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Cnooc returns to U.S. energy with gas deal

BY ANGEL GONZALEZ

Cnooc Ltd. agreed to invest up to \$2.16 billion in a Texas oil and gas project in its first major return to the U.S. market after losing out on a deal to acquire a U.S. energy company five years ago.

The deal with Chesapeake Energy Corp., said experts, is driven by China's desire to gain a foothold in a booming U.S. gas market and in technology that could increase China's domestic energy supplies and reduce its reliance on coal-fired power plants. Chesapeake is one of the leaders in applying horizontal drilling and fracturing technologies to release oil and gas trapped in tight rock formations called shales.

The deal is unlikely to face opposition from U.S. officials, experts said. In 2005 Cnooc withdrew a multibillion dollar bid for Unocal Corp. amid national security worries in Washington, D.C. But last

year, Cnooc's acquisition of offshore fields in the U.S. Gulf of Mexico was unopposed.

Chesapeake Chief Executive Aubrey McClendon said in an interview that he expects few objections. The investment is evidence Chinese companies are "able to figure out a way to invest in the U.S. in a manner that is acceptable in the business community and acceptable to political leadership," he said.

"For a whole host of reasons, there is no question that policymakers should want the Chinese to have shale [technologies]," said energy analyst Amy Myers Jaffe, director of the Baker's Institute Energy Forum at Rice University.

The Chinese state-controlled firm said it would pay Chesapeake Energy \$1.08 billion for a one-third stake in a South Texas shale field rich in oil and natural gas. It could spend an additional \$1.08 billion to shoulder 75% of the costs for developing the

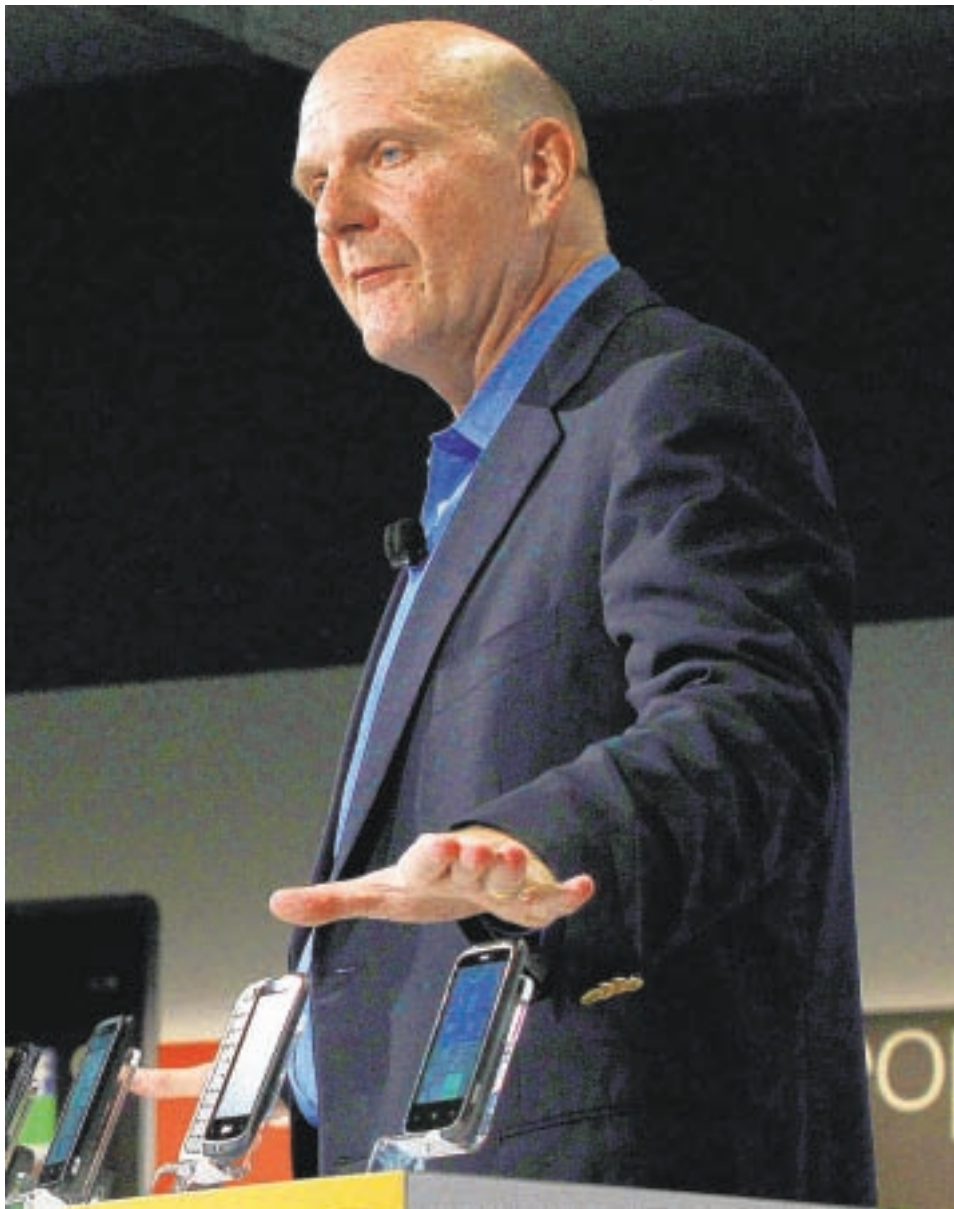
240,000 hectares involved.

The project could produce as much as 500,000 barrels of oil and gas-equivalents a day in the next decade, the two companies said, and give the expansion-minded Cnooc the skills to crack rich, but hard-to-exploit oil-and-gas deposits in its domestic market. A final agreement is expected by year end.

Chesapeake hasn't filed any documents about the deal with the Treasury Department's Committee for Foreign Investment in the U.S., but has briefed policymakers and congressmen, said spokesman Jim Gipson. Mr. Gipson said "the deal is consistent with U.S. policy priorities, may create up to 20,000 jobs in the U.S. and reduce our dependence on foreign oil."

Cnooc's shares jumped 4.5% Monday in Hong Kong on the prospect that the deal would enable the company to exploit energy-rich shale for-
Please turn to page 22

Microsoft reboots its mobile strategy



Reuters

Microsoft CEO Steve Ballmer unveils phones running its new Windows Phone 7. The software giant's mobile ambitions are at a turning point as it faces the difficult task of winning back ground in a crowded market filled with rival mobile operating systems. **Articles on page 19.**

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The Quirk



Bona fide fans chase the elusive rib-free rib sandwich around the U.S. **Page 29**

World Watch

A comprehensive rundown of news from around the world. **Pages 30-31**

Editorial Opinion

From Basel III to Bern I, how Switzerland is ending 'too big to fail.' **Page 12**

EU weighs moves to toughen regulation of auditing firms

The European Union begins consultations this week on proposals to regulate audit firms—moves that could lead to their oversight by a pan-European market supervisor.

The Big Four auditing firms—Deloitte Touche Tohmatsu, PricewaterhouseCoopers, Ernst & Young and KPMG—audit 85% of top European companies. All are giants; for the fiscal year ended May 2010, Deloitte said it had aggregate member firm revenue of \$26.6 billion and employed nearly 170,000 people world-wide.

The consultation is being launched Wednesday by the European Commission, the EU's executive arm, following weaknesses that officials say were identified during the fi-

nanacial crisis, including the failure to flag the vulnerability of some companies that failed.

It is generating anxiety among the Big Four "Anglo-American" audit firms, which dominate the market among Europe's largest companies. They fear that hostility in France and some other European countries to their grip on the market may influence some of the proposals that emerge from the consultation.

The consultation document will raise questions about whether there is too much concentration among a few firms in the market, and whether the large size of some accounting companies would pose a risk to the financial system if they failed.

The exercise also will raise questions that go to the heart of the audit profession. These include whether audits should be largely backward-looking exercises carried out for the benefit of investors—as they have traditionally been viewed in the U.S. and U.K.—or whether they have a role in anticipating future problems and helping governments.

Some auditors argue that asking audits to anticipate future problems will reduce their value to investors as objective reports. They say demanding that auditors serve both investors and regulators will create conflicts.

■ EU plans to revamp rules on auditors 17



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PAGE TWO

EU needs to be shop-shape on spending

[Agenda]

By PATIENCE WHEATCROFT



Governments across Europe need to spend less. Cuts to jobs, benefits and services have been the common response but there is a further option: how about spending more efficiently?

Whether it be Italy's fleet of 90,000 official limousines or the new presidential plane ordered by France's President Nicolas Sarkozy at a cost of €180 million (\$250 million), it is highly unlikely that governments are getting optimum value. The public sector is notoriously inefficient when it comes to spending taxpayers' money.

