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## Lloyds pulls off a banking coup by poaching Santander star

BUSINESS & FINANCE 21

## Chernomyrdin, man who guided new Russia, dies

EUROPE NEWS 5

# THE WALL STREET JOURNAL.

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Thursday, November 4, 2010

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## Fed to buy \$600 billion of Treasurys

By LUCA DI LEO  
AND TOM BARKLEY

The Federal Reserve unveiled a controversial new plan Wednesday to buy \$600 billion of U.S. Treasurys through June, hoping to spur growth in the nation's disappointingly slow economy.

After two days of discussions, Fed officials decided to go ahead with the much-anticipated program and said they stand ready to purchase more government debt if the economy's persistent weakness leads prices to remain too low and unemployment too high.

The Fed's first, \$1.75 trillion bond-buying program, which ran from December 2008 to March, is credited with helping the economy when the U.S. was hit by a financial crisis and a deep recession. The latest move is more controversial because the economy is now growing—albeit slowly—and finan-

cial markets are no longer under severe stress.

By buying government bonds, the Fed aims to keep long-term interest rates low, hoping it will lead consumers to spend and companies to invest more, thus helping to propel the economy forward. Short-term interest rates were slashed close to zero in December 2008, so the Fed no longer has its traditional weapon to boost the economy.

The Fed said it expects to buy between \$850 billion and \$950 billion of Treasurys through the end of the second quarter of 2011. That is because in addition to the \$600 billion, the Fed expects to buy about \$35 billion in Treasurys a month to replace mortgage bonds in its portfolio that are being retired, a decision made in August.

Almost half of the purchases will be focused in five- to 10-year Treasurys. The New York Fed said it anticipates

the assets purchased will have an average duration of between five and six years.

"The Committee will regularly review the pace of its securities purchases...and will adjust the program as needed to best foster maximum employment and price stability," the Federal Open Market Committee said in a statement.

Fed officials said the economic recovery that started in June 2009 and hit a stumbling block last summer continues to be slow. Consumer spending, while increasing gradually, continues to be constrained by a high unemployment rate.

"Longer-term inflation expectations have remained stable, but measures of underlying inflation have trended lower in recent quarters," the central bank said.

Some 16 months after the recession officially ended, the

Please turn to page 3

## America speaks and Obama says he listened



Reuters

President Obama, in a press conference Wednesday, took responsibility for Democrats' 'shellacking' and offered olive branches to Republicans after the GOP took back the House and swept many Democrats from power. Articles on pages 6-8, 10, 16-17. Full results at [WSJ.com/campaign2010](http://WSJ.com/campaign2010).

### The Quirk



Londoners take aim at scourge of the sidewalks—slowpokes. Page 33

### World Watch

A comprehensive rundown of news from around the world. Pages 34-35

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Germany's ecological-industrial complex makes the poor poorer. Page 15

## Banks could struggle with new liquidity rules

By BOB DAVIS

WASHINGTON—The International Monetary Fund warned that some investment banks and European banks in general could have trouble meeting new global liquidity requirements, which could prompt them to move business to lightly regulated sectors and spark new financial-system vulnerability.

"Some activities may move toward the less-regulated shadow-banking sector, as the regulator costs to banks to undertake such activities increases," said a staff report by 10 IMF economists. "However there is the possibility that the risk to the

banking system would remain given the interconnectedness of banks with nonbank entities."

The IMF report comes a week before leaders of the Group of 20 industrialized and developing nations gather in Seoul and take up the issue of financial regulatory reform. The G-20 is expected to endorse new rules proposed by the Basel Committee on Banking Supervision that require banks to hold more capital and liquidity.

The G-20 also is expected to discuss—and perhaps adopt—principles for closing troubled transnational banks whose failure could threaten the global financial system.

The IMF report surveyed 62 large banks in North America, Europe and Asia and found that 10 wouldn't have sufficient retained earnings to meet a common-equity capital ratio of 7% by 2019, when the new standards will be fully phased in. The rest could meet the standard, said IMF economists, by issuing stock or cutting dividends.

But the IMF economists said a number of investment banks as well as European investment and commercial banks would have trouble meeting new long-term liquidity standards, without giving a total figure. The Basel committee has pro-

Please turn to page 24

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## PAGE TWO

# Lloyds can expect foreign adventures under their new Portuguese helmsman

## [ Agenda ]

By PATIENCE WHEATCROFT



Antonio Horta-Osorio is a truly international businessman. Born in Portugal, his career included periods in New York and Brazil before he arrived in London to be chief executive of Santander U.K. in 2006.

Now the question causing some puzzlement is why this leading light in one of the world's biggest banks should have been persuaded to move into the chief executive's chair at **Lloyds Banking Group**, a U.K.-only operation that was deeply damaged by its purchase of the massively overstretched HBOS. At Santander, where he was tipped as a future chief executive, Mr Horta-Osorio could have been a major world player.

Lloyds may have just clambered back into the black and it can claim to be "the U.K.'s largest retail bank," but why would such an international operator as Mr. Horta-Osorio be interested in a parochial operation like that? Even Lloyds' U.K. dominance could be in jeopardy, as there remains a risk that the authorities may yet decide that they are uncomfortable with the bank having such a hefty market share.

Superficially, Mr. Horta-Osorio's decision looks surprising. It is less surprising that it has been greeted enthusiastically by investors, including the British government which now holds 43% of the bank, having been forced to come to its rescue in the wake of the HBOS purchase. He is judged to be a "sensible" banker, one who will not take undue risks with Lloyds.

One can see why he would have been top of the head-hunters' list to succeed outgoing



Eric Daniels, the outgoing CEO of Lloyds Banking Group.

chief executive Eric Daniels. But why would he have chosen to leave Santander for Lloyds? Perhaps the answer is that he does not see the bank as being just a U.K. bank in the future.

Lloyds has over its long history made occasional forays overseas, notably into Latin America, but always withdrawn. Mr. Daniels was clear when he took over that he would focus solely on the home market. His ambitions were to increase market share and he succeeded and investors reaped the rewards through a generous dividend policy.

Perhaps the answer is that he does not see the bank as being just a U.K. bank in the future.

Then in the autumn of 2008 came the decision to take over HBOS, which was on the verge of collapse. Shareholders, with the full benefit of hindsight, have preferred to ignore the fact that they voted through the deal almost unanimously. The then-chairman, Sir Victor Blank, and chief executive Mr. Daniels,

continue to maintain that their rationale for doing it remains correct, even though the numbers turned very nasty. Their argument is that the deal, with the blessing of a desperate U.K. government, brought Lloyds the quantum leap in scale that it couldn't otherwise have achieved and that time will vindicate them. Investors, who saw their company having to be bailed out by the government and their dividends come to an abrupt halt, now castigate the management for being foolhardy.

The latter view is likely to prevail if the U.K.'s Banking Commission demands that much of the deal be unwound in the interests of greater competition. But whether or not that is the case, it is clear that Lloyds' scope for expansion in the U.K. is very limited. So do not be surprised if it transpires that what really appealed to Mr. Horta-Osorio is the scope for taking Lloyds once again on an overseas adventure.

## Irish agonies

As Lloyds has tried to establish exactly what it acquired with its purchase of HBOS, it has become apparent that the bank had believed the Irish fairy tale as wholeheartedly as any five-year-old might believe in leprechauns.

The HBOS exposure to Ireland is costing Lloyds heavily, as its third-quarter statement this week indicated. But there may be more pain to come.

The debt markets have hit new waves of panic over the country, on a scale akin to the height of the Greek fiasco. With the country now facing an electoral backlash in the wake of the government's efforts at imposing austerity measures, the markets fear that Ireland's predicament will be the same as that of Greece: how to go bust within the confines of the common currency. The EU bailout fund may have to be rolled into action again. But this can only provide a temporary sticking plaster beneath which the wounds keep festering. Taking on more debt, even when it is strung around with exhortations to behave better in future, is not the way to rebuild bust economies.

