze, a former Georgian minister for state security who left Georgia for Moscow in 1995, shortly after an assassination attempt on former Georgian President Eduard Shevardnadze. Georgian authorities have issued an arrest warrant against Mr. Giorgadze, seeking his arrest on terrorism charges, the police report says.

Mr. Giorgadze, who has denied the allegation, couldn't be reached to comment.

Last year, members of the group allegedly gave Mr. Giorgadze about \$1 million to fund a coup attempt in Georgia, the police report says. Mr. Giorgadze then organized demon-

strations in an attempt to provoke police violence, as a prelude to an uprising that would topple of Mr. Saakashvili's government.

The report says Austrian investigators are interested in the alleged coup attempt because the \$1 million was allegedly raised by an alleged member of the Georgian organization who operates a Georgian restaurant in Vienna.

According to the police report, the man allegedly forced a Georgian businessman to lend him shares in the Radisson SAS Hotel Iveria in Tbilisi. The group used those shares as collateral to take out a \$1 million loan from a unidentified Turkish bank that was then used to fund demonstrations, the police report said.

When the Georgian hotel investor—identified as Mr. “Mito,” a phonetically spelled name gleaned from the wiretaps—sought to reclaim his shares in September 2009, members of the organized crime group flew to Georgia from Vienna, Israel and Ukraine to confront him, the report said.

The assembled gangsters “tried” the businessman in an informal court and sentenced him to forfeit the \$1 million because he had broken gangster law by threatening to take the matter to the police, the report said.

In a telephone interview, the Vienna restaurateur denied the allega-

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U.S. NEWS

Spy case shows old threats still exist

Espionage in U.S. conducted by agents from Russia, China, elsewhere is at or above Cold War highs, officials say

BY SIOBHAN GORMAN

The roll-up of an alleged Russian spy ring and other recent cases serve as a reminder that despite warmer U.S. relations with erstwhile Cold War enemies and the heightened demands of fighting terrorism, counterintelligence remains indispensable to national security.

Apart from the arrest of 10 suspects, U.S. investigators believe Moscow still has multiple spies in the U.S., according to people familiar with the investigation. Indeed, current and former intelligence officials say spying by Russia, China and others has grown since the 2001 terror attacks in part because rivals saw U.S. attention diverted.

"This case is a wake-up call to the public and the national-security leadership that old threats are still with us," said Michelle Van Cleave, who served as the national counterintelligence executive from 2003-06.

Ms. Van Cleave said that over the past five years, counterintelligence budgets and personnel have been cut and spy-chasing capabilities have been diminished within the Federal Bureau of Investigation, the office of the Director of National Intelligence and other agencies. Meanwhile, U.S. adversaries have expanded espionage operations against the U.S., she said.

The latest arrests show the U.S. still faces threats from sources other than terrorists and that spy services shouldn't focus on terrorism to the exclusion of traditional threats, said Margaret Henoch, a former senior Central Intelligence Agency officer who concentrated on Russian targets and counterintelligence.

Even countries the U.S. works closely with continue to invest considerable effort in spying on U.S. officials, Ms. Henoch said. Likewise, though many resources have shifted to counter-terrorism, the U.S. does the same.

Some espionage funding appears to be bouncing back, however. Earlier this year, FBI Director Robert



Waldo Mariscal, son of alleged Russian spies Vicky Perez and Juan Lazaro, speaks to the media Friday outside their home in Yonkers, N.Y.

Mueller told Congress he was requesting a boost for counterintelligence because "the foreign intelligence threat to the U.S. continues to increase" in the struggle for economic, military and political preeminence.

In the late 1990s, the U.S. redoubled its spy-hunting efforts after discovering CIA mole Aldrich Ames, who was convicted in 1994 of spying for the Soviet Union and the Russians. The 2001 unmasking of FBI mole Robert Hanssen, who also spied for the Soviet Union and the

Russians, further fueled efforts to bolster counterintelligence.

President Bill Clinton established a post in 2000 to merge counterintelligence efforts across the government, called the national counterintelligence executive. But in 2005, it was put under the new spy-chief office, the Director of National Intelligence. The decision to integrate them, current and former intelligence officials said, was done in a way that diminished the post's effectiveness.

Director of National Intelligence

spokesman Michael Birmingham said his office places a high priority on spy-catching and it hasn't been crowded out by counter-terrorism.

"Counterintelligence is integrated into everything," Mr. Birmingham said. "It's not an either-or proposition."

U.S. officials say spying on the U.S. from Russia, China, and elsewhere is now at Cold War highs—or higher.

"When the Soviet Union fell, and we were no longer the main enemy," one U.S. intelligence official said,

"they just started calling us the main target."

The Chinese have also been "relentless," the official said, but have dispatched agents who make little effort to cover their tracks and often draw the attention of U.S. officials.

Russian Embassy spokesman Yevgeniy Khorishko declined to comment.

Chinese Embassy spokesman Wang Baodong said China never engages in activities that endanger other countries' security interests.

Moscow's acknowledgment is a departure

BY RICHARD BOUDREAUX

MOSCOW—When its Cold War spies got caught in the West, Moscow's usual response was silence. The Kremlin refused with rare exceptions to acknowledge its undercover agents, and the policy of denial lingered long into the

post-Soviet era.