A top retailer has looked at the way the British government conducts its spending and concluded that, if he ran his business on similar lines, it would go bust. Philip Green, owner of the Arcadia fashion group, which includes Topshop, is a billionaire. His success is not just due to a sense of what will sell but to fervent attention to detail and a keen understanding of the property market. In recent weeks he has been ranging through the corridors of U.K. government and looking at the numbers. His report, published Monday, is a dossier of poor procurement, with lessons which could surely apply to public spending almost everywhere.

Lambasting the "inefficiency and waste" he found, Sir Philip declares that the government "is failing to leverage both its credit rating and its scale." Despite various efforts over the years to bring a more businesslike approach to procurement, it is still relatively decentralized, meaning that the government does not get the level of bulk discount it should.

His report cites various examples of how an idiosyncratic approach to purchasing results in



Philip Green has been taking a close look at U.K. government spending.

huge anomalies: in one case, that of a box of paper, he found a differential of 89% between the highest and lowest prices paid. There may have been variations of quality but standardization would produce significant savings.

When he bought the U.K. retail chain BHS, one of the first things he did was to look at the gaudy carrier bags the stores were using. By using one less color in the design, huge savings were made without any effect on the customer. He was thinking of his profit margins but the public sector has not, traditionally, been focused on cost.

Lessons on procurement could surely apply to public spending almost everywhere.

There is no motivation to save money or treat cash "as your own," Sir Philip says. But when the government is spending £670 billion, as it is in the U.K. this year, it is imperative that there is an impetus to achieve the best possible value. The same is true of the European Union, which has a budget for next year of €142.6 billion, slightly up from the current year despite the parlous state of the finances of many of its members. If Sir Philip were to

spend a few weeks in Brussels, repeating his Whitehall exercise, he would probably not find many staff treating EU cash with the care they apply to their own finances.

His report almost shrieks with horror at some of the apparent silliness he found, such as 68 separate contracts with a single mobile-phone provider and a long-term IT contract which has no provision for reducing the amount payable when certain services are no longer required. Since certain of those services are no longer required and the contract has six years left to run, at a rate of more than £100 million, that is potentially a great deal of cash blowing out of the window.

Such long-term commitments also angered him when he looked at the £25 billion a year the government spends on property. The new administration has put a moratorium on new leases but Sir Philip highlights cases where opportunities to break leases have not been taken, despite the availability of space in other government buildings, meaning the taxpayer was left with an unnecessary rent bill of about £5 million a year for four more years.

He has avoided quantifying the level of savings that could be made by more efficient spending. They would take time, and some significant changes in the way government operates, to be achieved. And that may well be a

relief in some quarters. For the inefficiencies of the public sector have fueled the profits of the private sector. All those poorly negotiated contracts, overly paid consultants and unnecessary property commitments have redirected taxpayers' money into the private sector. With more than half the economy now in the public sector it has, inevitably, become a major customer of business.

The rebalancing of the economy now under way is going to cause discomfort far beyond the public sector workers whose jobs are under threat. The private sector is going to have to be nimble in how it responds to the new age of austerity and, it is to be hoped, efficiency.

Patently good sense

In a single market, a single patent should be all that any inventor requires. That simple proposal has been discussed in Brussels for a decade but is still proving difficult to effect. At a time when Europe desperately needs to improve its record for innovation, it remains much cheaper to patent devices in Japan and in the U.S., where the cost can be as low as a tenth of that in Europe.

The current fragmented system means that inventors may have to fight for their patent rights in courts in different European countries and with sometimes very different results.

Michel Barnier, the EU commissioner for internal markets, is having another go at bringing some sense to bear but the problem is one of language. His proposal is that an inventor could file a patent in his national language but it would have to be translated into one of the three working languages of the EU: French, English or German. Now the new Belgian presidency is trying to appease the protestors, predominantly Spain and Italy, by suggesting that only English would be required. It seems a strangely old-fashioned squabble on which to endanger innovation.

What's News

■ **Hungarian police** detained the managing director of the company whose dam burst last week, causing a large spill of toxic sludge, and the government moved to place the firm under state control and freeze its assets. 5

■ **The OECD** warned the global economy appears to be slowing, saying its forward-looking measure of economic activity fell for a second straight month in August. 4

■ **Russian steel producer** Severstal is planning to spend \$6.4 billion on capital expenditure through 2014, of which 68% will be invested in Russian mills. 18

■ **EasyJet** said it resolved a brand-license dispute with easyGroup, under which the low-cost airline will keep its easyJet name. 17, 32

■ **Gymboree** agreed to be taken private by Bain Capital, which is paying \$1.8 billion for the U.S.-based children's clothing retailer. 17

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Fair play move sees European football going feudal. 28

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The Source

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'The euro is not exactly a supermodel but compared to the pug-ugly dollar, it's looking pretty foxy.'

Katie Martin on the where the euro stands compared to the dollar



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NEWS



Reuters; Bloomberg News

External and internal views of the massive Battersea power station that Real Estate Opportunities hopes to convert to a homes, offices and shopping complex on the bank of the Thames in London.

Power house in line for a makeover

By JAVIER ESPINOZA

LONDON—A perennial reminder of Britain's lost industrial might, the long-defunct Battersea Power Station is an iconic Art Deco building beloved of Londoners.

But on Monday, fans of the massive brick structure that has sat, crumbling, on the banks of the Thames since it was decommissioned in 1983, received news that it may be in line for redevelopment.

Real Estate Opportunities PLC, a London- and Dublin-listed investment fund that bought the site in 2006, said it had secured more time from its creditors to find an external investor and announced plans to spin off and float the property.

Built in two phases from 1929 and completed in the 1950s, the power station acquired its fame thanks to pioneering technology and its bold design by Sir Giles Gilbert Scott, the architect who designed Britain's famous red phone boxes.

It has featured in films and on the cover of Pink Floyd's "Animals" album, and it was more recently chosen by Prime Minister David Cameron to unveil the Conservative Party's election manifesto. It is also a two-star listed building, which

means the government considers it "of exceptional interest and outstanding importance."

REO hopes a separate listing of the site will help it find a new backer to finance the £4.5 billion (\$7.1 billion) development and has been in talks with U.K. and international investors about taking a 50% stake in the project. The company says a listing will give the new owners access to fresh funding through subsequent rights issues to pay for the redevelopment, which will be processed in 10 stages, ending in 2022. REO envisages the project becoming profitable once the first phase is completed by 2015.

A year ago, REO submitted a planning application for a £5.5 billion mixed-use redevelopment of the 40-acre site to the local council, Wandsworth.

According to the company, with 8.3 million square feet of new floor space, the application is the biggest ever submitted in Central London. REO plans to create 3,700 homes, 1.6 million square feet of office space and 500,000 square feet of shops and restaurants. On submitting the application, the company said that it intended to establish a genuine community that would provide

thousands of jobs and help regenerate the Nine Elms area.

But not everyone thinks a rebirth of Battersea is on the cards. Keith Garner, an architect who has been involved in the public campaign to rescue the building since 1993 and who has lived in the Battersea neighborhood for 24 years, says REO's scheme "will probably fail."

"It is too big, too massive, too ambitious. I think it will fail because it is a single-phase project, and I can't see how the company is in the position to fund it," he says. "They don't have the ability to raise the money needed....From an architectural point of view, they need to break the project down into more phases. Refurbish Station A first and let it out to other tenants then move on to the next phase."

REO declined to comment on Mr. Graham's remarks but a spokesman said: "This is a phenomenal scheme that will completely revolutionize the area, and it's had significant support from the community."

Mr. Garner points out that a previous series of grand plans for the site all failed to materialize. Ever since Battersea became a listed building at the start of the 1980s, a series of owners has tried but failed

to come up with alternative uses. In 1984, a consortium that included theme-park operator Alton Towers Ltd. proposed an amusement park based on the U.K.'s industrial history, but the banks considered the plan too risky because of the sheer volume of visitors needed to make it profitable, Mr. Garner says.

Subsequently, Hong Kong-based Parkview International took over the previous owner's debt and proposed the construction of a leisure center with conference rooms and hotels, but this also ran into financial difficulties, which led to the sale to REO.

There has long been tantalizing talk of a redevelopment, says George Franks, sales director of London-based estate agent Douglas & Gordon, but after two decades, people are slower to get excited. Still, Mr. Franks remains positive. "It will happen one day, by which time the U.S. Embassy will have relocated to [nearby] Nine Elms and the extension of the Northern Line will be built."

"Americans would never have considered buying in Battersea before, but now it seems they are beating a path into the area."

—Anita Likus and Margot Patrick contributed to this article

Battersea's history

■ **1929** The first phase of the power station gets under way

■ **1954** The fourth chimney is added, completing the building

■ **1983** The power station is decommissioned

■ **1984** John Broome, the owner of Alton Towers theme park, outlines his plans for a theme park

■ **1993** Hong Kong-based developer Parkview International acquires site

■ **1997** Parkview submits development proposals, including plans for film studios, theaters, housing and businesses

■ **2006** Real Estate Opportunities acquires power station

■ **2010** REO says it has gained more time from creditors and that it plans to develop the site

■ **2022** Proposed date for completion of Battersea Power Station redevelopment.