## If the cap fits

Education is a commodity worth paying for: research proves that graduates over the course of their career will, on average in the U.K. earn £100,000 (\$161,000) more in their working lifetime than nongraduates. But degrees do not all deliver success on the same scale. The U.K. government has accepted the need to allow university fees to rise but in putting a ceiling on fees, it will limit the ability of the finest establishments to hold on to that designation. There is now an international market for top academics. If universities are prohibited from competing in that, the trend toward bright students heading overseas for their degrees will be exacerbated.

Given the political opposition to raising fees at this stage, the government has been brave to go as far as it has. But it is not far enough. Without the removal of the cap, the likes of Oxford and Cambridge must be getting closer to privatization.

## What's News

■ **The unexploded device** found on a plane in the U.K. on Friday has triggered criticism at home and abroad about the slow response to the incident within Britain and lack of communication between key allies. 4

■ **Greece stepped up** the hunt for five suspects linked to a spate of mail-bomb attacks by Greek militants and halted all mail shipments leaving the country. 4

■ **Morgan Stanley's CEO** told investors the company could delay plans to buy the 49% stake in brokerage firm Morgan Stanley Smith Barney it doesn't already own. 21

■ **U.K. officials said** Google broke the law by collecting data from personal wireless networks for its Street View mapping service. 21

■ **Société Générale's profit** doubled in the third quarter due to lower bad-loan provisions and growth in international retail banking. 22

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The many powers of maybe: refusing to commit is so easy. 31



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## ONLINE TODAY

### Most read in Europe



1. A Dream House in Carmel
2. Turkey Blocks, Unblocks YouTube
3. GOP Wins House in Huge Swing
4. U.K. Pays Price to Save Euro
5. Microsoft's Kinect Is Under Pressure to Connect

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4. New Surgery to Treat Asthma
5. BBVA's Well-Judged Turkish Adventure

### Washington Wire

blogs.wsj.com/washwire

'If Republicans are pleased now, just wait until 2012, when the GOP will be well positioned to control the Senate.'



### Continuing coverage



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### Question of the day

**Vote and discuss:** Will changes in Washington have a positive or negative impact on the global economy?

Vote online today at [wsj.com/polls](http://wsj.com/polls)

### Previous results

**Q:** Did investors bid up shares too much in anticipation of this week's election and Fed moves?

Yes

66%

No

34%

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## NEWS

# Drones are set to fly, unseen, into daily life

By SIOBHAN GORMAN

Brangelina beware. The paparazzi of Splash News are coming for you and you'll never see them coming.

Gary Morgan, chief executive of the celebrity-photo agency, said he'd like to be buzzing his quarry soon with silent, miniature drones mounted with tiny cameras. No more harassment from helicopters hovering in the Hollywood Hills.

"It would strike fear in the hearts of every celebrity having a birthday party," Mr. Morgan said. "Call it C3paparazzo," after the robot in Star Wars.

Personal drones aren't yet plying U.S. flyways. But an arms race is building among people looking to track celebrities, unfaithful lovers or even wildlife. Some organizations would like them for emergency operations in areas hit by natural disasters. Several efforts to develop personal drones are scheduled for completion in the next year.

"If the Israelis can use them to find terrorists, certainly a husband is going to be able to track a wife who goes out at 11 o'clock at night and follow her," said New York divorce lawyer Raoul Felder.

Drones now are associated with the unmanned Predator craft the

Central Intelligence Agency uses to fire Hellfire missiles at militants in Pakistan's tribal areas. But the essential technology is increasingly available beyond military circles, and spreading fast. An unmanned aircraft that can fly a predetermined route costs a few hundred bucks to build and can be operated by iPhone.

For now, the Federal Aviation Administration limits domestic use of drones to the government, and even those are under tight restrictions. FAA spokeswoman Laura Brown said the agency is working with private industry on standards that might allow broader use once drone technology evolves. When it comes to paparazzi use of drones, she said, "our primary concern with that would be safety issues."

However, there already is a regulatory gray area: recreational use of drones. The FAA doesn't have explicit rules governing such uses, but Ms. Brown said an advisory that applies to pilotless drones recommends—but doesn't require—that such aircraft be flown away from populated areas; away from regular airplanes; at an altitude below 400 feet; and that airports be notified if the craft is flying nearby. Mr. Felder said the recreational exception could provide clever lawyers with

an opening for use of the drones.

The ability to share software and hardware designs on the Internet has sped drone development, said Christopher Anderson, founder of the website DIY Drones, a clearinghouse for the nearly 12,000 drone hobbyists around the world.

A coming DIY Drone competition will challenge members to walk a mile with a drone following from above. The goal is to make a drone that can stabilize itself and track its target. Given the rapid evolution of technology, Mr. Anderson said, "that's now a technically trivial task."

Ohio State University art and technology professor Ken Rinaldo is drawing up designs for his Paparazzi Drone—a successor to his Paparazzi Bot, a robot he deployed at the Vancouver Olympics to snap photos of the athletes and spectators.

"They'll be able to move around and sense distances and obstacles," Mr. Rinaldo said. "Mine will definitely have a lot of flash and bling—probably some lasers, too."

But so far they can't perform such tasks for long: The best of the smaller proto-drones can stay aloft for 30 minutes or so. Much work is focused on extending battery life and flight time.



MIT student Kim Jackson demonstrated drone technology last month.

## U.S. Fed unveils bond purchases of \$600 billion

*Continued from first page*  
unemployment rate is stuck close to 10% and prices remain low as companies struggle to lure buyers. An underlying measure of inflation that is closely watched by the central bank rose just 1.2% in the year through September, the lowest level in nine years and below the Fed's informal goal of around 2%.

**Economists have warned the bond purchases could be ineffective because interest rates are so low. Others say they could backfire, sparking asset bubbles.**

With unemployment seen staying too high and inflation too low for a long time, Fed officials stuck to their pledge to keep short-term interest rates at a record low for an "extended period."

Financial markets see no chance of an increase in the rate banks charge each other for overnight loans for all of next year.

Central-bank officials also gave their updated forecasts for the U.S. economy. While those will only be made public when the minutes of

the FOMC meeting are released Nov. 24, they are certain to paint a worse picture than projections made in June, when the economy was seen expanding by almost 4% at the end of 2011 and unemployment falling to about 8.5%. The economy grew at an annual rate of just 2% in the third quarter after climbing 1.7% in the second quarter, levels that are too weak to bring unemployment down soon.

The jobs report, due Friday, is expected to show that unemployment remained at 9.6% in October.

Economists inside and outside the Fed have warned the bond purchases could be ineffective because interest rates are already so low. And some say it could backfire, sparking new asset bubbles or higher inflation in the next few years.

Showing there is even dissent within the central bank, Kansas City Fed President Thomas Hoenig voted against the action, saying the risks outweigh the benefits.

Opposition to the bond purchases could grow in 2011. Three of five regional-Fed-bank presidents who will get to vote next year have raised doubts about the plan's potential to further help the economy: Dallas Fed President Richard Fisher, Minneapolis Fed President Narayana Kocherlakota and Philadelphia Fed President Charles Plosser.

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## EUROPE NEWS

# Response to bombs criticized

By ALISTAIR MACDONALD  
AND DAVID CRAWFORD

The unexploded device found on a plane in the U.K. on Friday has triggered criticism at home and abroad about the slow response to the incident within Britain and the lack of communication between key allies.

U.K. Prime Minister David Cameron was angered that it took almost 10 hours for him to be told about a potential terrorist bomb intercepted at Britain's East Midlands Airport early Friday, people familiar with the situation said. German investigators have claimed that a British intelligence official failed to take timely action to prevent the air-freight shipment of the bomb.

The dust-ups come amid heightened concern in the U.K. over al Qaeda in the Arabian Peninsula, the Yemen-based group suspected of being behind last week's thwarted package bombing plot. This week, news reports indicated that a woman who was convicted of attempting to kill a senior British politician was influenced by Anwar al-Awlaki, a U.S.-born radical cleric connected to AQAP.