But after the U.S. arrested 10 members of what it called a deep-cover Russian espionage ring, Moscow was quick to admit that at least some were Russian citizens—a shift that offers an intriguing subplot to the spy story itself. The Russian Foreign Ministry repeated the statement Thursday, saying it was ready to provide consular assistance to any Russians in custody.

Moscow hasn't specified how many of the 10 are Russians; two of those arrested, Anna Chapman and Mikhail Semenko, hadn't hidden that fact. The others, U.S. authorities allege, spent years operating under false names, blending into America and pretending not to be Russians. Even so, Moscow's relative openness about the suspects was a departure from its past standard of stonewalling about spies.

The new approach has puzzled Russian and American analysts. Even a former spokesman for Russia's foreign intelligence service, Yuri Kobaladze, called the Foreign

Ministry's statement "very unusual. ... There's never been anything like that before."

"In the Soviet era, the rule was to deny such people; they didn't exist," said Olga Oliker, a senior policy analyst at RAND Corp. "But now you have a changing political system, you have closer U.S.-Russia relations, and you have the Internet and all this information is available," she said. "Lying and saying they're not Russian nationals would make the Russian government look ridiculous."

Some of those arrested, including Ms. Chapman and Mr. Semenko, were active on social-networking sites.

Frederick Hitz, a former inspector general of the CIA, said Russia's relatively open approach to the case "is a hopeful sign that they don't want to go back to the Cold War."

In its initial statement Tuesday, a day after the arrests were announced, the Foreign Ministry said the case involved "Russian citizens who found themselves on U.S. terri-

tory at different times." It didn't say how many of the 10 were Russians, and ministry spokesman Andrei Nesterenko declined Thursday to elaborate.

But the assumption in Moscow, reflected in Russian press coverage, is that all 10 are Russians.

Mr. Nesterenko repeated the government's assertion that the suspects had done nothing to harm U.S. interests. Other Russian officials have noted that the suspects are charged with conspiracy to fail to register as agents of a foreign government and to commit money laundering—not with espionage.

Igor Goloshchapov, a former KGB agent who heads a security veterans' association, said Russia was being more open about the suspects "because they are probably not spies."

"They do not fit into the category of spies whom the state protects," he said. "This is the case when it's possible to admit that they are our citizens."

Several American analysts said

Moscow may also have been trying to limit the damage. Acknowledging suspects' origins, they said, could help Russia's foreign intelligence service, the SVR, keep in touch with them through consular officials.

"They have to be concerned that these people are going to talk," said Harvey Klehr, an Emory University professor and co-author of "Spies: The Rise and Fall of the KGB in America." "Maybe the Russians want access to them so they can tell them, 'Look, you can't talk about this. We're going to arrange some kind of deal to get you out and get you back home.'"

The Soviet Union and U.S. arranged spy swaps during the Cold War, notably the one that sent U-2 spy pilot Francis Gary Powers home to America in exchange for a KGB colonel who called himself Rudolf Abel. According to Mr. Klehr, the Soviets neither publicly acknowledged Mr. Abel's status nor met with him during his detention.

—Evan Perez and Siobhan Gorman contributed to this article.

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U.S. NEWS

Habitat joins list of top builders

Recession lifts status of nonprofit group

By DAWN WOTAPKA

EAST PATCHOGUE, N.Y.—A dozen female volunteers gathered recently in this blue-collar Long Island town, enduring the heat to help form the entryway of an 1,100-square foot home for Cheri Sabolenko and her two young children.

The Sabolenko house will soon join more than 5,000 other homes expected to be built, repaired and rehabilitated in the U.S. this year by a well-known addition to the upper echelon of America's largest home builders: the nonprofit group Habitat for Humanity International.

As the housing and financial crisis struck several years ago, the large publicly traded builders, including D.R. Horton Inc. and KB Home, pulled back. But Habitat kept building.

"We're a lot less tied to the market as a whole," said Mark Andrews, Habitat's senior director for U.S. operations. "We've been able to keep

chugging along at a pretty solid pace."

As a result, Habitat, a Christian group founded 34 years ago in Americus, Ga., around a philosophy of constructing and rehabilitating homes for low-income families, was recently ranked as one of the nation's top 10 builders for the first time in a closely watched industry list compiled by Builder Magazine.

Habitat was ranked eighth, based on the number of homes sold and closed, placing it above Ryland Group Inc. and behind Hovnanian Enterprises Inc. Habitat's closings, which include new homes and rehabs, were down 3% to 5,294 in 2009. Ryland's tumbled 30%, while Hovnanian's sank 50%.

Of course, this year's top 10 appearance could be a one-time event. The nation's public home builders, itching for recovery, have been ramping up construction. Habitat, meanwhile, is giving more attention to acquiring and rehabilitating va-



Habitat for Humanity volunteers help build the home of Cheri Sabolenko in East Patchogue, N.Y., in May. The charity's closings fell 3% last year, when other builders saw far steeper drops.

cant, foreclosed homes and making them available for sale.

In June, Wells Fargo announced an \$8 million contribution to Habitat, which said the funds will help its neighborhood rehabilitation program. Last year, Habitat completed 710 rehabs, a count that should increase this year, while its new-build count could fall by about 8%, the group estimates.