Source: WSJ research

Surveys point to a flagging recovery for Britain

By NICHOLAS WINNING, AND ILONA BILLINGTON

LONDON—The U.K. economic recovery lost some steam in the third quarter following the strong expansion in the second, with house prices slipping and retail sales growth slowing in September, three surveys showed on Tuesday.

The reports from the British Chambers of Commerce, the British Retail Consortium and the Royal Institution of Chartered Surveyors are likely to fuel debate about the government's economic policy as it prepares to unveil an ambitious austerity drive on Oct. 20.

The BCC's latest quarterly survey of companies showed that although the manufacturing sector remained

buoyant in the three months to the end of September, growth slowed sharply in the services sector.

"The results for the third quarter of this year show a marked slowdown in the pace of the recovery," David Kern, chief economist at the BCC, said in a statement. "However, it is important not to overstate the gloom. Growth remains in positive territory, and a new recession can be avoided. But the U.K. will face huge challenges over the year ahead."

With the coalition government planning a £113 billion (\$180 billion) fiscal tightening over the next five years, the BCC urged it to also support investment in crucial infrastructure projects, reduce the burden of red tape, and support

exporters. It also called on the Bank of England to keep interest rates at very low levels for an extended period and seriously consider expanding its bond-buying monetary stimulus program to £250 billion before the end of the year.

The U.K. economy grew 1.2% in the April-to-June period, the strongest quarterly expansion in nine years, but data since then suggest it has failed to match that pace in the third. The slowdown is being reflected in housing and retail data. The RICS said residential property prices slipped in September as a fresh influx of homes for sale combined with a lack of buyers.

Although the drop wasn't dramatic, the report is likely to fuel concerns about weakness in the

market after mortgage lender Halifax said last week that its measure of home prices posted the sharpest fall in September since records began in 1983.

The RICS prices balance, which measures the percentage of agents reporting rising prices minus those reporting a fall, dropped for the third consecutive month to -36 in September from -32 in August, the lowest reading since May 2009. Economists were expecting a drop to -35, according to a Dow Jones Newswires survey last week.

The RICS said the new influx of sellers was driven by concerns about the economic outlook and the government's austerity measures, while buyers continued to struggle to find financing or waited to see

how the market would develop.

The BRC said in its latest monthly report that retail sales growth also slowed in September, with higher food prices accounting for most of the increase since the same month last year. The value of sales in stores that have been open for at least a year was 0.5% higher than in September 2009, while the value of sales in all stores was up 2.0% from a year earlier, it said.

"Sales growth continues to be poor," said Stephen Robertson, the BRC's director general. "We've now had six straight months of low growth thanks to persistently weak consumer confidence and worries about the future."

—Paul Hannon contributed to this article.

EUROPE NEWS

Ireland tax is under pressure

BY NEIL SHAH

Debt-ridden Ireland is under increasing pressure to reverse the policy that helped spur its breakneck growth: More than a decade after it slashed corporate tax rates to attract businesses, it is fielding calls to raise them again.

Ireland started cutting its rate of corporate-income tax in the mid-1990s, eventually lowering it to 12.5%, now the lowest in the 27-nation European Union except for Bulgaria and Cyprus. Many credit this policy with luring big multinationals, such as **Pfizer Inc.** and **Intel Corp.**, creating Irish jobs and helping make Ireland's "Celtic Tiger" economy the envy of Europe.

But policy makers in Europe are now pressuring Ireland to bring its tax policies more in line with other EU nations, many of which have chafed at Ireland's use of low corporate taxes to woo business. Excluding exemptions, the average corporate tax rate in the EU is 23% and the U.S.'s corporate rate is 35%.

Ireland's pro-business stance is coming under threat now that the government faces massive deficits after bailing out its troubled banks. Last month, the government said the bailouts would drive Ireland's budget deficit to 32% of its economic output this year—by far the highest for any member of the euro zone since the currency was introduced in 1999. Also, Ireland's slumping economy means the government will generate less tax revenue than it expected to pay off its debts.

As Irish officials revise their deficit-reduction strategy, they face a difficult challenge: Finding new revenue without rattling the many foreign companies that call Ireland home. The government has already slashed the wages of public-sector workers by some 10% to 15% and agreed to hold off on further cuts until 2014. That suggests raising taxes—whether personal or corporate—is likely. But even a small increase in Ireland's corporate rate could drive business away, observers say.

The Irish government says its low corporate rate is a "cornerstone" of the economy. Besides encouraging multinationals to set up operations in Ireland, the low rate helps fuel the country's key export sector, which contributes over 50% of its gross domestic product.



Ireland has wooed businesses—at right, Convention Centre Dublin—with low corporate tax rates. Finance chief Lenihan, above, faces pressure to raise them.



"They will resist until the very end," says Alan McQuaid, chief economist at Dublin-based stockbroker Bloxham. "But I would be surprised if we didn't have higher corporate taxes at some point in the next couple years."

Earlier this month, European Union monetary-affairs Commissioner Olli Rehn said: "It's a fact of life that after what has happened, Ireland will not continue as a low-tax country." A "low-tax" country in Europe is one where tax income as a proportion of GDP is lower than the EU average.

EU officials can't compel Ireland to raise taxes, but some observers say Mr. Rehn was signaling that should Ireland need an EU bailout, higher corporate taxes would be part of the deal. Ratings companies including Moody's Investors Service are warning that Ireland faces possible downgrade if it doesn't come up with a credible deficit-reduction strategy when it unveils a new four-year fiscal plan in early November.

So far, Irish Finance Minister Brian Lenihan has said only that he will need to find more savings in next year's budget than the already-flagged €3 billion (about \$4.2 billion), which is 2% of GDP. Raising corporate taxes isn't on the agenda, though "taxation will form part of the solution to our fiscal problems,"

a spokesman for Ireland's finance department said.

Ireland's coalition government, led by Prime Minister Brian Cowen's right-of-center Fianna Fail party, is widely viewed as on its last legs, even though elections aren't due until 2012. Ireland's opposition Labour Party—likely to be part of any new government—is strongly in favor of low corporate tax. "It remains a significant advantage to Ireland," says Joan Burton, the party's finance spokeswoman.

Ireland's 12.5% rate also enjoys broad support among the Irish. And economists say raising taxes on businesses would drain cash from Ireland's economy at exactly the wrong time. After soaring in the first quarter of the year, the Irish economy shrank nearly 5%, on an annualized basis, from April to June.

"It's just not something you want to mess with," says Karl Whelan, an economics professor at University College Dublin. "You would not raise extra revenue. You would just see those businesses leaving."

The government is likely to widen the universe of people paying personal-income taxes to bring in more revenue, due Dec. 7, observers say. Labour Party finance spokeswoman Ms. Burton says Ireland needs to remove generous property incentives that fueled the country's

Low-tax appeal

Adjusted central-government corporate income-tax rate

France	34.43%
Belgium	33.99
Spain	30.0
Norway	28.0
U.K.	28.0
Italy	27.5
Sweden	26.3
Finland	26.0
Netherlands	25.5
Austria	25.0
Denmark	25.0
Portugal	25.0
Greece	24.0
Luxembourg	21.84
Czech Republic	19.0
Hungary	19.0
Poland	19.0
Slovakia	19.0
Germany	15.0
Ireland	12.5
Switzerland	6.70

Source: OECD

economic boom and subsequent bust. Instead of paying property taxes on main homes as do many in Europe, the Irish simply pay "stamp duties" when they buy homes.

OECD sees signs major economies are slowing

BY PAUL HANNON

LONDON—The world economy appears to be slowing, with most developed and large developing economies already in a downturn, the Organization for Economic Cooperation and Development said Monday.

The Paris-based think tank said its forward-looking measure of economic activity fell for a second straight month in August. The OECD's composite leading indicators in its 33 members fell to 102.9 in August from 103 in July, signaling a downturn in economic growth. The measure was flat in May and June and last rose in April. The decline will worry policy makers, since it suggests that a relapse into recession is increasingly possible.

"OECD composite leading indicators for August...reinforce signals of slowing economic expansion," the OECD said. "The outlook...for Canada, France, Italy, the United Kingdom, Brazil, China and India points strongly to a downturn."

The decline in the OECD's leading indicator is consistent with other measures of global economic activity.

Surveys of purchasing managers at manufacturers and service providers in major economies around the world suggest the global economy grew at its slowest pace in 10 months during September.