On Wednesday, U.K. Home Secretary Theresa May said a member of the al Qaeda affiliate was arrested in the U.K. earlier this year for allegedly plotting an attack in Britain.

British explosives experts intercepted the package at East Midlands Airport at 3:28 a.m. Friday on a plane bound for Chicago via Philadelphia, but had failed to spot the danger on initial examination and ordered the plane on its way while removing cordons from the airport. It was only when news arrived that a similar device had been found with explosives in Dubai that police re-examined the device and saw its threat.

"The conclusion is, there was a lot of stuttering and unease with



David Cameron, left, shown Wednesday in London, wasn't notified about a potential bomb until hours after it was found.

what they had got," said Andy Hayman, a former head of police counterterrorism for the U.K.

On Monday, Ms. May admitted that identification of the package as a potential bomb "took a while."

That may explain why it took time for Ms. May and Mr. Cameron to be informed of the device. They heard about it at 2 p.m. Friday in the U.K., some 10 hours after President Barack Obama had been informed. Mr. Obama was notified on Thursday at 10:35 p.m. Eastern time of the general issue involving the cargo bombs by John Brennan, his top counterterrorism adviser.

Mr. Cameron has asked his national security adviser, Peter Ricketts, to investigate the delay.

"Clearly, in the future [Downing Street] would want to know sooner," one person familiar with the matter said.

"Even if you are not sure with what you have got, you should still

report it up," Mr. Hayman said.

Ms. May has come under fire from German security officials, who say they weren't kept in the investigation loop.

The package was moved onto the plane that landed in Britain at Germany's Cologne-Bonn Airport, but by the time German authorities received a tip that it might be dangerous, the plane had already left for the U.K.

German officials then tipped off the U.K. about the package, according to people familiar with the German reconstruction of events. These people said the U.K. first received information on the device from Germany's BKA intelligence agency after a British intelligence official failed to pass on a tip-off from Saudi Arabia.

A German police liaison officer in Saudi Arabia had received a briefing from the Saudi GIP intelligence service about the device early Fri-

day, at the same time as the British intelligence official, these people said. The German police official called in the tip to his bosses at 1:40 a.m. U.K. time, and when it was realized the device was on a plane bound for Britain, that information was passed onto British police at 2:59 a.m. U.K. time, just ahead of its discovery at 3:28 a.m., these people said. The British "did not act as quickly as we did," one of these people said.

After that, German officials say they were kept in the dark about the package's status. German police first heard details about the bomb's construction through the media, after Ms. May released a press statement on Saturday afternoon.

Representatives from the Home Office and Scotland Yard said they don't comment on operational security matters.

—Adam Entous  
contributed to this article.

## U.S. says Ukraine elections fell short

By JAMES MARSON

KIEV, Ukraine—The Obama administration criticized Ukrainian President Viktor Yanukovich over the conduct of local elections Sunday, saying they "did not meet standards for openness and fairness."

Mr. Yanukovich's allies won the biggest overall share of votes in the races to choose mayors and regional councils, according to an exit poll, but opposition parties and election observers are crying foul, alleging widespread violations.

The vote was seen as a test of Mr. Yanukovich's democratic credentials following his victory in presidential elections in February.

Since taking office and building closer ties with Russia, the president has been accused of trying to replicate a Russian style of authoritarian rule by clamping down on the opposition and the media.

A statement issued Wednesday by the U.S. Embassy in Kiev said that Sunday's elections were a step backward from the February vote, which was widely judged to have been free and fair.

**Opposition lawmakers protested in parliament on Wednesday by blocking the speaker's rostrum, preventing the body from convening.**

The embassy statement criticized recent changes to the election law that benefited the president's Party of Regions and "numerous procedural violations on election day" that were noted by international and domestic monitors.

The Washington-based National Democratic Institute on Tuesday said it had observed a "deterioration in Ukraine's election environment."

Opora, a nonpartisan Ukrainian election watchdog funded by NDI, reported pressure on opposition candidates by state officials to drop off the ballot as well as numerous cases of vote-buying and repeat voting.

Prime Minister Mykola Azarov, who heads the Party of Regions, called the election "honest and fair." Mr. Yanukovich, in a televised address Tuesday, acknowledged "technical flaws" but declared the elections over and urged the winners to get to work.

Lawmakers from former Prime Minister Yulia Tymoshenko's opposition party physically blocked the speaker's rostrum in parliament on Wednesday, preventing the body from convening. They demanded that a special parliamentary committee be set up to investigate alleged violations.

A group of 10 opposition parties released a statement saying the vote was "neither democratic, nor free."

Official results of the elections are expected later this week.

An exit poll gave Mr. Yanukovich's Party of Regions 36% support, against 13% for Ms. Tymoshenko's party.

# Greece halts mail, hunts suspects

By NICK SKREKAS  
AND DANIEL MICHAELS

ATHENS—The Greek government on Wednesday stepped up the hunt for five suspects linked to a spate of mail-bomb attacks by Greek militants and halted all mail shipments leaving the country, while European officials geared up to find ways to boost air-cargo security.

The mail-bombing campaign that targeted European leaders and institutions, as well as foreign embassies in the Greek capital, came days after U.K. and Dubai authorities intercepted two air-cargo packages with bombs addressed to synagogues in the U.S. Those packages, sent from Yemen and apparently aimed at detonating while the planes carrying them were airborne, have been linked to terrorist group al Qaeda in the Arabian Peninsula, or AQAP.

The 48-hour ban on outbound mail comes after 13 booby-trapped parcels were discovered in Greece and around Europe since Monday, including mail bombs targeting the French and Italian leaders and one that reached the office of German Chancellor Angela Merkel.

Greek police have since arrested two suspects, aged 22 and 24, they say are linked to Conspiracy of Fire Nuclei, Greece's shadowy, far-left ur-

ban guerrilla group. Police appealed Wednesday for information and released photos of five men between 21 and 30 years old whom they suspect of involvement in the plot.

Prime Minister George Papandreou vowed the country would track down the terrorists. "Democracies cannot be terrorized. These irresponsible and mindless acts were, and are, aimed at harming the Greek people's enormous efforts to set the country to rights," he said in a statement.

While Greek officials have denied any link of the mail bombs to al Qaeda, the similarity of the attacks prompted Ms. Merkel to call for stricter security and better coordination world-wide of air package delivery companies.

"This must be taken as an opportunity to improve the coordination of controls for freight within Europe, with the United States, and then as far as possible world-wide," Ms. Merkel told German newspaper Passauer Neue Presse. "The priority should be to introduce stricter controls worldwide to prevent terrorist attacks."

Little is known about the Conspiracy of Fire Nuclei, which first emerged in early 2008, six years after Greek police dismantled the country's most notorious terror

group, the left-wing November 17 organization. It has since been known for an ongoing series of non-lethal bomb attacks around the Greek capital despite the arrests of several of its members—most of them in their 20s—in the past two years. The group is seen as anti-authoritarian and the targets may reflect their opposition to Greece's recent austerity program following an European Union sponsored €110 billion bailout for the country earlier this year.

Even before Wednesday's events, the attempts to send explosives from Yemen had prompted EU officials to begin discussions on how to improve the security of air-cargo shipments.

Transport officials from Belgium, which holds the rotating EU presidency, plan discussions over the issue Friday with their counterparts from the European Commission.

The EU has done much to improve the security of cargo leaving the bloc, particularly going to the U.S., but must now focus on cargo entering and transferring within the EU, said officials involved in the meeting. Following the Greek letter bombs, intra-EU cargo security is likely to figure large in the talks.

EU transport-security officials say one focus of the meeting will be improving cargo screening outside the EU and U.S., particularly in de-

veloping countries. The U.S., the EU and other developed countries recently agreed to work on this through the United Nations' aviation arm, the International Civil Aviation Organization. On Wednesday, the head of Nigeria's Civil Aviation Authority, Harold Demuren, said he has ordered 100% inspection of all cargo leaving Nigeria for explosives. He said that means "terrorists can never come to our airports again."

