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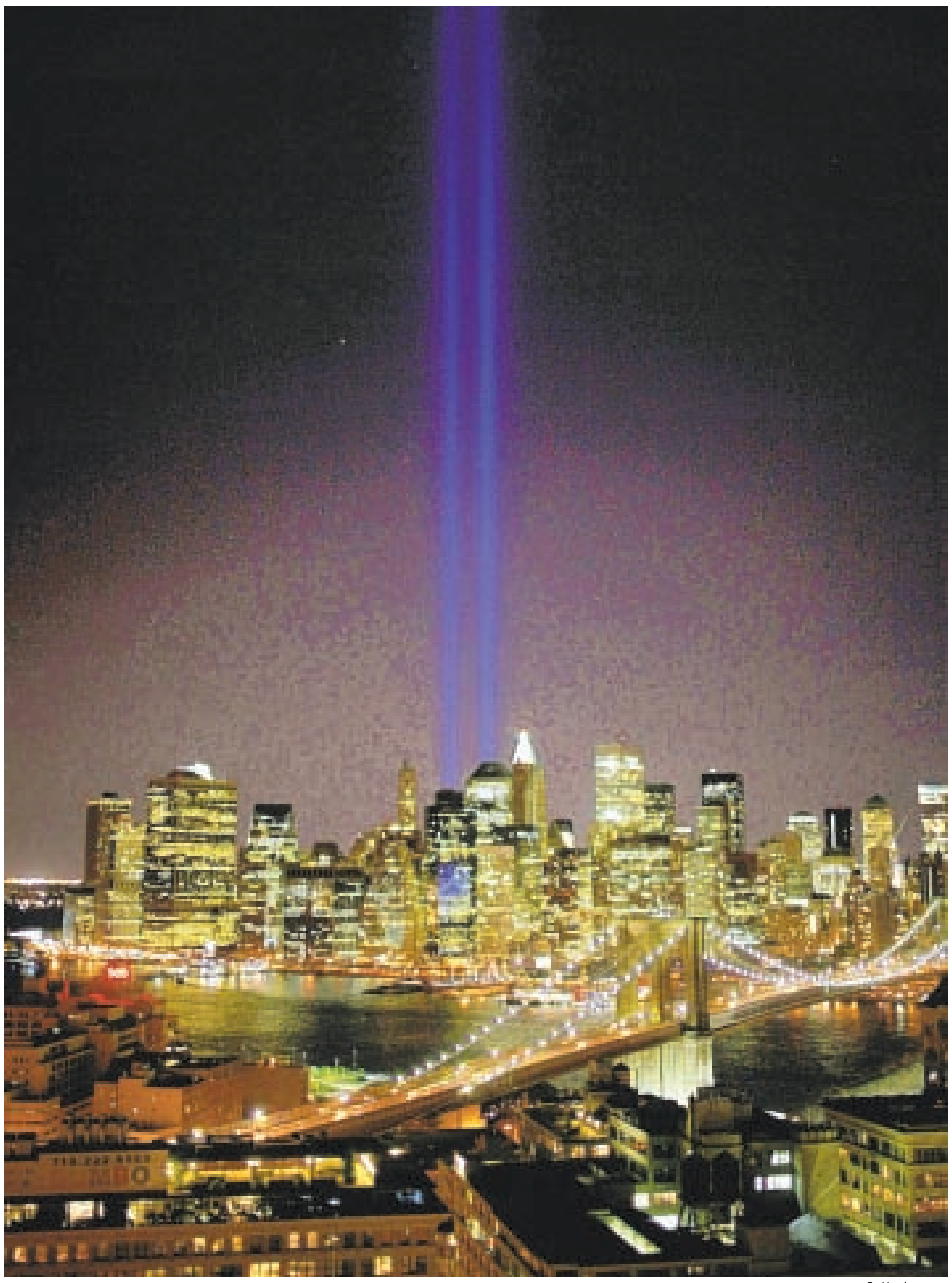


Getty Images

The Ground Zero 'Tribute in Light' beams are visible from Brooklyn during a test Wednesday ahead of the anniversary of the 9/11 attacks in New York City. For coverage, including video and photos of the weekend's Sept. 11 commemorations, see WSJ.com/US.

Terror threat harder to foil, new study says

By Siobhan Gorman

The terrorist threat faced by the U.S. nine years after the 2001 attacks on New York and Washington is far more difficult to detect but less likely to produce mass-casualty attacks, according to the former chairmen of the 9/11 Commission.