The International Monetary Fund last week warned that the global economy will slow in 2011 as European public-debt problems continue to undermine the recovery in industrialized nations. It forecast that the global economy will grow 4.8% this year, but 4.2% in 2011. However, much of that growth will come from Asia, with China's economy forecast to grow 9.6% next year, down from an expected 10.5% this year. By contrast, the IMF expects the euro area to grow 1.7% this year and 1.5% in 2011.

Most developed nations have already borrowed heavily to provide the fiscal stimulus that helped their economies emerge from recession last year, while their central banks have cut key interest rates to record lows and resorted to exceptional measures to provide additional stimulus.

That leaves them little room to respond to the prospect of a fresh slowdown. Some economists say that is one reason exchange rates have become such a controversial issue for policy makers.

"With the economic recovery now looking much less secure in the major industrial economies, policy makers are looking for additional ways to stimulate activity," said David Bloom, global head of foreign-exchange strategy at HSBC. "Conventional monetary and fiscal policies are mostly out of room. In these circumstances it is not surprising that currency-policy tensions are rising again."

The OECD's leading indicators are designed to provide early signals of turning points between the expansion and slowdown of economic activity, and are based on a wide variety of data that have a history of signaling such changes.

Dublin's Lenihan weighs more cuts

BY MICHAEL ANEIRO AND MICHAEL CASEY

NEW YORK—Further cuts in pensions, public servants' pay and welfare are under consideration for Ireland to advance beyond the €3 billion (about \$4.2 billion) in annual fiscal savings already earmarked, the country's finance minister said Monday.

However, in an interview, Brian Lenihan said a rise in the country's comparatively low 12.5% corporate tax rate isn't in the works, calling it a "centerpiece" of Ireland's industrial policy, which depends heavily on multinational direct investment.

"Were we not to have that policy, there's no guarantee that corporate-tax receipts would actually increase," he said, arguing that tax inflows could even decline if compa-

nies left the country.

The government is focused on spending cuts instead. Mr. Lenihan said that negotiated wage freezes for public servants and the same for pensioners had given the government room to seek various other ways to extract savings in those areas.

"We have already published legislation for reduced pensions for new entrants, but we may have to accelerate pension reform more broadly," he said. This, along with changes in wage and transfer payments, and further welfare overhauls beyond those already implemented, are "on the table," he added.

Mr. Lenihan didn't put a precise estimate on how much Ireland would need to cut beyond the €3 billion, however. "I am not fixing a

number at this point because what's important is the credibility of the four-year number," he said, referring to a four-year fiscal-adjustment plan to be unveiled in November.

The added spending cuts are required because of the higher interest expense that the government will incur as a result of bonds placed with banks that were nationalized amid Ireland's crisis in 2008, including **Anglo Irish Bank Corp.** The government recently announced that the total end cost of those bailouts in terms of asset write-downs could run to €34.7 billion.

Mr. Lenihan said that although the government acknowledges that some estimates put the figure as high as €50 billion, it is confident in its latest projections. It has used the time since it nationalized various banks in September 2008 to con-

EUROPE NEWS

Hungary detains executive over spill

By MARGIT FEHER

BUDAPEST—Hungarian police detained an executive of **MAL Hungarian Aluminium Production & Trade Zrt.** and the government moved to place the firm under state control and freeze its assets after its dam burst last week, causing a massive spillage of toxic sludge, Prime Minister Viktor Orban said Monday.

“There’s no means [for the owners] to siphon out the assets....Public interest must take priority by all means in cases of a disaster,” Mr. Orban told parliament.

MAL’s Managing Director Zoltan Bakonyi has been taken into custody for questioning, he said. “There’s probable cause to suspect that there were persons who had been aware of the dangerous weakening of the [red mud] storage-pond walls, but they thought, because of their private interests, that it was not worth mending them and hoped the disaster wouldn’t happen,” Mr. Orban said.

Responsibility for the disaster must be identified quickly so that a “strict and fair calling into account



Zoltan Bakonyi, the detained MAL executive, is shown speaking to reporters at the firm's headquarters in Ajka Thursday.

can take place soon,” he said. The damage needs to be covered as soon as possible by those who caused it, Mr. Orban said. MAL’s owners will be held responsible for the damage to private wealth as well, he added. The containing walls of the res-

ervoir broke a week ago, sending a tidal wave of toxic sludge through the surrounding villages, killing at least seven people and polluting an area of 40 square kilometers, including tributaries of the Danube. The government has ordered the

checking of all similar companies and red-sludge ponds in the country, Mr. Orban said. The prime minister also said parliament is likely to name a disaster commissioner, who will oversee both MAL’s operations and its assets.

Steps also need to be taken to prevent further environmental damage and the exact composition of the red sludge needs to be examined and made public, Mr. Orban said.

MAL’s owners are among the richest Hungarians, according to the local press. The combined personal wealth of MAL’s owners—Lajos Tolnay, Arpad Bakonyi, and Bela Petrusz—totals 56 billion forints (\$283.8 million), according to the latest list of the richest Hungarians by business weekly Figyelo. Arpad Bakonyi is Zoltan Bakonyi’s father.

Production at MAL needs to be restarted to ensure the livelihood of the company’s employees, but measures must be taken for the safety of its operations, Mr. Orban said.

Hungary hopes to complete the building of a new dam around the ruptured pond by Monday evening in order to divert an expected new wave of toxic sludge from the already devastated villages.

According to estimates, 600,000 to 700,000 cubic meters of toxic sludge spilled from the reservoir Oct. 4, and 2.5 million tons of waste are still contained inside it.



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EUROPE NEWS

Bavarian leader roils immigration debate

BY MARCUS WALKER

BERLIN—A German conservative leader's suggestion that the country admit no further Arabs or Turks has added fuel to a raging national debate in Germany about Muslim immigration, exposing divisions over the thorny issue within Chancellor Angela Merkel's government.

Bavarian state premier Horst Seehofer, whose Christian Social Union is one of three parties in Ms. Merkel's ruling coalition, told German magazine Focus over the weekend that immigrants "from other cultural circles such as Turkey and Arabic countries" generally struggle to adapt to Germany's way of life.

"I conclude from this that we need no additional immigration from other cultural circles," Mr. Seehofer said.

Minority groups, opposition politicians and even some coalition colleagues denounced Mr. Seehofer's comments. The chancellor's immigration czar, Maria Böhmer, said she was "very shocked" by Mr. Seehofer's views, which she said placed Arabic and Turkish migrants "under blanket suspicion." Leaders of Ms. Merkel's other coalition partner, the pro-business Free Democratic Party, accused Mr. Seehofer of populist simplification.

Mr. Seehofer softened his tone Monday, saying he wasn't calling for a complete halt to Muslim immigration, but only rejecting proposals to liberalize Germany's current immigration laws. A spokeswoman for Ms. Merkel said Mr. Seehofer had explained his views to the chancellor in a telephone call on Monday morning and denied there was any rift.

German business lobbies and some government members have long argued Germany needs easier immigration rules to attract more skilled workers, including from beyond Europe. Many economists say

Outflow

Germany is losing more residents than it attracts. Net migration



Note: 2008 and '09 are preliminary
Source: German Federal Statistical Agency

higher immigration would help offset Germany's aging and shrinking work force.

Germany has some of the strictest immigration rules in Europe, and already limits new arrivals from the Middle East largely to refugees and relatives of existing residents. Non-European migration has declined so much recently that since 2008, more people have emigrated from Germany than have arrived—the opposite of what business leaders say Europe's biggest economy needs. However, analysts say Mr. Seehofer was sending a very deliberate political signal to millions of Germans who feel unease about the country's large, sometimes poorly integrated Muslim minorities.

"Seehofer wants to pre-empt the creation of a far-right anti-immigration party that could take away votes from the established parties," said Oskar Niedermayer, a political scientist at Berlin's Free University.

"You have to take worries and problems in the population seri-

ously, so that politically radical forces have no chance," Mr. Seehofer said Monday.

Across Europe, upstart anti-immigration parties are on the rise, capitalizing on the failure of Europe's political mainstream to tackle social problems resulting from poorly integrated immigrants. In Germany and much of Europe—in contrast to the U.S.—migrants from Muslim countries tend to be less educated and poorer than the local average, and are more likely to be unemployed and dependent on welfare. That is partly because Europe took in many working-class Muslim migrants to perform menial jobs.

The increasingly visible presence of Islam in European cities, including through mosques and traditional Muslim dress, has also fed a backlash among European voters whose national identities are often rooted in language and bloodlines.

Populist anti-Muslim campaigners have scored electoral successes recently in the Netherlands, Sweden, Austria and Switzerland, fueling fear in Germany's political class that a new far-right party could emerge to challenge Ms. Merkel's Christian Democratic Union and its Bavarian partner, Mr. Seehofer's CSU.

German opinion pollsters say such a new party could win as much as 20% of the vote. A book by former Bundesbank official Thilo Sarrazin warning of the creeping Islamization of Germany has become a bestseller, showing the breadth of popular unease over Muslim immigration.