At the meeting Friday, officials hope to draw up concrete steps that the EU and its member states can take. This information will be presented to EU transportation ministers at a planned meeting on Dec. 2. The goal is for the ministers to begin taking action, although specialists say any significant steps are unlikely to take effect quickly.

Claus Korfmaier, a spokesman for the delivery service DHL, said "robust security measures are in place," declining to specify what those measures entail. DHL is in communication with the authorities and other companies, he said. The company will not make a "rushed decision" in how to handle the new threats, but take a methodical and integrated approach, he said.

—Marcus Walker in Berlin  
and Alkman Granitsas in Athens  
contributed to this article.



## EUROPE NEWS

# Irish debt-insurance costs hit record

BY ART PATNAUDE  
AND IRENE CHAPPLE

LONDON—The cost of insuring Irish government debt against the risk of default set another record as investors remain concerned that debtholders may have to suffer some pain as some of Europe's more indebted governments get their finances under control.

The Irish government, meanwhile, announced public-sector job cuts and confirmed that a pre-budget outlook will be published by Friday as it seeks to reduce its deficit,

which at an estimated 32% of gross domestic product this year is by far the highest in euro-zone history.

The annual cost of insuring \$10 million of Irish debt for five years through credit default swaps rose \$40,000 to \$563,000, according to Markit, a day after rising \$27,000.

Irish bond yields also rose, pushing the 10-year yield to 7.498%, from 7.383% on Tuesday and more than a percentage point higher than just over a week ago. The yield premium over the German benchmark widened to 5.08 percentage point, from 4.91 percentage point.

The cost of Irish insurance has jumped from \$444,000 a week ago as European politicians debate a permanent bailout system that would cover the euro zone after 2013, when Greece's aid package expires.

Some members of the European Central Bank want to phase out a program of bond-buying that has supported some government bond prices, and German Finance Minister Wolfgang Schäuble said monetary union wasn't meant to enrich speculators.

"Private investors and markets

must no longer expect a rescue by European taxpayers that encourages indebtedness and irresponsible investments," he said in a speech Tuesday in Paris.

In Ireland, Finance Minister Brian Lenihan said Wednesday that the government plans to announce a program of public-sector job cuts as part of its plan to lower its budget deficit to 3% of GDP by 2014.

The job cuts come after the resignation of Fianna Fail party member Jim McDaid on Tuesday lowered the government's majority in parliament to just three. That raised more

doubt about whether the budget will be passed by the Dec. 7 deadline, although the pre-budget outlook should help temper concerns.

Credit market investors are closely watching the government's attempts to put the nation back on a stable financial footing, one trader said.

"It's a massive task, it's a Herculean task, and there are credit investors speculating it is beyond the government's capabilities," he said.

—Emese Bartha in Frankfurt and Mark Brown in London contributed to this article.

## Ex-Russian premier guided transition

### [ REMEMBRANCES: Viktor Chernomyrdin ]

BY RICHARD BOUDREAUX

MOSCOW—Viktor Chernomyrdin, the jowly, stolid Soviet apparatchik who founded the world's biggest gas company as the Soviet Union was teetering and helped guide Russia through years of chaos following its collapse, died Wednesday. He was 72 years old.

Mr. Chernomyrdin was the last survivor of a trio of iconic figures who shaped Russia's post-Soviet transformation. He held the job of prime minister from 1992 to 1998 with a steady hand as the country lurched from crisis to crisis under Boris Yeltsin, its flamboyant, erratic president. He negotiated on live television with armed Chechen rebels, harnessed his company's gas monopoly to shore up the state's shaky finances and briefly held the presidency during Mr. Yeltsin's coronary-bypass surgery in 1996.

There were times, recalled Anatoly Chubais, a leading economic reformer, that Russia was "hanging by a thread" and Mr. Chernomyrdin stepped in to save it. Along with Mr. Yeltsin, who died in 2007, and Yegor Gaidar, who died last year, Mr. Chernomyrdin steered a monumental effort to undo the Soviet system, often struggling against a hostile parliament and laboring in a far more democratic environment than prevails in



Viktor Chernomyrdin helped shape Russia's post-Soviet transformation as prime minister between 1992 and 1998.

today's Russia.

To Russians, Mr. Chernomyrdin was also an amusing source of spontaneous aphorisms—some witty, some ungrammatical, some both—that belied his dour demeanor and seemed to define the confusions of a turbulent era. Drawing a distinction with the Soviet period, he famously declared that "Before, half the country was working and the other half wasn't. Now it's the other way around."

A mechanic and gas engineer, Mr. Chernomyrdin rose to become head of the Soviet Gas Ministry in 1985. Four years later, as the Soviet Union unraveled, he gathered its lucrative gas assets into a state company, Gazprom.

Then, as Russia's prime minister, he signed a decree turning Gazprom, which holds about one-sixth of the world's gas reserves, into a joint-stock company and ensured its monopoly on production, sale, transport and export of Russia's gas. In doing so, Mr. Chernomyrdin came to personify a generation of Soviet-trained bureaucrats who generated the reforms of the 1990s.

But his lack of experience outside the gas industry was a handicap to overcome. "He was an eager student, but he had a very long learning curve," recalled Martin Gilman, an International

Monetary Fund official who negotiated with him in the 1990s. He often seemed overwhelmed by the burdens Mr. Yeltsin placed on him and by the titanic power struggles among radical free-market reformers, Soviet-schooled factory bosses and emerging banker-industrialist tycoons.

He was thrust into the job when a recalcitrant parliament pushed Mr. Yeltsin to fire Mr. Gaidar, the leading radical reformer. To Mr. Gaidar's supporters, the new prime minister's first words were troubling. "I am in favor of reforms, of a real market, but not a bazaar," he said.

Yet Mr. Chernomyrdin eventually gained their respect, although he never fully embraced their agenda. Russian leaders across the spectrum, save for the Communists, eulogized him Wednesday as a tireless and tactful conciliator.

"He turned out to be a very wise leader and combined, as the Chinese say, the experience of the older comrades," said Alexander Shokhin, a deputy prime minister in the early 1990s.

"Chernomyrdin's main strength was his unique ability to compromise," Mr. Yeltsin wrote in his memoirs, explaining his 1998 decision to fire the prime minister. "But that was the problem. The main compromise

that Chernomyrdin got stuck on all those years, between market reforms and the Soviet [factory] directors, was no longer possible."

Later that year, amid Russia's worst post-Soviet economic crisis, Mr. Yeltsin realized Mr. Chernomyrdin's value and tried to reappoint him, but parliament rejected the move. Mr. Chernomyrdin went on to distinguish himself as an international mediator, helping to persuade Serbian President Slobodan Milosevic to withdraw his military forces from Kosovo after 11 weeks of North Atlantic Treaty Organization bombing of Serbia. From 2001 until last year, Mr. Chernomyrdin served as Russia's ambassador to Ukraine.

Like others who pulled Russia through the transition, Mr. Chernomyrdin did well for himself. He denied reports that he was a billionaire but told the newspaper Izvestia in 2004, "I'm not poor." In 2009, he declared an income of about \$300,000 and acknowledged ownership of four luxury cars, including a Bentley, according to the Kremlin website.

Prime Minister Vladimir Putin on Wednesday called him "a true patriot of Russia" who "did a lot for the formation of our country." The Kremlin announcement of his death gave no cause.

—Gregory L. White contributed to this article.

## Spanish joblessness increases

BY JONATHAN HOUSE  
AND SANTIAGO PEREZ

MADRID—Spanish jobless claims continued to spiral higher in October, highlighting a weak recovery for an economy suffering from the collapse of a decade-long construction boom and government efforts to slash a towering budget deficit.

The Spanish Labor Ministry said Wednesday that registered jobless claims rose by 68,213, or 1.7%, to nearly 4.09 million in October from September. The ministry doesn't provide unemployment rates.

The Spanish Statistics Institute said last week that the average jobless rate was 19.8% in the third quarter. That is more than twice the European Union average, although it is down slightly from 20.9% in the second quarter.