Habitat's ability to out-build some of the nation's largest corporations partly reflects the insatiable demand for affordable housing in a nation where more than a quarter of the population can't afford a median-priced home in their area.

And Habitat has some advantages by being a nonprofit. It receives donated building products and relies heavily on volunteers for construction. It can have just one paid staffer on a build site.

"Habitat works because they have a very clear mission with a niche in the market," said Ghebre Selassie Mehreteab, an affordable housing adviser near Philadelphia. Plus "the volunteers are not only given tasks, but they are seeing the tangible results of their work. That's very hard to beat."

The recession has hurt Habitat's finances. The group laid off 8% of its corporate staff last year, and its cash donations declined 9% from a year earlier to \$171.8 million.

And Habitat faces some of the same challenges as for-profit companies. Some of the 226 homes it built in New Orleans after Hurricane Katrina in 2005 might contain drywall imported from China. The problematic drywall emits a foul odor, corrodes wiring and causes appliances to fail. The only solution is to remove the drywall, an expensive procedure.

Habitat's New Orleans chapter promised to "resolve this issue as quickly as possible."

Meanwhile, late payments and foreclosures are a threat for Habitat homes, although the problems aren't nearly as severe as they are nationwide. That is partly because the terms of Habitat loans are so attractive; homeowners receive mortgages with 0% interest rates on homes that are sold at cost. Habitat keeps most of the mortgages it originates, so when trouble strikes, homeowners know where to turn. Habitat says its foreclosure rate is less than 2%.

Taking back a home is "always

our last solution," said Mary Kay O'Rourke, president of Habitat's operation in Jacksonville, Fla., which goes by the name HabiJax. The group tries solutions ranging from suspending payments for the unemployed to tapping local-agency funds to make owners current. Of the 1,500 loans HabiJax holds, 10 are in the foreclosure pipeline.

If all goes as planned, Ms. Sabolenko will move into her new three-bedroom, \$85,000 home on a shaded corner lot by October. The home will have one bathroom and a dishwasher.

Ms. Sabolenko is typical of Habitat homeowners. She is a divorced mother working two jobs. She has a stable income but earns less than the area's median income and doesn't have enough money for a down payment. She and her children live with her mother. Ms. Sabolenko is putting in hundreds of hours of "sweat equity" the group requires, working on Habitat projects.

"I want to show my children that hard work and seeking to better your life can bring positive results," she said in a note left for volunteers at her construction site. "I want to cry for joy and happiness."

Gimme shelter

Habitat for Humanity has become one of the most productive U.S. homebuilders by keeping its pace during the housing market collapse.

Builder	Total closings	2009 revenue (in billions)
1. D.R. Horton	18,164	\$3.87
2. Pulte Homes	15,013	4.08
3. Lennar	11,478	3.12
4. NVR	9,042	2.76
5. KB Home	8,488	1.83
6. Centex*	6,900	n/a
7. Hovnanian Enterprises	5,659	1.71
8. Habitat for Humanity	5,294	1.40
9. The Ryland Group	5,129	1.28
10. Beazer Homes USA	4,411	1.01

* Pulte acquired Centex in 2009

Source: Builder Magazine

Raves' resurgence renews worries over drug

By JEAN GUERRERO

LOS ANGELES—Twenty years after their heyday as an underground phenomenon, the drug-fueled dance parties known as raves are making a comeback as massive, commercial events.

But a recent wave of Ecstasy-related deaths and hospitalizations tied to such events have left some officials skeptical about their makeover.

Last month, a 15-year-old girl died of apparent drug-related causes following an enormous rave held at the Los Angeles Memorial Coliseum, prompting a temporary moratorium on such gatherings at the municipally owned venue.

An estimated 180,000 people, many of them teenagers, attended the two-day party, known as the Electric Daisy Carnival.

The joint state, county and city commission that oversees the Coliseum is to meet July 16 to consider extending the moratorium or imposing other limitations. Officials in the San Francisco Bay Area are also mulling similar steps in the wake of

their own rave-related deaths.

Unlike the original raves in the late 1980s and early '90s, which were often staged without permits in hard-to-find patches of desert or abandoned industrial warehouses, today's version has gone above-ground. Events have been held at other city buildings, at the Cow Palace in Daly City, Calif., near San Francisco, and at New York City's Randall's Island. Promoters charge as much as \$85 a day admission, set age restrictions and impose relatively early closing times.

The soundtrack for the events remains the throbbing electronic dance music known as electronica, spun by DJs.

Another thing that hasn't changed: The drug of choice for many attendees is still Ecstasy, an illegal stimulant/hallucinogen also known as MDMA and is often cut with other substances.

Taken as a pill or powder, the drug, whose full chemical name is 3,4-methylenedioxymethamphetamine, can induce euphoria and doesn't typically cause the kind of traumatic overdose symptoms asso-

ciated with drugs such as heroin. But Ecstasy can cause dehydration—potentially a serious health problem for people dancing all night in hot, cramped conditions—and in large enough doses can cause other complications.

The promoters of today's biggest such events often seek to play down the Ecstasy connection and ban paraphernalia typically associated with the drug. Banned items have included pacifiers, used by rave-goers on the drug to minimize the effect of grinding their teeth, and Vicks VapoRub, believed to enhance the effects of the high.