Most German politicians, including Ms. Merkel, denounced Mr. Sarrazin's theory of Muslims' genetically lower intelligence, and Mr. Sarrazin resigned from Germany's central bank last month under heavy political pressure. But the popularity of his book, titled "Germany Abolishes Itself," has triggered a national debate about Germany's cultural co-



Agence France-Presse/Getty Images

A coalition partner's comments reflects rifts in Chancellor Merkel's government.

hesion, and has fueled speculation that Mr. Sarrazin or another immigration opponent might launch a new party.

As well as countering that threat, analysts say Mr. Seehofer's stance targets his own coalition partner, the pro-immigration FDP, which has eaten into the CSU's voter base in Bavaria. The rivalry between the culturally conservative CSU and the free-market FDP has hurt Ms. Merkel's ability to lead her coalition government ever since it won office

last year.

Mr. Seehofer's Focus interview is also a retort to Germany's Federal President Christian Wulff, a moderate conservative ally of Ms. Merkel, who said last week in a landmark speech that Islam is now a part of German society along with Christianity and Judaism.

German values have Judeo-Christian roots and "no others," Mr. Seehofer countered over the weekend.

—Laura Stevens
contributed to this article.

Fini presses Berlusconi government

BY STACY MEICHTRY

ROME—Gianfranco Fini, a former key ally of Italian Prime Minister Silvio Berlusconi who has broken ranks with the government, is keeping up the pressure on Italy's embattled leader, raising the specter of early elections.

Mr. Fini on Monday raised doubts about whether he and his supporters in Parliament would back an overhaul of Italy's justice system that critics say is designed to undermine two criminal trials that Mr. Berlusconi is currently facing.

The rebellion has raised the prospect of early elections. That would further delay measures aimed at kick-starting Italy's economy, which is struggling to recover from its deepest recession since World War II.

Mr. Fini and his backers in Parliament broke away from Mr. Berlusconi's People of Freedom Party this summer and announced plans to create their own political party. Mr. Fini, who is the speaker of Italy's lower house of parliament,

now leads a group of more than 30 lawmakers—enough votes to bring down Mr. Berlusconi's government.

Over a lunch of pasta and steak with a group of reporters on Monday, Mr. Fini acknowledged that publicly questioning the government's push for a judicial overhaul carried the risk of deepening tensions with Mr. Berlusconi. "What am I to do? I have to speak out, or else I will no longer stick around," Mr. Fini said, adding he was "perfectly aware that there's the risk of early elections, which isn't in Italy's best interest or mine."

A confidence vote in late September in which Mr. Fini and his supporters backed Mr. Berlusconi's government had until now helped defuse talk that early elections were imminent. Some polls have indicated that Mr. Berlusconi would prevail if elections were held, but others show that support for the premier has flagged as the feud with Mr. Fini has dragged on.

Mr. Fini has been cautious in laying out his policy differences with Mr. Berlusconi. At lunch, the speaker criticized efforts among Mr.

Berlusconi's allies in Parliament to pass a bill that would establish a six-year time limit on trials, including trials already under way. Mr. Berlusconi's allies say the proposed law, which was approved by the Senate in January, aims to speed up Italy's notoriously slow judicial system, where trials can last more than a decade before reaching a definitive conviction.

The lower-house vote hasn't yet been scheduled. If the bill is approved in the lower house, it would become law, and two criminal trials that Mr. Berlusconi faces would be terminated and the charges against him would be dismissed, according to the premier's lawyers. That has made the bill a lightning rod for his critics, who accuse Mr. Berlusconi of pushing laws through Parliament to shield himself from Italy's courts.

Mr. Fini said he supported the bill's "principle" of shortening the length of trials. However, he criticized the current version, which he said shouldn't apply "retroactively" to trials already under way, including those of Mr. Berlusconi.

Mr. Fini said he was focused on

injecting a sense of "ethics" into Italy's political landscape, a challenge that he described as the "mother of all battles" in a country plagued by corruption and tax evasion.

Mr. Berlusconi has faced several trials in his nearly two decades in politics. He has never been definitively convicted.

In one of the two trials he is currently facing, Mr. Berlusconi is charged with tax fraud stemming from arrangements he allegedly made to buy film rights on behalf of his Mediaset SpA TV network. Prosecutors allege that Mediaset bought the film rights at inflated rates, allowing the company to lower its tax payments. Mr. Berlusconi has repeatedly denied the charge. The premier also is on trial for allegedly paying his former lawyer \$600,000 to withhold testimony in the 1990s when the Italian billionaire was on trial for allegedly illegally funneling funds to the Socialist party; the charges of illegal party funding were later dropped when the statute of limitations ran out. Mr. Berlusconi has denied making the payment to his former lawyer.

U.K. lobbyist: banks should curb bonuses

BY NICHOLAS WINNING

LONDON—Financial firms need to agree to restrain bankers' bonuses, while politicians should give banker-bashing a rest and instead work to create a banking system that will drive economic prosperity, the head of the U.K.'s leading business lobbying group said Monday.

Richard Lambert, director-general of the Confederation of British Industry, cautioned that if banks award large bonuses, it would be "toxic in the extreme" amid job losses and pay cuts in the broader economy.

Mr. Lambert said that politicians have successfully deflected their share of the blame for the crisis, but if they persist in the argument that it was all the bankers' fault they will come up with the wrong responses. For instance, if bankers faced a higher banking levy, they might pay some of that penalty, but the main burden would be carried by their customers, he said.

U.S. NEWS

Rigs see few surprise inspections

By RUSSELL GOLD

Surprise inspections of deepwater drilling rigs in the Gulf of Mexico dwindled to about three a year over the past decade, even as exploratory drilling far from shore increased, according to federal data analyzed by The Wall Street Journal.

And since 2004 federal authorities haven't made a single surprise inspection on any of the 50 or so deepwater natural gas and oil-production platforms in the Gulf, despite a law requiring periodic unannounced inspections. Like rigs, these semipermanent structures also handle enormous amounts of oil and natural gas and are at risk for oil spills and worker fatalities.

This dearth of surprise visits to deepwater operations reduced the likelihood that inspectors would find individual safety violations, industry experts and inspectors say.

"You're more apt to see what actual operations are with a surprise inspection," said Perry Jennings, who heads the union local that represents federal offshore inspectors. "And if something's going on that's inappropriate, that's the best time to catch it."

Since the explosion of a BP PLC well in the Gulf of Mexico on April 20 that led to 11 deaths and the worst offshore oil spill in U.S. history, the Minerals Management Service, the agency that monitors offshore drilling, has been the subject of withering criticism for what many described as lax oversight and enforcement of regulations.

Regulators in the U.S. and around the globe routinely use surprise inspections in such operations as airplane maintenance and oil refining.

It's impossible to know if a surprise inspection would have prevented the deadly explosion aboard the Deepwater Horizon, the rig drilling the BP well, owned and operated by Transocean Ltd. The last unannounced visit was in October 2006.

However, inspectors can request records on the condition of the blowout preventer, a mammoth set of valves designed to shut down the well in an emergency. Some of the functions on the blowout preventer failed to work on the Deepwater Horizon.

Federal inspectors spent 62 hours aboard the rig in 2009 in unannounced visits. And an announced inspection this year about three weeks before the blowout lasted about two hours, but no citation was issued. Still, unannounced inspections are seen as so critical to ensuring safe mining that Congress is considering a bill, drafted in the wake of a recent deadly West Virginia coal-mine explosion, to make it a felony punishable by five years in prison to tip off an operator about

an unannounced inspection.

Regulators with the Mine Safety and Health Administration said it was during a surprise inspection on Sept. 28 that they found safety violations at a West Virginia mine owned by Massey Energy Co. that could have caused an explosion. Massey, the owner of the separate West Virginia mine where 29 workers were killed after an April 5 explosion, said it fired three workers and suspended nine others over the recent inspection results.

"If you have zero unannounced visits and if the industry knows there will be no unannounced visits, that changes the incentive to be vigilant," said Cary Coglianese, a law professor at the University of Pennsylvania who specializes in regulatory issues.

But officials with the MMS, recently renamed the Bureau of Ocean Energy Management, Regulation and Enforcement, say surprise inspections were a low priority in deepwater

A dearth of surprise visits to deepwater operations reduced the likelihood that inspectors would find individual safety violations, industry experts say.

ter energy operations.

"It was not what anybody wanted," said Elmer P. Danenberger III, the longtime head of the agency's offshore regulatory programs who retired in December. Mandatory annual inspections of 3,800 offshore facilities, responding to hurricane and collecting royalties were deemed more urgent, he said.

Interior Secretary Kenneth Salazar has promised extensive changes in the agency and named a new director with a broad mandate to overhaul policies and enforcement practices. A recent report said the agency's policy about surprise inspections must be clarified. Interior spokeswoman Kendra Barkoff promised "to determine the appropriate actions to take as we reorganize the agency."