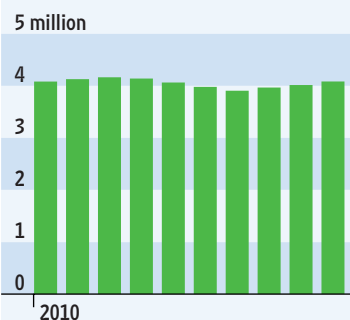
Spanish jobless claims tend to rise in September and October as the large tourism sector sheds jobs at the end of the summer season. Adjusted for seasonal factors, Spanish claims actually fell by 9,639 in October from September, the ministry said.

Economists said the Spanish economy is still too weak to create jobs on a sustained basis and forecast volatility in the months ahead. Spanish gross domestic product rose 0.2% in the second quarter and was up 0.1% in the first quarter after six consecutive quarters of contraction.

It is expected to have weakened again in the third quarter following a value-added-tax increase and other government austerity measures.

### Scant relief

Spanish jobless claims rise after a few months of improvement over the summer.



Source: Spanish Labor Ministry

### Wise words

Many of Viktor Chernomyrdin's utterances became popular phrases. Here are some credited to him by Russian media.

■ "We wanted it to turn out better but it came out like always."

■ "I don't think about aphorisms, they just fly out of me by themselves."

■ "The government is not an organ where you can use your tongue just any way."

■ "We will live so well that our grandchildren will be jealous."

■ "I can talk to anyone in any language, but I try not to use that instrument."



## U.S. ELECTIONS

## Three leaders are stuck together now

## [ Capital Journal ]

By GERALD F. SEIB



President Barack Obama had a lousy night Tuesday, Sen. Mitch McConnell had a pretty good one and Rep. John Boehner—well, he won the lottery.

Those three men—the president, the Republican leader in the Senate and the new Republican House speaker—are stuck with each other now, all playing new roles in the postelection world of Washington. Whether they can play well together is the question that will grip the political world for months to come.

But before they can get to the point of figuring out whether they can work together, each man faces some significant challenges within his own political constituency. In fact, they face equally daunting internal leadership challenges.

Here's a quick look at those challenges:

—President Obama: His party is not only shell-shocked, but likely headed for a period of recrimination and soul-searching. The task for the president is to keep the finger pointing to a minimum and set an ideological course that can be acceptable both to the Democrats who now are a minority in the House and those who remain (barely) a majority in the Senate.

The first job will be quelling a nascent ideological fight now brewing within his party. Democrats on the left began arguing even before election results came in that the party's problem was that Democrats hadn't been bold enough in pursuing a liberal agenda and that the loss of several dozen moderate and conservative House Democrats merely illustrated the futility of tacking toward the center to please and protect them. Those moderates, the left is arguing, watered down and/or opposed the Democratic agenda, then lost seats for the party, anyway.

Moderates, meanwhile, already



Senate Minority Leader Mitch McConnell, above, faces postelection tests, as do President Obama and Rep. John Boehner.

were arguing Tuesday that the party lost the House precisely because it lost its hold on moderate swing voters in the middle, and needs to tack harder in that direction.

Meanwhile in the Senate, a whole series of Democratic senators from moderate to conservative states face re-election battles in 2012, and they certainly aren't going to think a shift to the left is in their interests, or in the interests of hanging on to control of the Senate.

At a press conference Wednesday, President Obama asked rhetorically whether Democrats and Republicans can "sit down together and come up with a set of ideas" that addresses economic concerns. He may need to ask the same of Democrats themselves.

—Sen. McConnell: To be almost, but not quite, in charge of an unwieldy organization isn't easy. To be not quite in charge while also incorporating a group of newcomers who think they were sent to Washington to shake up its leadership is really difficult.

That will be Sen. McConnell's position. Republicans came within a couple of seats of winning control of the Senate but didn't make it. They did elect several new senators who either were part of the tea-party movement or fueled by it, and those folks aren't arriving in town with the belief they got a mandate from voters to do deals with those in the center.

Moreover, there undoubtedly will be a feeling among Republican senators that there is little need to compromise on anything important now when, with twice as many Democratic senators as Republicans up for re-election in 2012, the chances are good they will soon be in full control.

On the other hand, Sen. McConnell also is smart enough to know that the Senate already is seen as the place where ideas go to die because of its frequent bouts of paralysis and that lots of the independent voters cast votes on Tuesday out of anger at what they see as a failure in Washington to achieve consensus on just about anything.

—Rep. Boehner: The new House speaker has been around long

enough to see his fellow Republicans overplay their hand after taking the House in 1994 and has just watched Democrats overplay their hand after winning big in 2006 and 2008.

So he knows the dangers of over-reach in a way some of his foot soldiers may not.

Thanks to the size of Tuesday's wave for his Republicans, he will have the votes to do pretty much as he pleases in the House. But he will face a choice between scoring points with legislation he knows will die either in the fractured Senate or under the president's veto pen, or figuring out how to weave his way toward legislation that both pleases his troops and voters but that also has some chance of surviving so his party gets credit for accomplishing something.

In addition, he has in his fold some lawmakers who want to use newfound power to investigate Democrats and the administration, which some voters will like—but many others will see as a distraction from real-world concerns. Not easy balancing acts for the new speaker.

## Republicans set to target derivatives regulations

By VICTORIA MCGRANE

WASHINGTON—Rep. Spencer Bachus, the Alabama Republican expected to take the gavel of the House Financial Services Committee next year, said he plans to rewrite the derivatives provisions of the Dodd-Frank financial overhaul law.

"That's one of the job-killing provisions of Dodd-Frank that needs to be addressed," the Alabama Republican said in an interview Wednesday morning, calling the provisions "overly expansive."

Mr. Bachus said the new derivatives rules, which will require most routine swaps to be traded on exchanges and routed through clearing houses, will redirect as much as \$1 trillion from the U.S. economy, draining capital from the financial system that could be used for loans or job creation.

Mr. Bachus said he also wants to roll back the broad liability imposed on credit-rating agencies in the current law.

"Both of those could retard lending and need some immediate action," he said.

Republicans, who took control of the House in a sweeping victory Tuesday, have vowed to roll back key Democratic initiatives, most specifically the health-care overhaul. Mr. Bachus's comments represent an early indication of what the party will seek to do in other key areas.

Mr. Bachus said he has support from his leadership to be chairman, though the House Republican steering committee must vote to make it official. If he succeeds in gaining the chairmanship, Mr. Bachus will oversee another major economic issue: overhauling mortgage-finance giants Fannie Mae and Freddie Mac. "That will be at the top of our agenda," Mr. Bachus said.

Republicans have introduced legislation that would wind down the two companies, currently under government control. Mr. Bachus said the long-term goal of abolishing new government mortgage guarantees remains the same. But he said there will be debate within the Republican ranks as to how quickly to privatize Fannie and Freddie.

While some of his colleagues want to privatize the two immediately, Mr. Bachus said he favored a more gradual winding down to minimize the shock to the housing market. "Just as with any addiction it has to be a withdrawal process," he said. "It could be a multiyear process."

It will be difficult for the two parties to reach consensus on what has become a politically decisive issue, and many analysts expect nothing but gridlock.

Mr. Bachus acknowledged that House Republicans will need to gain some Democratic support for the measure to get it through the Senate, where Democrats clung to their majority, and to override a potential veto from President Barack Obama.

Mr. Bachus said he will take a "team approach" to crafting the Fannie-Freddie legislation and plans to hammer out the details only after he's consulted with the new Republican members of the committee and GOP leadership.

## Industries now face a changed landscape

## TRADE

One area where President Barack Obama and congressional Republicans could find common ground is trade. Mr. Obama wants to submit a revised South Korea free-trade agreement for congressional approval in January, and hopes to unveil new terms addressing U.S. auto and beef exports during the Group of 20 meeting of global leaders in Seoul next week.

## ANALYSIS

Trade-skeptics in the Democratic caucus have blocked movement on trade-opening deals such as the South Korea treaty.