In fact, promoters typically insist that their massive dance parties aren't raves. Instead, they bill the affairs as "electronic-music festivals" and market them as safe events.

Event promoters, such as Insomniac Events and HARD, both based in Los Angeles, say they work with city officials to ensure safety, buying permits and hiring private security, undercover narcotics officers and other law enforcement.

Gary Richards, president of

HARD, who says his events aren't raves, puts attendance at the HARD Summer in Los Angeles event at 16,000 last year, up from 6,000 in 2008.

"We're trying to create a party element but encourage people to be responsible," Mr. Richards said. He added: "You don't have to be on drugs...to enjoy electronic music."

But city officials aren't buying it. "A rave by any other name is still a rave," said Los Angeles County Supervisor Zev Yaroslavsky, who requested the moratorium at the Los Angeles Memorial Coliseum and Sports Arena. "It's the atmosphere and the culture of the event, and the resultant behavior that is the concern—not what we call it."

Although the Electric Daisy rave was supposed to have a minimum age requirement of 16, attendees say it wasn't enforced. One hundred fourteen attendees were also hospitalized, and 118 were arrested, largely for drug possession, according to local authorities. Some say the rave was chaotic and oversold, with insufficient security.

"They don't really enforce the

age limit because if they were to check everybody's ID, the line would take forever," said Alex Pastor, a 21-year-old attendee of the Electric Daisy rave.

Videos circulating on YouTube show crowds of scantily clad people crashing through gates to stampede into the event, trampling over other attendees, security and police officials.

Pasquale Rotella, owner of Insomniac Events, the promotion company in charge of the Electric Daisy Carnival, didn't respond to requests for comment.

As electronic music has started to influence mainstream pop genres such as hip-hop, interest in the U.S. has surged. Booking fees in the domestic electronic-music market are expected to hit about \$180 million this year, according to Joel Zimmerman, managing director of William Morris Electronic, a large electronic-music booking agency. That's up from \$100 million in 2008.

Also, he expects that the country will go from representing 20% of the global booking market for electronic artists in 2008 to 35% this year.

U.S. NEWS

High jobless rate bruises Democrats

Signs of slowing economic recovery undermine White House agenda, but it's unclear if Republicans can capitalize

BY NAFTALI BENDAVID

Friday's tepid U.S. employment report imperils Democrats who insist their recovery initiatives are on the right track, but also could pose a challenge for Republicans, who risk looking like they favor legislative inaction in the face of continued suffering.

The stubbornly high jobless rate ignited another round of debate over the Democrats' current push to extend unemployment benefits and continue stimulus spending, an argument whose outcome could determine the results of the November elections.

"People have lost confidence in what the Democrats are doing," said Republican strategist David Winston. "But that is not enough of a reason to vote for Republicans. Republicans still have to answer the question, 'Why us?'"

Democrats have dubbed this "Recovery Summer," with President Barack Obama traveling the country to highlight economic-stimulus spending. On Friday, Mr. Obama announced a push to bring broadband service to 66 communities, which he said would create 5,000 jobs.

"We're moving forward," Mr. Obama said. "To every American who is looking for work, I promise you we are going to keep on doing everything that we can."

But such claims may resonate less amid fears that the recovery is slowing. In a recent Wall Street Journal/NBC News poll, 50% of voters disapproved of Mr. Obama's handling of the economy, while 46% approved.

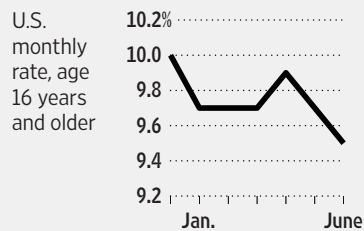
"The Democrats' so-called Recovery Summer is just an empty marketing slogan," said Rep. Tom Price (R., Ga.).

The Bureau of Labor Statistics reported Friday that nonfarm payrolls fell by 125,000 in June, partly due to the winding down of 225,000 temporary Census jobs. Private businesses created 83,000 jobs, less than many economists expected.

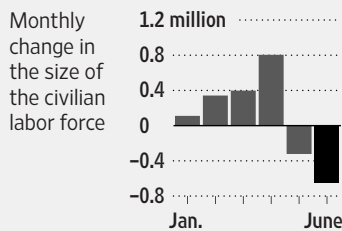
Since Mr. Obama took office, Democrats and Republicans have en-

The jobs picture gets gloomier in the U.S.

The unemployment rate falls...



...as fewer people look for work.



Weekly hours shrink a bit...



...as hourly wages stall.



Monthly change in number of jobs in some sectors, January-June 2010; in thousands



gaged in a broad debate over the best way to reignite the economy. Democrats have pushed to spend money on job creation and aid to the unemployed, while Republicans have argued for cutting the deficit and reducing regulations.

Republicans seem to be winning the argument for the moment, at least as far as the public is concerned. In the Journal/NBC poll, 63% of voters said lawmakers should worry more about keeping the deficit down, while 34% said they should worry more about boosting the economy.

Sensing momentum, Republicans in recent days have aggressively blocked Democrats' latest effort to extend unemployment benefits. Republicans also delayed earlier extensions, but ultimately those measures passed. This time, the Republicans

appear more united.