A report, due out Friday, finds that terrorism is increasingly taking on an American cast, reflected in the growth of homegrown terrorism as well as the new role the U.S. is playing as a producer and exporter of terrorists to areas like the horn of Africa and Yemen.

The report concludes some of the most-feared types of attacks are now unlikely, such as those using nuclear or biological weapons, or attacks on malls and shopping centers in lesser-populated cities. Despite al Qaeda's long-running interest in mass-casualty weapons, it hasn't shown the capacity to mount such attacks, according to the report.

The U.S. government is ill-equipped to counter the newest version of the terrorist threat, the report concludes, adding that "American overreactions" to unsuccessful attacks have arguably played into terrorists' hands and fuel anti-American sentiment.

"It's a much more complex and a much more diverse threat than it was" in 2001, said former 9/11 Commission Co-Chairman Lee Hamilton in an interview. "We lag behind still in developing responses to this threat."

No agency in the U.S. government, for example, is charged with monitoring and stopping the radicalization and recruitment of Americans to terrorist ranks, he said.

The report was written by terrorism analysts Peter Bergen and Bruce Hoffman for the national security group of the Bipartisan Policy Center, a nonprofit Washington think tank. The security group is led by former 9/11 Commission Co-Chairman Tom Kean and Mr. Hamilton.

The assessment, the first in a series of planned terrorism reports by the group, tracks closely with recent assessments from the director of national intelligence and the Central Intelligence Agency that have highlighted the increasing reliance of al Qaeda and its affiliates on people who can easily and legally enter and travel in the U.S. to plot and mount attacks.

Officials at intelligence agencies and the Department of Homeland Security have zeroed in on the homegrown threat in the wake of a series of attacks and botched plots, including the Fort Hood, Texas, shooting and the attempted Times Square bombing—both carried out by U.S. citizens.

Last year witnessed 10 U.S.-linked jihadi attacks, plots or incidents of individuals traveling to receive terror-

Please turn to page 3

Deutsche Bank plans to raise up to $11.4 billion in stock sale

By Dana Cimilluca And David Enrich

Deutsche Bank AG is planning to raise as much as €9 billion ($11.4 billion) to boost its stake in another German bank and possibly shore up its own capital, according to people familiar with the matter.

The German banking giant plans to launch the massive share sale as early as Monday, the people said. The primary goal for the fundraising will be to give Deutsche Bank cash to make a tender offer for additional shares in **Deutsche Postbank** AG, Germany's largest retail bank by customers, the people said.

There's no guarantee the planned deal won't still fall apart. Deutsche Bank agreed to take a nearly 30% stake in Deutsche Postbank near the height of the financial crisis in late 2008. It has the option to take a majority stake by February 2012.

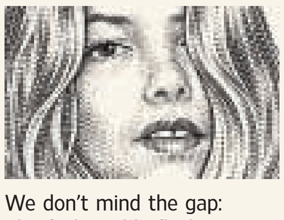
In addition to the Postbank purchase, the anticipated stock sale also appears aimed at bolstering Deutsche Bank's capital ratios. Deutsche Postbank has a market capitalization of just €5.7 billion, so buying the rest will cost much less than €9 billion, even if Deutsche Bank is forced to put more capital into the lender.

The Basel Committee on Banking Supervision, is poised this weekend to approve a major overhaul of capital requirements. The changes will force many banks to thicken their capital cushions—although they likely will have eight to 10 years to comply.

As of June 30, Deutsche Bank reported that its so-called core Tier 1 ratio was 7.5%. The Basel Committee is expected to impose a roughly 7% floor for that ratio, up from about 2% currently. In that case, Deutsche Bank's capital buffer wouldn't be much above the new minimum requirement.

As expected from a deal that would add to their supply, the bank's American Depositary Receipts on the New York Stock Exchange fell 3.3% on the news, which was earlier reported by Bloomberg.

The Quirk



ECB backs austerity amid growth doubts

FRANKFURT—The European Central Bank continues to push the case for fiscal austerity despite an uncertain global recovery, arguing that the benefits from higher private-sector confidence outweigh any drag on demand.

"Credible and ambitious consolidation raises expectations of future economic growth and induces economic reactions," the ECB wrote in its September monthly bulletin.

It is the third time in four months that the ECB has used its monthly bulletin to advocate for fiscal belt-tightening as a means to achieve growth.

Yet the ECB finds itself increasingly isolated with its position.