Senate Minority Leader Mitch McConnell (R., Ky.) said trade is one area where his caucus and the White House could work together.

—Elizabeth Williamson

## DEFENSE

Within national-security circles and the defense industry, there is some nervousness about whether

the new Congress could push broader cuts in defense spending as part of an attack on the swelling federal deficit. In the past, a Republican House and a more conservative Senate would have been a guarantee of continued defense budget growth. But the influx of tea-party candidates, elected on promises to oppose pork-barrel deals and earmarks and reverse the growth of federal spending, could chart a different course. Debate over how much more to spend on the war in Afghanistan could become a test of the new Congress's direction ahead of the administration's deadline to begin phased withdrawals in July 2011.

—Nathan Hodge

## ENERGY AND ENVIRONMENT

A Republican House represents a big challenge to Mr. Obama's ambitious agenda on energy and the environment. House Republican leaders have said they intend to fight and, if necessary, not fund the effort

by Environmental Protection Agency Administrator Lisa Jackson to regulate greenhouse-gas emissions across the economy using the Clean Air Act. Ms. Jackson could also come under fire from coal-state Democrats. Another potential flash point: offshore drilling. Republicans are expected to call on the Interior Department to speed approval of permits that companies need to drill in deep-water areas of the Gulf of Mexico.

Republicans also could challenge the Obama administration's effort to stop construction of a nuclear-waste repository at Yucca Mountain in Nevada—a decision opposed by the nuclear-power industry. Tuesday's victory by Senate Majority Leader Harry Reid should keep Yucca Mountain in the deep freeze for now.

—Stephen Power

## HEALTH POLICY

Health-care companies see the Republican win as a chance to chip away at aspects of Mr. Obama's

health overhaul least favorable to the industry. Insurance companies, drug makers and hospitals say they will press to peel away the law's new taxes on health-care companies and knock down a new board that recommends Medicare spending cuts. Where the health industry is most concerned about the Republicans' plans is the party's opposition to the law's requirement that most Americans carry insurance or pay a fine, something that could cost health-care providers millions of new customers. House Republicans say they plan to pass a bill repealing the law.

—Janet Adamy

## DRUG INDUSTRY

The pharmaceutical industry wants to hold on to concessions it won from Democrats during their reign in Congress, while benefiting from antiregulatory sentiment among Republicans who captured the House, industry lobbyists said.

—Alicia Mundy



## U.S. ELECTIONS

# Obama takes blame for party losses

*President, after a 'shellacking,' reaches out to Republicans, promises to negotiate on issues from tax cuts to energy*

By JONATHAN WEISMAN  
AND LAURA MECKLER

WASHINGTON—President Barack Obama, facing the public after a historic electoral defeat, took responsibility Wednesday for the “shellacking” Democrats took Election Day and promised to negotiate with resurgent Republicans on issues from tax-cut extensions to energy.

“This is something every president needs to go through,” a contrite president said toward the end of an hour-long news conference. “In the rush of activity, sometimes we lose track of the ways that we connected with folks that got us here in the first place.”

He added that he was “not recommending to every president that they take a shellacking like I did last night.”

Mr. Obama extended olive branches on tax cuts, energy, education and special-interest spending to victorious Republicans after a GOP tidal wave swept the Democrats from power in the House of Representatives, state legislatures and governorships from coast to coast. The Republican victory in the House dwarfed the GOP tsunamis of 1946 and 1994, with more than 60 House seats changing party hands.

The president set a tone of cooperation over confrontation as he steers a damaged White House toward an expected re-election bid. He was to hold a conference call with Democratic donors, organizers and supporters Wednesday afternoon to buck up the party faithful. And he is likely to call for a retreat with leaders from both parties before the new Congress convenes in January.

But he also made it clear he would defend the achievements of his first two years, especially his embattled health-care law. He would be willing to revisit some small provisions, such as a measure that requires small businesses to file more paperwork on their taxes to cut down on alleged tax cheating.

But, he added, “We’d be misreading the election [to believe] the American people want to see us for the next two years” relitigate some of the fights we had in the first two years.

Democrats appeared to get a victory Wednesday when Sen. Michael Bennet declared victory in Colorado in his Senate race against Republi-



President Barack Obama set a tone of cooperation at a news conference Wednesday. “This is something every president needs to go through,” he said.

can Ken Buck. The Buck campaign wasn’t ready to concede. If Mr. Buck loses, he would be the third tea-party-backed Senate candidate to lose a race once seen as a prime Republican opportunity. Sharron Angle lost to Senate Majority Leader Harry Reid in Nevada, and Christine O’Donnell was trounced by Democrat Chris Coons in Delaware.

Another tea-party candidate, Joe Miller in Alaska, appeared to be falling behind Sen. Lisa Murkowski, who is trying to become only the second senator in U.S. history to win a write-in campaign.

But such issues were only mild consolation for a Democratic Party in rapid retreat only two years after sweeping victories brought the first African-American to the White House and seemed to solidify their hold on Congress.

The president, trying to regain his footing, suggested he would negotiate with the presumed next speaker of the House, Rep. John A. Boehner, Senate Minority Leader Mitch McConnell and Democratic leaders on the entire suite of tax cuts passed under George W. Bush that expire at the end of the year. For the first time, he said nothing explicitly rejecting an extension of all of the cuts, including the ones for upper-income households.

“How that negotiation works itself out is too early to tell,” he said.

He suggested room to negotiate on energy, especially Republican-friendly ideas like developing more natural-gas resources and promoting nuclear energy.

And he took some responsibility not only for the electoral bludgeoning but for the sense among voters that he has done too little to get the economy moving again.

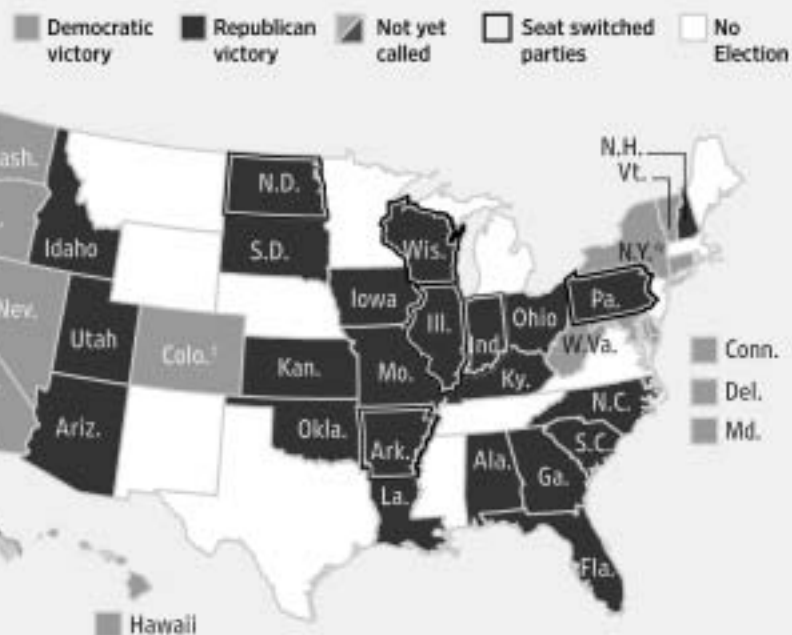
“People are frustrated. They’re deeply frustrated with the pace of our economic recovery. They want jobs to come back faster. They want paychecks to go further,” he said. “We’ve made progress, but clearly too many Americans haven’t felt that progress, and they told us that yesterday.”

## State of play: Senate

Results as of 3 p.m. EST Wednesday

Two seats elected  
Race not officially called. Democrat declared victory but his opponent hasn’t conceded

Source: Associated Press



Much of that frustration was on full display in the Democratic Party itself. Democratic strategists and pollsters said losses were inevitable with 9.6% unemployment and the huge gains Democrats made in conservative districts in 2006 and 2008. But many of them said the losses were made far worse by White House missteps.

“Bad economic times plus bad message equals bad result,” Democratic strategist James Carville said Wednesday.