GOP candidates are also adopting the forceful position on unemployment benefits. Nevada U.S. Senate hopeful Sharron Angle said recently that she opposes extending the payments. California Senate nominee Carly Fiorina said she wouldn't support the extension bill in its most recent version.

Charlie Cook, editor of the non-partisan Cook Political Report, said Democrats' options are limited. Passing new spending aimed at stimulating the economy is "politically untenable," he said.

Some Democrats say their party should push ahead with stimulus spending, regardless of deficits. "They can have a big deficit with high unemployment—which is what they have—or a high deficit with low

unemployment," said Democratic consultant Vic Fingerhut. "Right now, they have the worst of both worlds."

At the same time, the Republican stance carries risk. Democrats reacted to Friday's job figures by saying Republicans are putting politics ahead of unemployed workers.

And while voters say in opinion surveys that they want to reduce federal spending, they appear to oppose the ideas favored by some GOP candidates. In the Wall Street Journal/NBC News poll, 67% had at least some reservations about closing federal agencies such as the Department of Education.

But Republicans believe they have the advantage, and on Friday they criticized Democratic lawmakers for such things as failing to produce a budget and taking a long summer

break while the economy sputters.

Democrats cautioned against reading too much into one employment report, and they noted that the economy was still growing after the worst recession in decades. White House press secretary Robert Gibbs wrote on Twitter that the economy lost three million private jobs in the last six months of 2008, just before Mr. Obama was sworn in, while 600,000 private jobs were created in the first six months of this year.

Former Rep. Vin Weber (R., Minn.) said the Democrats' problem is that the public's mind is already made up about the economy. "At some point in the cycle, it's too late to change basic perception about the macro condition of the political economy," he said. "We're right about there."

Candidate squeezed by past role in wrestling

BY PETER WALLSTEN
AND DEVLIN BARRETT

In the first general election ad of her U.S. Senate campaign, Linda McMahon shows clips of the muscled men, body slams and pyrotechnics that helped build her company, World Wrestling Entertainment, into a business empire.

Then she guides voters on what to think about the spectacle: It's "a soap opera that entertains millions every week," Mrs. McMahon says in the ad. The action "isn't real."

The battle for Connecticut's open Senate seat has also become a fight over the image of WWE, the company that made Hulk Hogan, the Rock and the word "smackdown" features of American culture.

As Mrs. McMahon, 61 years old, the presumed GOP Senate nominee, tries to overtake Democratic Attorney General Richard Blumenthal, one of her most important challenges has been to shape public opinion of the company that has built a huge fan base—but whose performers

have been linked to steroid abuse, and which has been criticized for violent and sexually suggestive programming.

While Mrs. McMahon acknowledges that some voters may not like the company's programming, she also believes they will give greater weight to the business experience she gained as chief executive of WWE, which she and her husband built from a small operation. "They may say, 'It's not something I'm going to watch,' but you know what? That doesn't have anything to do with what are your views...did you have management leadership skills, did you negotiate national and international contracts?" she said in an interview.

As Mrs. McMahon has moved to enter public life in recent years, the WWE has also moved to soften its programming and toughen its stance against steroids. Congressional investigators, political opponents and some families of former wrestlers have argued that the McMahons created a product that harmed per-



Connecticut GOP Senate candidate Linda McMahon, right, and son Shane, left, celebrate May 21 after she received her party's endorsement.

formers and set a poor example for the WWE's younger viewers. She resigned her chief executive job in September to launch her campaign.

With \$475 million in revenue last year, the publicly traded company is the source of Mrs. McMahon's per-

sonal wealth. Her campaign, which is largely self-financed, spent \$14.6 million as of May 1. She has pledged to spend \$50 million of her own money overall.

The WWE "is both her asset and her liability," said Dave Meltzer, edi-

tor of the Wrestling Observer, an industry newsletter. "If you look at it strictly as profit and loss, it's very positive. If you view it in human terms, it's negative."

Blumenthal campaign officials say they will highlight Mrs. McMahon's leadership of WWE. "That experience involves marketing violence, sex and abusive treatment of women—aimed especially at children—while turning her back on steroid abuse," said Mindy Myers, Mr. Blumenthal's campaign manager.

Mrs. McMahon said WWE has changed and should be considered in its current form—as a provider, she said, of PG-rated programming, with robust anti-drug and wellness programs for its performers.

"It's more important to look at where you are today and how you reacted to those issues as they became apparent to you, and the changes that you made and how you adapted and made things better," she said. "Because, isn't that what you really want to do in business, in government, and in your daily life?"

WORLD NEWS

Australia tax deal clears way for vote

Gillard is expected to win an early election, though compromise represents a step back on policy for the government

BY ENDA CURRAN

SYDNEY—The Australian government's deal on a new mining tax represents an early victory for newly installed prime minister Julia Gillard, robbing the opposition of a key attack and clearing the way for a quick election the government is expected to win.

Still, Ms. Gillard's deal with the mining companies was a major step back on policy, as it replaces plans for a super-profits tax on resources with a narrower rent tax on minerals, with new thresholds.