A Journal analysis of inspection data from 2000 through July 2010 showed an agency that had significantly reduced unannounced inspections in the Gulf's deep waters, which the agency defines as 1,000 feet or deeper. In 2000, about one in nine inspections of deepwater facilities were unannounced, according to the Journal's analysis; by 2009, that rate had dropped to about one in 80. Meanwhile, the number of deepwater wells pumping oil and gas more than doubled over the decade to 602

from 256, according to federal data.

Some companies, such as Transocean, almost never had a helicopter carrying an inspector appear on the horizon to check on them. Surprise inspections accounted for less than 1% of total inspections for the Switzerland-based company between 2000 and 2010, the lowest among large drilling companies.

A Transocean spokesman said that drillers don't determine "the number or frequency of government inspections."

Inspectors arrive offshore via government-leased helicopters usually with a computer-generated random list of safety and antipollution components. The inspector can issue a warning, or order the shutdown of a single component, or the entire facility. The third option was a rare occurrence.

In fact, the government and inspectors have been faulted by internal investigators for being too close to oil companies, sometimes even allowing company employees to fill out inspection reports.

An April 2005 memo prohibited certain unannounced inspections. In the memo, Donald Howard, a former regional supervisor for MMS, required inspectors to give a 24-hour notice before inspecting many of the largest offshore platforms. He cited new security regulations imposed after the terrorist attacks of 9/11.

But the U.S. Coast Guard, which oversees these security rules, said it could find no justification for a 24-hour notice. "I haven't found anything that requires an advanced notification to conduct an inspection," says Lt. Commander Kevin Lynn, chief of the Coast Guard's offshore facility security branch. "I am not exactly sure where that is coming from."

Mr. Howard couldn't be reached for comment. The agency fired him in 2007, and he later pleaded guilty to failing to disclose gifts from an offshore drilling company.

The policy was reiterated in 2007 by Joe Gordon, who subsequently left the agency to work for Chevron Corp. He declined requests for an interview.

Last month, an Interior Department Inspector General report found employees felt pressured to notify Royal Dutch Shell PLC before traveling to its offshore facilities. Shell spokesman Bill Tanner said: "If we did request additional notice, it was purely a safety matter in our mind."

A separate Interior Department internal report released last month noted that individual district MMS offices seemed to have different interpretations of agency policy about when and if surprise inspections could be done.

—Leslie Eaton and Tom McGinty contributed to this article.



A driller worked on the relief well to seal BP's oil spill in the Gulf of Mexico.

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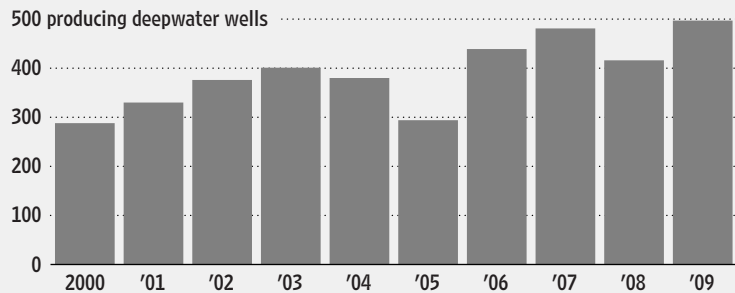
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NUMBER OF UNANNOUNCED INSPECTIONS

Platforms	34	13	1	3	1	0	0	0	0	0
Drilling rigs	8	4	0	0	0	3	15	3	1	4

No surprise

While the number of deepwater wells in the Gulf of Mexico has increased, the number of surprise inspections of platforms and drilling rigs in these depths has dwindled.



Note: Deepwater drilling rigs include all drillships and semisubmersibles. Fixed platforms include all facilities in more than 1,000 feet of water. Source: Wall Street Journal analysis of Bureau of Ocean Energy Management, Regulation and Enforcement data

U.S. NEWS



European Pressphoto Agency

MIT professor Peter Diamond, a nominee to the Federal Reserve board, was one of three awarded the Nobel Monday.

Three academics win Nobel in economics

BY JUSTIN LAHART

Three academics who developed groundbreaking ideas that help explain why unemployment remains stubbornly high in the U.S. and other developed countries won this year's Nobel Prize in economics.

Economists Peter Diamond of the Massachusetts Institute of Technology, Dale Mortensen of Northwestern University and Christopher Pissarides of the London School of Economics pioneered research on how the costs buyers and sellers must bear to find one another affect how markets behave.

Their insights have been used to examine everything from the housing market to the marriage market to, most importantly, the market for jobs.

In April, President Barack Obama nominated Mr. Diamond, 70 years old, to join the Federal Reserve's board of governors, but the nomination has languished because of opposition by some Senate Republicans.

"This is a good prize—these guys figured out a way of thinking about the labor market that we didn't have before," said International Monetary Fund chief economist Olivier Blanchard, who has worked extensively with Mr. Diamond and has also worked with Mr. Pissarides.

Mr. Diamond first looked at how the search between buyers and sellers for one another might affect a market as a young MIT professor in the late-1960s. But it wasn't until he saw related research from Mr. Mortensen in the late-1970s that he found an approach that really gelled.

"Then I was really off and running," he said.

Past winners

Some notable recipients of the economics Nobel:

■ **2008** Paul Krugman, best known as a New York Times columnist, won for his earlier work on "analysis of trade patterns and location of economic activity."

■ **2001** George A. Akerlof, A. Michael Spence and Joseph E. Stiglitz, "for their analyses of markets with asymmetric information."

■ **1997** Robert C. Merton and Myron S. Scholes, "for a new method to determine the value of derivatives," resulting in the Black-Scholes method of valuing stock options. Both were on the board of failed hedge fund Long Term Capital Management, which collapsed in 1998.

■ **1970** Paul Samuelson, author of a widely used economics textbook and uncle of outgoing Obama aide Lawrence Summers, "actively contributed to raising the level of analysis in economic science."

Source: WSJ research

Mr. Diamond's expertise in the labor market, which is of particular concern in the current economic environment, was noted when he was nominated for the Fed.

However, the Senate failed to approve his nomination before lawmakers left to campaign for the midterm congressional elections. Several Republicans object to his candidacy on the grounds that he has limited macroeconomic-policy

experience.

Senate Banking Committee Chairman Christopher Dodd (D., Conn.) has said he would hold a hearing on Mr. Diamond's nomination when the Senate reconvenes after the November midterm elections.

Jason Furman, deputy director of the White House National Economic Council, used a breakfast speech in Denver Monday to poke Senate Republicans for holding up the nomination.

"My hope is that the minority blocking Peter Diamond's confirmation to the Federal Reserve Board will see that this is still more evidence that he is qualified," Mr. Furman told the National Association for Business Economics.

Mr. Diamond said Monday that he has no plans to withdraw his name from consideration to serve at the central bank.

The Nobel Prize in Economics—officially known as the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel—was established by Sweden's Riksbank in 1968 to mark the central bank's 300th anniversary.

The prize is awarded annually for "work of outstanding importance" in the field of economic science and the winners are selected by the Royal Swedish Academy of Sciences.

The three economists will share a total prize of 10 million Swedish kronor (\$1.5 million), the same amount as for other Nobel prizes, to be paid by the Riksbank.

Previous winners of the prize include Paul Krugman in 2008 and Thomas Shelling in 2005.

—Phil Izzo and Charles Duxbury contributed to this article.

Many of today's 'radicals' reside in the political center

[Capital Journal]

BY GERALD F. SEIB



In American politics, people tend to think of "radicals" as those on the ideological fringes of the left or right. But what happens when the radicals are smack in the middle of the political spectrum?

That may be the picture we're looking at today. Many of those seriously estranged from the political system and its practitioners appear to sit in the political center. They are shaping this year's campaign, but equally important is the question of what happens to them after the election Nov. 2, and especially on the road toward the next presidential campaign in 2012.

Two big forces are driving this year's congressional campaign, and pushing it in the direction of Republicans. The first is an exceptionally high level of intensity among conservatives and core Republican voters, who give every sign of showing up in high numbers on Election Day.

But the other big force is political independents—voters who have no particular allegiance to either party and who don't tend to have strong ideological leanings. These are the voters who drifted toward the Democrats in 2006, allowing them to take over control of the House from Republicans. Then they jumped firmly onto Barack Obama's bandwagon in 2008, ousting Republicans from the White House and making Mr. Obama the first Democrat to win a majority of the national vote since Jimmy Carter.

Now they have turned again, and are pushing the system the other way. "For the third national election in a row, independent voters may be poised to vote out the party in power," summarized the Pew Research Center in a recent study of independent voters.

These independent voters have become something like a band of nomad marauders, roaming across the American political landscape, hungry, angry and taking out their frustrations on the villages of the Democrats and Republicans in turn.