Democratic pollster Stanley Greenberg went to White House adviser David Axelrod “on numerous occasions” to present data showing the president’s messages weren’t working, Mr. Carville said.

Mr. Obama’s contention that Democrats had pushed the car out of a deep economic ditch rang hollow to voters who didn’t believe they had done any such thing. And the pivot toward the end of the campaign to criticizing shadowy conservative donors was seen as taking the president away from people’s real concerns.

Worse still, the president never said what he would do if his party maintained the majority.

“There is no doubt that the inability of the Democrats to make a clear argument was a big strategic failure in 2010. They neither defended what they did very well nor laid out a plan for the future,” said Simon Rosenberg, president of NDN, a centrist Democratic group.

Even Obama insiders were complaining Wednesday that the White House message machine was erratic from start to finish. In the first 100 days, the communications shop held meetings offering up a new message for every day. Last week, the president was talking about violence against women, a worthy cause but not what was animating the electorate.

Mr. Carville said some kind of dramatic staff shake-up would be coming. But with Mr. Obama leaving Friday for a 10-day swing to Asia, including two economic summits, it likely won’t be immediate.

Republicans responded positively to the president’s tone. House Mi-

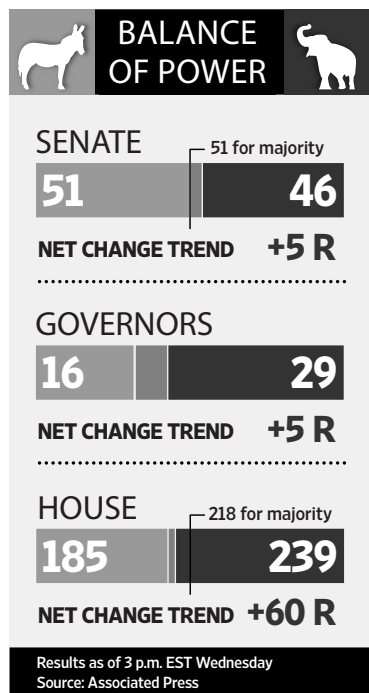
nority Whip Eric Cantor (R., Va.), next year’s presumed House majority leader, said he spoke with Mr. Obama by phone Wednesday. Mr. Cantor specifically thanked the president for publicly commending him for pressing for a moratorium on all earmarks, special-interest spending provisions routinely slipped into legislation.

But the president and the incoming House leadership made it clear cooperation would only go so far.

Although the president expressed some regret at “the ugly mess” that emerged from health-care negotiations, he said he was not about to accede to Republican efforts to repeal his landmark health-care law.

Mr. Boehner reiterated that Republicans would push to undo it.

“I believe that the health-care bill that was enacted by the current Congress will kill jobs in America, ruin the best health-care system in the world and bankrupt our country,” Mr. Boehner said. “That means that we have to do everything we can to try to repeal this bill.”





## U.S. ELECTIONS

# Amid red tide, these races stood out

## Wins for GOP populists

Tea-party leaders, cheering as some of their movement's most prominent figures won U.S. Senate seats in Kentucky and Florida, said Tuesday's elections were only the beginning of their quest to transform government.

Tea-party victors included Republican Rand Paul, who claimed the Senate seat in Kentucky, and the GOP's Marco Rubio, who defeated former Gov. Charlie Crist and Rep. Kendrick Meek in Florida's three-way race for Senate.

One of the most prominent national tea-party groups, Tea Party Patriots, announced plans for a summit of newly minted officials in two weeks while Mr. Paul said he would convene his own similar gathering as soon as possible.

In Kentucky, Mr. Paul, the son of libertarian icon Rep. Ron Paul (R., Texas) defeated his Democratic opponent, Jack Conway, 56% to 44%.

Meanwhile, Mr. Rubio won a big victory in a three-candidate field in Florida, beating Mr. Meek, a Democrat, and Mr. Crist—the Republican-turned-independent. Mr. Rubio's early strength drove Mr. Crist out of the Republican primary altogether and was an early watershed in the conservative challenge to the Republican Party establishment.

## True blue California

California voters bucked the national trend of anti-establishment anger, electing two Democratic stalwarts in the state's top-ticket races.

Former two-term Gov. Jerry Brown was set to make a return to the governor's office, a post he first held 36 years ago, defeating Republican Meg Whitman, who conceded the race late Tuesday. Democratic Sen. Barbara Boxer fended off a feisty challenge from Republican Carly Fiorina.

The twin wins reinforce a broader Democratic dominance of the nation's most-populous state. The wins come despite California's deep economic slump. Analysts say California bucked the Republican wave found elsewhere in part because of the state's demographics—the electorate is 44% Democratic, and 31% GOP, and has a growing number of Hispanics who are reluctant to vote Republican.

National GOP leaders thought they had found exciting new stars in Ms. Whitman and Ms. Fiorina, a pair of former Silicon Valley chief executives. The 54-year-old former head of eBay Inc., Ms. Whitman was considered an especially formidable candidate. She was a relatively moderate Republican with deep pockets: She ended up spending more personal money—\$142 million—on a campaign than anyone else in U.S. history.

Ms. Whitman campaigned as a political outsider and on her business background. But despite outspending Mr. Brown four-to-one, she lost ground in the polls leading up to the election. Campaign officials concede she was hurt by the late-September allegations that she knowingly employed an illegal immigrant as a housekeeper. Ms. Whitman says she fired the housekeeper when she discovered the woman was in the U.S. illegally.

Ms. Fiorina, the 56-year-old former Hewlett-Packard Co. chief, faced the same challenging political calculus as Ms. Whitman in her Senate campaign. Some pundits thought she would have an easier time than her gubernatorial-hopeful counter-



**CLOSE CALLS:** Clockwise from top left, Sen. Harry Reid was re-elected in Nevada; Meg Whitman hugs a supporter after conceding the California governor race; defeated Nevada Senate candidate Sharron Angle is joined by her husband in Las Vegas; California Gov.-elect Jerry Brown celebrates his win with his wife; write-in hopeful Sen. Lisa Murkowski arrives at a voting center in Anchorage, Alaska; Sen.-elect Rand Paul waves to supporters in Bowling Green, Ky.

part because of Sen. Boxer's low approval rating and her status as a three-term incumbent.

Ms. Fiorina ran a strong race against Ms. Boxer. She benefited from \$8 million in support from the National Republican Senatorial Committee and avoided the major gaffes and scandals that hurt Ms. Whitman. Ms. Boxer, 69 years old, hewed to the strategy that helped her win her previous three terms: stump tirelessly, campaign with party luminaries such as President Barack Obama and keep telling voters that her Democratic values are best suited for this dark-blue state.

## An emotional Boehner

As Republicans marched toward House control Tuesday night, presumed House speaker-in-waiting John Boehner, his voice breaking with emotion, declared to fellow Republicans, "Across the country right now, we are witnessing a repudiation of Washington a repudiation of big government and a repudiation of politicians who refuse to listen to the people."

He also spoke of his own rise to

power, choking up as he recalled his early days putting himself through school and "working every rotten job there was."

## Liberal icon loses

U.S. Sen. Russ Feingold, a three-term Democrat and liberal lion, lost his re-election bid Tuesday night to a plastics manufacturer from Oshkosh, who was virtually unknown six months ago.

Prompted by his anger at the health-care law, Ron Johnson entered the race in May and spent more than \$8 million of his personal fortune to beat Mr. Feingold by 100,000 votes.

"We need to reverse course," Mr. Johnson said Tuesday night at his victory speech. "We need to restore fiscal sanity to this nation."

Mr. Johnson, 55 years old, becomes Wisconsin's first Republican senator since 1992.

Mr. Feingold conceded the race at about 11 p.m. Tuesday night with a quote from Bob Dylan's song Mississippi.

"But my heart is not weary, it's light and free. I've got nothing but

affection for those who have sailed with me," Mr. Feingold told a crowd of about 400 who gathered in a hotel ballroom in his hometown.