The government announced the reworked tax proposal Friday, making major concessions to the mining industry. The changes include a reduction in the headline rate of the tax to 30% from 40%, and the tax will apply only to iron-ore and coal mines instead of all mined commodities.

The compromise deal was welcomed by the nation's biggest miners, with analysts saying it should go a long way toward easing investor fears about the impact of the controversial tax on the mining sector.

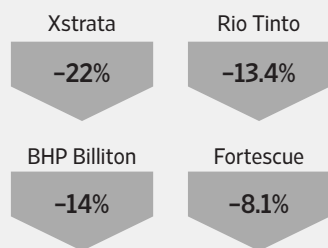
The original tax proposal resulted in a hemorrhaging of support for the ruling Labor Party as the mining companies ran aggressive publicity campaigns against the tax. Coupled with other policy failures, such as a retreat on a planned carbon tax, it culminated in the removal of Kevin Rudd as prime minister by his own party.

The tax changes will shave some 1.5 billion Australian dollars (US\$1.26 billion) off the A\$12 billion in revenue the initial proposal was expected to produce over the four-year forward estimate period. But Ms. Gillard and Treasurer Wayne Swan said they remain committed to delivering a budget surplus by the year that begins July 1, 2012.

The government says the loss of revenue will be offset by a number of savings, including a plan to cut company tax by less than originally expected and by not offering

Drilling down

Year-to-date performance:



Source: Thomson Reuters Datastream

planned rebates to miners.

The end of the government's confrontation with the powerful mining sector paves the way for Ms. Gillard to call a quick election to capitalize on a lift in voter sentiment for the ruling Labor government in the past week.

Ms. Gillard said an agreement signed late Thursday with **BHP Billiton Ltd.**, **Rio Tinto Ltd.** and **Xstrata PLC** is a "very significant step forward."

Under the original proposal, the tax would have kicked in when a project's rate of return reached the long-term bond rate, currently about 5%. The reworked Minerals Resource Rent Tax sees this threshold rise to the bond rate plus 7%, for a total of about 12%.

In a major concession to the mining sector, the government will allow companies to use the market value of a mining project rather than its book value to calculate depreciation against the MRRT.

This will make a significant difference to the MRRT paid by the giant iron-ore mines operated by BHP and Rio, which have had their book values written down over decades to well below the current market values, which have soared on booming iron-ore demand.

The government's move doesn't completely remove uncertainty in the sector, however, as the tax,



Prime Minister Gillard, right, and her deputy, Wayne Swan, announce the proposed minerals and resources tax on Friday.

which will be introduced in Parliament in 2011, isn't guaranteed passage into law.

Australia's main opposition Liberal-National coalition of center-right parties on Friday reiterated its vow to scrap the tax if it wins the next election.

"We are going to oppose this tax because this tax from the Rudd-Gillard government is a bad tax for investment, it is a bad tax for jobs and it is ultimately a bad tax for Australia," Coalition Treasury spokesman Joe Hockey told Australian Broadcasting Corp. radio.

Labor has a majority in the lower House of Representatives but needs the Senate support of either the coalition, or all seven minor-party senators to pass any new laws. The environmentalist Greens, who hold five of the seven balance-of-power seats, have also expressed reservations

about the tax.

Critical now will be how the electorate responds to the new deal, whether it will be viewed as another major policy reversal or as a positive compromise. But the agreement is sure to make life awkward for Liberal-National coalition leader Tony Abbott.

"This neutralizes the issue, as it makes it hard for Abbott to talk about it as a terrible policy effort," said Peter Chen, a politics professor at Sydney University.

Markets gave the news modest approval. The Australian dollar initially rallied to 85.10 U.S. cents from 84.47 cents early in the day before slipping back. Stocks also gave up their initial gains.

Opinion polls published in Australia's main newspapers have indicated a surge in support for the Labor Party since Ms. Gillard's

appointment, reversing months of decline against the Liberal-National opposition.

The government has said only that it will go to the polls by year-end, but an election is expected to be called imminently, likely for late August.

Australia is one of the few developed economies to have escaped recession during the global financial crisis. In large part, that was due to hefty policy stimulus, with an ensuing recovery in commodities prices also aiding growth.

Economists said the government should still hit its budget targets although much of this projection depends on the resources boom remaining intact.

—Geoffrey Rogow and James Glynn in Sydney and Alex Wilson and Rachel Pannett in Canberra contributed to this article.

Petraeus takes Afghan reins

Continued from first page

Defense Secretary Robert Gates and Gen. Petraeus himself, have acknowledged progress isn't going as quickly as anticipated, prompting a renewed debate over the wisdom of Mr. Obama's decision to begin withdrawing troops in July 2011. For the first time on Sunday, a senior Afghan official entered the fray, with Said Jawad, the Afghan ambassador to the U.S., saying the deadline was unhelpful to the war effort and could actually make the U.S.-led effort more difficult.

Speaking on the CNN program "State of the Union," Ambassador Jawad said the declared deadline sent the wrong message to the Taliban and the U.S. should instead commit publicly that it will remain in Afghanistan "to finish the job."

"If you overemphasize a deadline that is not realistic, you are making the enemy a lot more bold," Mr. Jawad said. "You are prolonging the war."

The July 2011 deadline has been the war plan's most controversial element since it was unveiled by Mr.