The fact that their fury is aimed more at Democrats this year shouldn't leave Republicans thinking they have won the permanent allegiance of these nomads, who, lest we forget, were just two years ago pillaging the land of George W. Bush.

These voters appear to be pragmatic more than ideological. They were prepared to vote for more government activism just two years ago—how could they not have expected that in choosing Mr. Obama over John McCain?—but now have decided they got more government activism than they bargained for.

They appear to want government to tackle health care, but didn't like the solution the Democrats cooked up. They appear to think the government overspends, though they seemed

to think that of the Bush administration as well as the Obama administration.

Mostly they want solutions—economic and job-creating solutions—and they seem to think Democrats have failed to provide them. They also thought that of Republicans previously. And they seem to think this failure to produce in Washington is, at least in some measure, the result of both parties being in the thrall of "special interests," a term with various definitions.

Some of this frustration is being channeled into the tea-party movement, but not all of it by any means. The tea-party movement is more conservative, and more Republican at heart, than many of these independent voters appear to be.

Indeed, in a recent Wall Street Journal/NBC News poll, about a third of independents expressed affinity for the tea-party movement, while a larger share—59%—said they weren't tea-party supporters.

Put another way, many independent voters, unlike many tea-party activists, aren't reflexively against government action to solve problems. They simply think government is failing.

So, many of these independents appear to be

Independent voters have become something like a band of nomad marauders, taking out their frustrations on the villages of Democrats and Republicans in turn.

reversing ground again this year, and are preparing to vote Republican. And perhaps Republicans will secure the lasting loyalty of these independents after the election by proving that they have market-based solutions to core economic problems.

But perhaps the tea-party influence will push the Republican Party too far to the right for many of these independents. And perhaps Mr. Obama will tack too far to the left in the next two years, to protect his liberal flank and preclude the possibility that he, like Jimmy Carter in 1980, faces a primary challenger from his party's liberal base when he seeks re-election.

If that's what happens after this year's election, Washington may descend into true partisan and ideological gridlock, and independent voters' frustration and estrangement may only grow. And that won't be a small thing, for the Pew study found that more voters now identify themselves as independents—37%—than as Republicans (29%) or Democrats (34%).

So this roaming army of independent nomads is getting pretty large. And who knows? If neither party can pacify it, maybe, just maybe, the army carries the seeds of a third-party challenge in 2012.

WORLD NEWS

Seoul calls for fresh currency plans

By EVAN RAMSTAD

SEOUL—South Korean leaders, who will host the next big global economic meeting, on Monday began pushing for new ideas to resolve the currency battles unfolding around the world.

After little progress was made on currency issues at the International Monetary Fund's annual meeting over the weekend, the turmoil threatens to overwhelm the agenda of the Group of 20 leaders' summit in Seoul on Nov. 12. South Korean officials worry that unless there is progress at the summit, other countries will decide the G-20 isn't the right forum for dealing with critical global economic issues.

"Every country taking part must not pursue only their national interest," South Korean President Lee Myung-bak, who will chair the summit, said Monday. "If this happens, I fear the recovery and sustainable growth of the global economy will be put into question."

In coming days, South Korea will encourage the U.S. and European nations to ease their pressure on China to revalue its currency, people familiar with the effort said, and look for other ways to change the sizable trade surpluses China has generated, which are blamed for a broader imbalance in the global economy.

South Korean officials declined to discuss specifics. Their broad stance first emerged last month, when the country's ambassador to the U.S., Han Duck-soo, raised the use of export targets as part of employing "some creativity" in the currency fight. People familiar with the South Korean effort note that Japan accepted export limits for a period in the 1980s when it was similarly criticized for trade imbalances.

The idea hasn't yet emerged as an official recommendation from

Seoul in China's case. China's central bank governor, Zhou Xiaochuan, said during the IMF meeting that some Chinese economists also had suggested using export restraints to ease pressure between the U.S. and China, but he said it wasn't being seriously considered.

A U.S. official said the possible use of such trade constraints wasn't part of U.S.-Chinese discussions so far.

In recent weeks, the U.S. and several European nations have become more vocally critical of China, saying it is deliberately undervaluing its currency to aid exporters. But Chinese Premier Wen Jiabao warned last week, "If the yuan is not stable, it will bring disaster to China and the world."

Before the last G-20 summit in July, Chinese officials agreed to a more "flexible" currency policy than pegging the yuan so closely to the U.S. dollar. But the yuan's value has barely changed. Other countries, including Japan, South Korea and Brazil, in recent weeks have taken steps to damp the value of their currencies and so keep their exports competitive.

South Korea—with 43% of its economy attributable to exports, the most of any developed country—has a big stake in the debate over currency values. Its currency, the won, has swung wildly due to external forces over the past few years.

In addition to reducing that volatility, South Korean officials are eager for a solution now because they want the G-20 forum to prove itself a worthy successor to the Group of Eight meetings, where big discussions of economic issues were previously concentrated. As the 15th wealthiest nation, South Korea didn't qualify to participate in the G-8, but now finds itself with a potentially important role in a global debate.



South Korean President Lee Myung-bak talks to foreign journalists in Seoul on Monday about the G-20 summit.

"We are placed in a position that allows us to ensure success," Mr. Lee said in a meeting with foreign correspondents. He said the summit "will not just be a talk show" and must produce results "so that it becomes undoubtedly the premier forum for discussing international economic matters."

Mr. Lee didn't discuss remedies to the currency dispute or other matters facing the G-20. But he said the summit will test the ability of the G-20 nations to compromise.

In an example of just how hard compromise can be, shortly before Mr. Lee met with reporters, a senior

South Korean financial regulator floated an idea for easing upward pressure on the won: a higher tax on foreign purchasers of Korean bonds. South Korea's finance ministry shot down the idea later Monday.

Inside South Korea, Mr. Lee faces a different expectations problem of his own making. For months, he and other government officials have promoted the November G-20 summit, though it lasts just one day, as the biggest event of the year in the country. A failure to produce a tangible outcome could create some political difficulty for Mr. Lee, analysts say.

Sakong Il, who leads the Korean organizing committee, said that "in terms of exhibiting global leadership," the summit will be bigger than the Seoul Summer Olympics of 1988. "Once we prove it," he added, "then Korea can continue to play such a role in coming years."

In recent weeks, about a dozen Korean universities and think tanks sponsored forums to discuss G-20 issues. The city of Seoul underwent a sizable beautification campaign, with sidewalks rebuilt, and trees and plants added on major streets.

—Bob Davis in Washington contributed to this article.

Aid worker's death is probed

By ALISTAIR MACDONALD
AND MARIA ABI-HABIB

A grenade thrown by U.S. forces may have killed a kidnapped British aid worker in Afghanistan, British Prime Minister David Cameron said Monday, as the U.S. military announced an investigation into the failed rescue attempt.

The prime minister said there also would be a full U.S. and U.K. investigation into the death of Linda Norgrove, 36 years old. She was slain Friday as American forces stormed the compound where she was being held in the mountains of eastern Afghanistan, and U.K. and U.S. officials initially said her captors had killed her.

Mr. Cameron said Monday that this was "highly likely to have been incorrect."

The British government was informed Monday by the top U.S. and allied commander in Afghanistan, Gen. David Petraeus, that Ms. Norgrove may have been killed accidentally by U.S. special forces, Mr. Cameron said.

U.S. forces were used in the operation because Ms. Norgrove was being held in an area controlled by the Americans and because American officials saw her as their responsibility given she was working for a U.S. contractor, Mr. Cameron said. The final decision to make the

rescue attempt was made by British officials, he added.

"I am clear that the best chance of saving Linda's life was to go ahead," said Mr. Cameron, paying tribute to the U.S. forces who tried to rescue her. "Ultimately the responsibility for Linda's death lies with those who took her hostage."

U.S. Forces Afghanistan—which is distinct from the North Atlantic Treaty Organization task force there—said Gen. Petraeus had re-

Linda Norgrove, kidnapped in Afghanistan, may have been killed accidentally by U.S. special forces.

quested an investigation of the rescue mission. Gen. Petraeus commands both missions.

A senior U.S. official said the U.S. and Britain were working together closely to determine what happened to Ms. Norgrove. The rescue was planned together, the official said, and both sides were sharing everything they know about what went wrong during the rescue attempt.

"Initial reports indicated the explosion was caused by a detonation triggered by one of the captors," U.S. Forces said in a statement im-

mediately following the prime minister's comments. A subsequent review does "not conclusively determine the cause of her death."

The investigation will allow both sides "to establish the full facts," a spokesman for the prime minister said.

Ms. Norgrove was traveling along a main road in Kunar province when she was abducted in September by a local Taliban faction linked to al Qaeda. She was working with Development Alternatives Inc., one of the largest development contractors working for the U.S. State Department in Afghanistan.