Mr. Feingold was generally a reliable Democratic vote, but he forged a reputation as an independent. He co-authored the McCain-Feingold campaign-finance law and opposed the Wall Street bailout. He won a deep loyalty among progressives by being one of just a handful of senior Democrats to speak out against the war policies of the Bush and Obama administrations. He was also the lone Senate vote against the Patriot Act in the weeks after the Sept. 11 terror attacks.

But Mr. Johnson was able to portray Mr. Feingold as a Washington insider and career politician who had never had to make a payroll or created a job. He assailed Mr. Feingold's vote for health care, calling the law's passage a grievous assault on American liberty. Mr. Feingold was one of the few Democrats who campaigned on his support of the bill.

The U.S. Chamber of Commerce congratulated Mr. Johnson on his

victory and said "the voters in Wisconsin sent a clear and resounding message, calling for a robust defense of the American free enterprise system."

Many of Mr. Feingold's supporters who listened to his concession speech had tears of in their eyes by the time he walked off the stage.

"I'm embarrassed for Wisconsin and I love this state," said Wayne Corey, a retired business lobbyist from Madison who said he has supported Mr. Feingold for decades. "I think Russ is a brilliant guy and I think Ron Johnson doesn't have a clue."

## Hot contest in Alaska

Write-in candidate Sen. Lisa Murkowski's lead over her tea-party rival in her re-election bid had grown to five percentage points Wednesday—but she wasn't celebrating yet. Ms. Murkowski and Joe Miller, both Republicans, are instead preparing for a long wait to find out who won the Senate race, as more than 20,000 absentee ballots trickle in over the next two weeks and are added to the nearly 202,000 early and Election Day ballots that have already been counted.

After her loss to Mr. Miller in the Republican primary vote, Ms. Murkowski ran an unusual campaign to persuade Alaskans to write in her name on the ballot instead of choosing a named candidate—a strategy that was last successful when Strom Thurmond won his Senate seat in 1954.

By early Wednesday morning, Ms. Murkowski appeared comfortably ahead, with 40% of Alaskans voting for a write-in candidate, while 34.2% chose Mr. Miller and 23.7% opted for Democrat Scott McAdams. The vast majority of write-in ballots were likely cast for Ms. Murkowski. In the last two Senate elections in Alaska, write-in ballots represented fewer than 1% of the total.

"You can't say that it's over, but it sure looks like it's headed in that direction," said longtime Alaska pollster Dave Dittman, who had predicted Ms. Murkowski would win despite the barriers.

A victory by Ms. Murkowski would mean one less notch in the tea-party movement's belt and an embarrassment for former Alaska Gov. Sarah Palin, a strong supporter of Mr. Miller.

## Nevada is lucky for Dems

In a major consolation for Democrats, Senate Majority Leader Harry Reid fended off a challenge from a tea-party backed Republican candidate, Sharron Angle, helping Democrats retain control of the Senate.

The ferocity of the anti-Washington tide was clear in Nevada, where Mr. Reid waged an all-out fight to keep his seat. Mr. Reid and Ms. Angle were neck-and-neck in most polls before the voting, but in the end Mr. Reid was buoyed by a strong turnout in Clark County, which includes Las Vegas.

Ms. Angle had tested the limits of anti-Washington sentiment. In addition to privatizing Social Security and Medicare, she wanted to slash federal spending and break up the Education Department. She opposes abortion in all cases, and accused Mr. Reid and Democrats in Washington of trying to "make government our God" by expanding entitlement programs.

—From Wall Street Journal staff and Associated Press reports



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# THE WALL STREET JOURNAL.

EUROPE



## U.S. ELECTIONS

# U.S. poll results cheered in China, rued in Russia

A Wall Street Journal Roundup

Global observers broadly concurred Wednesday that Republicans' mid-term election gains would plunge President Barack Obama deep into a domestic political fracas—a looming distraction that cheered China and parts of Israel, disheartened much of Asia and Russia and raised little response in war-torn Iraq and Afghanistan.

The results contrasted starkly with the 2008 U.S. presidential election, which elevated the first African-American to the White House and was viewed from the U.K. and Germany to Africa as a watershed political moment.

Republicans' recapture of the House "confirmed that Obama's election wasn't the deeply transformative moment in American politics that many Europeans hoped it would be," said Thomas Klau of the European Council on Foreign Relations in Paris.

The question internationally was whether the prospect of fresh domestic battles would affect international U.S. initiatives such as shoring up ties with Asian nations and attempting to "reset" relations with Russia.

Officials in Russia voiced fear that a Republican resurgence could threaten Mr. Obama's attempt to warm mutual relations. On Wednesday,

the chairman of a key committee in the Russian parliament said it would withdraw its recommendation that the legislature ratify the U.S.-Russia treaty reducing nuclear weapons—a major achievement of the so-called reset—while it assesses the chances the U.S. Senate will ratify the treaty.

"If they can't do this in the lame-duck session in the next couple of weeks, the chances for ratification by the new Senate will be radically lower," said Konstantin Kosachev, chairman of the International Affairs Committee in the State Duma.

The U.S. results heartened some right-leaning Israelis, including settler leaders, who have seen President Obama's Mideast policy as antagonistic and now view his repudiation in the polls as a sign he may be less able to pressure Israel into concessions in stalled peace talks.

In countries where the U.S. has its deepest involvements, the reaction was muted. The election merited little coverage, and elicited little response, in Afghanistan. The U.S. midterm also barely registered among Iraqis, whose own politicians have wrangled for eight months over forming a new government amid a renewed campaign of deadly insurgent attacks.

"I as an Iraqi citizen don't care for the American elections as much as I [want] Iraqi politicians to form the government," said Eman Abdul Razzaq, a 36-year-old housewife.

Africa advocates, meanwhile, lost an aggressive champion of human rights with Tuesday's ousting of Wisconsin Senator Russ Feingold. As the chairman of the Senate foreign relations committee on African affairs, the long-serving Democrat advocated a more comprehensive policy on Somalia that focused on resolving the conflict rather than just combating terrorism. He helped to pass legislation to develop a regional strategy to combat the Lord's Resistance Army, a murderous band of rebels that roams in northern Uganda and border areas.

In France, politicians and analysts shared a concern that the Democrat party defeat would hamper Mr. Obama's capacity to make decisions on key issues such as financial regulation and taxes and lead to a "stalemate in Washington."

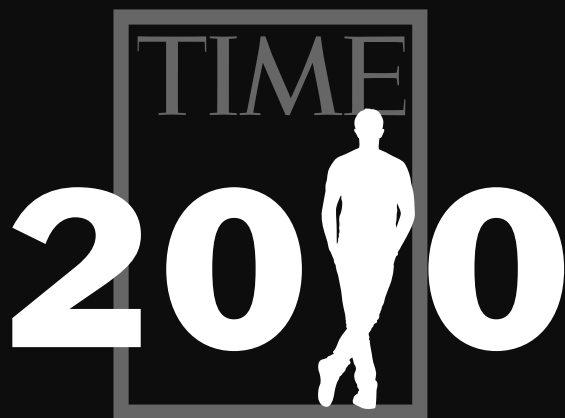
Some feared a paralysis of U.S. politics would have international consequences, at a time when most industrialized nations are limping out of recession and struggling to co-ordinate policies. "That would be the worst situation," said Frédéric Lefebvre, spokesman for Union pour un Mouvement Populaire, the ruling party of France's President Nicolas Sarkozy. "We can't afford to shift into reverse mode; France and Europe need the U.S. to move forward."

German Foreign Minister Guido Westerwelle sought to reassure German TV viewers that President Obama's authority on international affairs isn't badly damaged. Mr. Westerwelle has repeatedly praised Mr. Obama's commitment to diplomacy and to the goal of nuclear disarmament.

"One would massively underestimate the president of the United States if one wanted to think that he would be weakened in foreign policy," Mr. Westerwelle told German state broadcaster ZDF.



Konstantin Kosachev is worried about the fate of a U.S.-Russia weapons treaty.



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