Obama in his war strategy in December.

In his address, Gen. Petraeus avoided any direct mention of the date, but said that NATO was looking forward to Afghan forces taking more responsibility for security, and that "certainly the character of our commitment will change over time."

In his confirmation hearings last week, Gen. Petraeus acknowledged that the July 2011 date wasn't one that was proposed by the uniformed military. At the same time, he said he agreed with the deadline as a way to give the Afghan government a sense of urgency.

Still, Republican war supporters continued to hammer at the issue on Sunday, with Arizona Sen. John McCain, the top Republican on the Senate Armed Services Committee, saying the deadline has sowed confusion in the region.

"I'm all for dates of withdrawal, but that's after the strategy succeeds, not before," Mr. McCain said on the ABC News program "This Week" during a visit to Kabul. "That's a dramatic difference. And I

can tell you for sure, our people in the region are not sure whether we are going to be here after the middle of 2011, whether we have succeeded or not."

The administration has worked hard in recent weeks to emphasize that any withdrawal will be based on conditions on the ground and that it doesn't necessarily mark the beginning of a large-scale draw-down.

But Mr. Jawad appeared to agree with Republican critics, saying it has raised questions about whether the U.S. is fully committed to winning the war. "If that's not the feeling, we lose the support of the Afghan people and also make the neighboring countries who have an interest a lot more bolder to interfere in Afghanistan," he said.

Gen. Petraeus acknowledged that his appointment as commander in Afghanistan came at a "critical moment" as both casualties and the number of coalition troops in the country are peaking. Some front-line troops have bristled at rules of engagement put in place by Gen.



Gen. David Petraeus, center, at Sunday's ceremony in Kabul.

McChrystal, which restricted their ability to go after insurgents in some scenarios out of a desire by U.S. commanders to avoid civilian casualties.

Gen. Petraeus has said he would review the rules, but in a letter to soldiers under his command issued Sunday, he wrote that while they must continue "killing, capturing or

turning the insurgents," limiting the number of civilian casualties would continue to be a priority for his command. "We must also continue our emphasis on reducing the loss of innocent civilian life to an absolute minimum," Gen. Petraeus wrote. "We must never forget that the decisive terrain in Afghanistan is the human terrain."

WORLD NEWS

Sumo body suspends chairman

An outsider succeeds Musashigawa as Japanese sport grapples with a gambling scandal

BY MARIKO SANCHANTA
AND KAZUHIRO SHIMAMURA

TOKYO—The head of sumo's governing body was suspended Sunday and succeeded by an outsider over an illegal-gambling scandal that has ensnared 65 wrestlers, in an unprecedented decision aimed at cleaning up the sport's tarnished reputation.

The revelations have turned the once-sacred sport of sumo upside down, as the 2,000-year-old event is being forced to confront the sudden revelation of long-held secrets from its cloistered, shadowy world.

The Japan Sumo Association on Sunday named Hiroyoshi Murayama, a former Tokyo High Prosecutors Office chief, as the acting chairman of the body until July 25, when the Nagoya Grand Sumo Tournament ends. He succeeds Musashigawa, a retired wrestler and the current chairman, who expressed remorse on Sunday for the scandal.

"We have caused considerable trouble and I apologize from the bottom of my heart," said Musashigawa, who was born Goro Ishiyama, at a news conference held in Nagoya. "We humbly accept the advice that has been offered to us and we will make efforts to ensure that we do not have another scandal like this."

Sixty-five sumo wrestlers of the sport's 700 members have admitted to illegally gambling on baseball, cards and other games. The Japanese media, including the nation's largest daily Yomiuri Shimbun, have reported that some of the illegal gambling was through the *yakuza*, the Japanese mafia. The sumo association spokesman said that he couldn't comment on the allegations, but that the association is cooperating with a police investigation of the matter.

Mr. Murayama, 73 years old, was appointed as an outside director to the secretive JSA in 2008, after the hazing death of a trainee at one of Japan's stables, or sumo training centers. Mr. Murayama's appointment is symbolic, as he is an out-



Agence France-Press (2)



Kotomitsuki, left, was sumo's first champion to be fired in the sport's history. Otake, right, was also dismissed on Sunday.

sider to the sport, and it sends a message to the public that the JSA won't tolerate any involvement with the *yakuza*.

The JSA said Sunday it has also fired two central figures caught up in the gambling scandal: Kotomitsuki, the sport's second-highest-ranked wrestler, and Otake, a stablemaster, or coach. The two will be banned from sumo for life, and Kotomitsuki is the first active *ozeki*, or champion, to be fired in the sport's history.

Hakuho, the massive Mongolian who is sumo's current grand cham-

pion, or yokozuna, apologized Sunday for the scandals. "I humbly and deeply apologize for all the trouble that has been caused," he said.

Fewer Japanese men are eager to become sumo wrestlers today, due to the sport's strict rules and its hierarchical, rigid lifestyle. Its top ranks have been populated by foreigners—primarily Eastern Europeans and Mongolians. The last time a native Japanese wrestler won a sumo tournament was in 2006.

Japanese state broadcaster NHK, which has broadcasting rights for sumo matches until March 2013,

said it is still deciding whether to show the Nagoya tournament, that starts Sunday, and would consider further actions by both the sumo association and the special investigation team before making a final judgment.