Three Afghans abducted with Ms. Norgrove were subsequently released unharmed. There was no word on how many captors were killed, and the local Taliban spokesman has declined to comment on the kidnapping and rescue.

Mr. Cameron said he had spoken to Ms. Norgrove's family about the "deeply distressing news" of how she may have died. Ms. Norgrove was brought up in Scotland's remote Western Isles and had spent her working life with aid organizations and the United Nations.

Hostage rescues have proven deadly before. Last September, British special forces rescued a kidnapped New York Times reporter but his translator was killed in the attempt.

Kyrgyz vote is hailed, but triggers concerns

By KADYR TOKTOGULOV

BISHKEK, Kyrgyzstan—International observers hailed Sunday's parliamentary vote in this deeply divided Central Asian nation as generally free and fair, but the results threatened political stalemate.

Parties aligned with President Roza Otunbayeva won about 14% of the vote, while backers of Kurmanbek Bakiyev, the leader ousted in bloody protests in April, had about 9%, based on election-commission data from all voting precincts.

The rest of the vote was spread among a range of parties across the political spectrum, with Russian-backed Ar-Namys, led by former security chief Felix Kulov, taking third with 7.7%.

The vote was a key test for the government, which has struggled to keep control over the country since ethnic violence in June left hundreds of people dead in southern Kyrgyzstan.

It is also seen as a bellwether for democratic institutions in a region dominated by autocrats. Kyrgyzstan is home to an air base vital to the U.S.-led war in Afghanistan, as well as a Russian military air base.

"Any coalition is possible as all has been mixed up in the elections,"

said a presidential administration official. "Though the most widely expected for the moment is between the Social Democrats, Respublika and Ata-Meken," he added, referring to the two parties aligned with Ms. Otunbayeva and a bloc led by Omurbek Babanov, a prominent local businessman who had also been Ms. Otunbayeva's ally in her previous party, the Social Democrats. Together, the three are likely to get a majority in Parliament.

Party leaders largely avoided public comments Monday, pending final vote tallies expected later in the week.

Ms. Otunbayeva is expected to ask her allies to form a government, but supporters of Mr. Bakiyev, who fled to Belarus to avoid prosecution after his ouster, are likely to become a strong opposition, analysts said.

International observers said the voting was generally peaceful, fair and competitive.

"I have observed many elections in Central Asia over the years but this is the first election where I could not predict the outcome," said Morten Høglund, special coordinator for the short-term observations mission of the Vienna-based Organization for Security and Cooperation in Europe.

WORLD NEWS

In Bangladesh, train is set on fire after plowing into crowd



Crowds pelt a train after setting it on fire in Sirajganj, Bangladesh, Monday. The train had knocked down and killed at least three people on their way to a rally.

Dubai police report arrest in top Hamas murder case

By CHIP CUMMINS

DUBAI—The police chief leading the probe of the January murder of a top Hamas official here told a local newspaper that an unnamed country has made an arrest in the case, though he didn't provide details and chastised authorities in that country for not disclosing the arrest.

Lt. Gen. Dahi Khalfan Tamim, Dubai's long-time police chief, suggested in an interview published Monday that political considerations could be holding up public disclosure of the arrest.

Gen. Tamim has accused Israel's Mossad intelligence agency of orchestrating the killing, a charge that Israeli officials have said isn't supported by evidence.

Since the Jan. 19 murder of Mahmoud al-Mabhouh, a top official in the Palestinian Islamist group Hamas, several governments—including close allies to Israel—have cooperated in the probe. Gen. Tamim suggested the arrest hasn't yet been made public because of Israel's alleged involvement.

"I do not have an explanation for why they do not want to make it public, but there is a need for more transparency in this case," Mr. Tamim told the National newspaper, based in Abu Dhabi, the capital of the United Arab Emirates, which also includes Dubai. "Why is it that every time an Israeli is involved in a crime, everyone goes mute? We want anyone who is dealing with this case to deal with it as a security case, and not to pay attention to any other consideration."

The interview comes after The Wall Street Journal reported late last week in a front-page article that several early leads in the case have

The arrest took place in a country that hasn't been disclosed, possibly for political considerations, police said. No further details were provided.

gone cold, frustrating international investigators. Gen. Tamim said in the interview that the investigation was "far from stalled, and that the investigation is still ongoing at many levels."

Email and telephone messages to Dubai police and to a spokesman for Gen. Tamim weren't returned. So far, two Palestinians have been detained in the case. An Israeli man was extradited from Poland to Germany on charges of document fraud related to the case, but this summer he was released on bail.

Gen. Tamim declined in the interview to provide further details of the reported arrest, and didn't name the country in which the arrest was made. Dubai has released details of 33 suspects, many of whom used fake or fraudulently obtained passports from eight countries.

The U.K., Australia and Ireland have all blamed Israel for forging passports in the case after their own investigations, and each of the three expelled an Israeli diplomat in protest.

Israel offers a conditional freeze

By CHARLES LEVINSON
AND JOSHUA MITNICK

JERUSALEM—Israeli Prime Minister Benjamin Netanyahu on Monday said he was willing to restart a partial freeze on Jewish settlement building if the Palestinians recognize Israel as a Jewish state.

Palestinians quickly rejected the offer, saying a partial freeze wasn't acceptable. Last month, a 10-month partial freeze in the West Bank expired, and Mr. Netanyahu declined to extend it. That came despite intense pressure from President Barack Obama, whose administration is brokering the resumption of peace talks between Israel and the Palestinians.

"If the Palestinian leadership will say unequivocally to its people that it recognizes Israel as the homeland of the Jewish people, I will be ready to convene my government and request a further suspension," Mr. Netanyahu said to Israeli lawmakers at the opening session of the Israeli Knesset.

Mr. Netanyahu argues that Palestinian recognition of Israel as a Jewish state is an essential component of any peace deal, since it will help reassure Israelis that Palestinians won't press territorial claims after the signing of any future final-status accord. Such a Palestinian concession could also help Mr. Netanyahu minimize resistance from his pro-settlement, right-of-center coalition.

But Mr. Netanyahu's raising the issue now, as a precondition for halting settlement construction, appeared to also be aimed at seizing the initiative from the Palestinians amid stalled peace talks, some ob-

servers said.

"Netanyahu sees the peace process collapsing and realizes that Israel will be blamed for refusing to freeze settlements," a former Israeli peace negotiator said. "The strategy is to shift blame onto Palestinians' refusal," this person said.

Mark Regev, a spokesman for Mr. Netanyahu, rejected the suggestion that Israel wants to shift blame, saying both the Palestinians and Israelis must make concessions.

"If the expectation is that Israel has to make more and more concessions and the Palestinians only have to make more demands, then that expectation is false," he said. "If this process is to succeed then both sides have to show flexibility."

Palestinian officials have long rejected Israeli demands that they recognize Israel as a Jewish state, believing it would prejudice the status

of the 20% of Israeli citizens who are of Palestinian origin, as well as pre-empt negotiations over the status of Palestinian refugees who fled Israel and lost homes during the War of 1948, and their descendants.

Even before Mr. Netanyahu's offer on Monday, Palestinians had indicated they wouldn't resume direct talks for another partial freeze, but had instead demanded a complete cessation of settlement building. Arab states have backed that position.

During the previous moratorium, exceptions allowed for work to continue on nearly 3,000 units, a roughly 10% decrease from building figures before the moratorium went into place, according to Israeli government statistics.

In the days since the latest moratorium ended, work has begun on 350 more housing units, many of

which will be exempted from any new freeze order, according to Israeli groups that monitor settlement activity. In construction sites in suburban settlements ringing Jerusalem to the south and east, new cement foundations for hundreds of units are visible.

Salah Issa, a construction foreman in the settlement of Beitar Illit, pointed to a bald hilltop slated for a new housing development. "Do you think they listen when Obama says stop? They don't listen to anyone," he said, referring to settlers.

A spokesman for the umbrella settlers group, the Yesha Council, declined to confirm the numbers of new housing starts. "We're not even counting numbers," he said.

Palestinians, as well as Israeli opposition leader Tzipi Livni, have accused Mr. Netanyahu of trying to find excuses to avoid making the necessary concessions for peace.

"This shows the Israelis are not serious, are looking to waste time and put preconditions to derail the whole peace process and that's what we've been saying all along," said Nabil Abu Rudeina, a spokesman for Palestinian President Mahmoud Abbas.

"There must be a total cessation of settlement activities to resume talks," Mr. Abu Rudeina added. "We have nothing to do with the Jewishness of the state of Israel. We recognize the state of Israel."

Mr. Abbas is already in deep political peril due to rising dissatisfaction within his own Fatah Party and the perception among many Palestinians that he has been too willing to compromise with Israel in exchange for little in return.



Premier Netanyahu addresses the opening of the Knesset's session on Monday.