According to Kyodo News, NHK has received more than 8,000 calls, emails, and faxes regarding the scandal, with two-thirds saying they opposed the broadcast of the tournament. Many of sumo's top corporate sponsors have withdrawn their support for the Nagoya grand tournament.

China premier says economy faces dilemmas

BEIJING—Chinese Premier Wen Jiabao said Sunday the country's economic policies "face increasing dilemmas" because the impact of the global financial crisis is more serious than expected, but he reiterated that China won't hold back steps to restructure the economy for growth.

The remarks were made after two purchasing managers' indexes issued last week showed China's manufacturing economy slowed in June and after China on Friday revised upward its gross domestic product growth for 2009. The GDP revision means China's year-to-year growth will have a higher comparison base for the second and following quarters, so the growth may be lower than economists' expectations.

Despite the widely expected slowdown, Mr. Wen reiterated that China will continue its economic policies but increase their flexibility, to "solve current significant and urgent problems" while "laying foundations for stable and relatively fast economic growth of 2011 and in a longer term." He was speaking at an economic forum held Saturday in the central Chinese city of Changsha, according to a statement posted on the central government's website.

"China's current economic situation is sound, but the domestic and global economic environment is extremely complicated," Mr. Wen said. He said Beijing will try to maintain relatively fast economic development while managing inflation.

The statistics bureau on Friday revised upward economic growth for 2009 to 9.1% from 8.7%. The revision was due to higher contributions from secondary and tertiary industries. Secondary industries include the mining, manufacturing and power sectors; tertiary industries cover services. Primary industries are farming, forestry and fishing.

In 2008, China's economy expanded 9.6%.

The bureau said China's nominal GDP, evaluated at current market prices without adjustment for inflation, reached 34 trillion yuan (\$5.02 trillion) in 2009. At last year's average exchange rate, China remained the world's third-largest economy, behind Japan with a 2009 GDP of just over \$5 trillion.

Fast-growing China is expected to surpass Japan as the world's second-largest national economy after the U.S.—in terms of annual output measured in U.S. dollars at market exchange rates—but it will likely have to wait until the end of 2010 to pass that milestone.

In terms of purchasing-power parity, however, China has been the second-largest economy for a long time.

—Liu Li, Victoria Ruan and Andrew Batson



Xinhua/Zuma Press

Premier Wen Jiabao holds a drawing of him by a Chinese worker Friday.

Kan draws heat on his tax-rise pledge

BY YUKA HAYASHI

TOKYO—Japan's parliamentary elections have turned into a debate about the wisdom of promising to raise taxes in the middle of a shaky recovery.

The success of the ruling Democratic Party of Japan in the July 11 vote hinges in large part on whether Prime Minister Naoto Kan can persuade voters to give him credit for laying out what he calls an honest assessment of the country's debt problems, and the policies needed to fix them. But Mr. Kan is facing some heat within his own party and is now modifying his dramatic sales-tax-increase pledge.

"A tax hike would mean we had lied to our voters," Ichiro Ozawa, ousted in May as the party's chief political strategist, said in a campaign speech last Monday. The DPJ had promised voters only last year to keep the sales tax unchanged at least for four years. In response, Mr. Kan said in a TV interview Friday, "I already asked him to keep quiet once. I won't do it again because it would be rude."

Room to maneuver

Taxes on goods and services as a percentage of GDP, for select OECD countries for 2008, the most recent year available

Denmark	15.6%
Hungary	14.9
Portugal	13.3
Greece	11.5
France	10.5
Germany	10.5
United Kingdom	10.3
South Korea	8.4
Japan	5.1
U.S.	4.6

Source: Organization for Economic Cooperation and Development

"We will make sure ordinary people won't be hit with an excessive burden," Mr. Kan said Wednesday, promising that the government will study steps to combine a sales tax increase with a rebate for lower-income earners and a special low tax rate for groceries. But overall, Mr. Kan is sticking with the party's election priorities laid out in mid-

June: that he would seek to double the sales tax from the current 5% to avoid a Greek-style fiscal crisis.

History shows the Japanese ruling party suffers an election defeat whenever it advocates a rise in the unpopular national sales tax, starting with the year the idea was first floated seriously, in 1979. But Mr. Kan is betting that the political en-

vironment has changed, and that voters now understand the need for austerity and appreciate his courage to take up the challenge his predecessors have avoided. Mr. Kan has pitched the increase in Japan's national sales tax as a way to avoid a "fiscal collapse" that, he warns, would pave the way for intrusive intervention by organizations like the International Monetary Fund. "They'd have a say in every small detail like how we use our chopsticks," he said, as he unveiled the DPJ's campaign pledges June 17.

After Mr. Kan's tax-increase promise, popular support for the DPJ has declined, erasing some gains scored after Mr. Kan took over on June 8 from Yukio Hatoyama. A poll released Monday by the Asahi Shimbun daily showed 48% of the respondents supporting Mr. Kan's government, down from 60% at its inauguration on June 8. Still, Mr. Kan has been right in predicting that many voters are with him on the tax increase. A recent Asahi Shimbun daily poll showed 46% of respondents supporting a tax increase, higher than 44% opposing it.