"I suspect that developments over the next year will strongly challenge" the ECB's argument that austerity boosts growth, says Ken Wattret, economist at BNP Paribas.

In Washington, the Obama administration is pushing fresh tax cuts amid flagging growth.

The Organization for Economic Cooperation and Development appeared to endorse that course, arguing that fiscal-austerity efforts may need to be put off if the global economy weakens.

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Is it time for the Fed to go negative?

[Agenda]

By Willem Buiter

UPI

Ben Bernanke has more options to supporting the economy than he admits.

Ben Bernanke, chairman of the Federal Reserve Bank, has a lot more tools for supporting U.S. economic activity through expansionary monetary policy than he discussed in his Jackson Hole speech, which alluded only to more quantitative easing and credit easing—increasing the size and changing the liquidity composition of the Fed's balance sheet.

Perhaps out of fear of resurrecting the moniker "Helicopter Ben," Mr. Bernanke didn't refer to the combined fiscal-monetary stimulus that (almost) always works: a fiat money-financed increase in public spending or tax cut. Treasury Secretary Tim Geithner can always send a sufficiently large check to each U.S. resident to ensure that household spending rises. By borrowing the funds from the Fed, there is no addition to the interest-bearing, redeemable debt of the state. As long as households are confident that these transfers will not be reversed later, "helicopter money drops" will, if pushed far enough, always boost consumption.

However, stronger consumer expenditure, while appropriate from a cyclical perspective—any additional demand is welcome—is not what the U.S. needs for long-term sustainability and structural adjustment: to raise the national saving rate, boost fixed investment in plant, equipment and infrastructure, achieve a trade surplus, and shift resources from the nontradable to the tradable sectors.

By way of illustration, an eight percentage point reduction in public and private consumption as a share of gross domestic product could be compensated for by an increase in the trade surplus of 5% of GDP and in nonhousing U.S. fixed capital formation of 3% of GDP. To achieve this, a much weaker real exchange rate and lower real interest rates are necessary. To pursue these objectives speedily, a federal-funds target rate of around minus 3% or minus 4% may well be required right now, in our view. This brings monetary policy up against the zero lower bound (zlb) on nominal interest rates.

The zlb results from the existence of currency (dollar bills and coins) with a zero nominal interest rate. Even allowing for "carry costs" of currency (storage, safekeeping, insurance etc.), this makes it impossible for competing assets like government bills, to offer interest rates much below zero. Stimulating demand in the U.S. economy, while rebalancing the composition of demand and production in the desired directions, requires a much lower federal-funds target rate than is feasible with the zlb in place.

To restore monetary policy effectiveness in a low interest rate environment when confronted with deflationary or contractionary shocks, it is necessary to get rid of the zlb completely. This can be done in three ways: abolishing currency, taxing currency and ending the fixed exchange rate between currency and bank reserves with the Fed. All three are unorthodox. The third is unorthodox and innovative. All three are conceptually simple. The first and third are administratively easy to implement.

The first method does away with currency completely. This has the additional benefit of inconveniencing the main users of currency—operators in the gray, black and outright criminal economies. Adequate substitutes for the legitimate uses of currency, on which positive or negative interest could be paid, are available.

The second approach, proposed by Gesell, is to tax currency by making it subject to an expiration date. Currency would have to be "stamped" periodically by the Fed to keep it current. When done so, interest (positive or negative) is received or paid.

The third method ends the fixed exchange rate (set at one) between dollar deposits with the Fed (reserves) and dollar bills. There could be a currency reform first. All existing dollar bills and coin would be converted by a certain date and at a fixed exchange rate into a new currency called, say, the *rallod*. Reserves at the Fed would continue to be denominated in dollars. As long as the federal-funds target rate is positive or zero, the Fed would maintain the fixed exchange rate between the dollar and the rallod.

When the Fed wants to set the federal-funds target rate at minus 5%, say, it would set the forward exchange rate between the dollar and the rallod, the number of dollars that have to be paid today to receive one rallod tomorrow, at 5% below the spot exchange rate—the number of dollars paid today for one rallod delivered today. That way, the rate of return, expressed in a common unit, on dollar reserves is the same as on rallod currency.

For the dollar interest rate to remain the relevant one, the dollar has to remain the unit of account for setting prices and wages. This can be encouraged by the government continuing to denominate all of its contracts in dollars, including the invoicing and payment of taxes and benefits. Imposing the legal restriction that checkable deposits and other private means of payment cannot be denominated in rallod would help.

In the other major industrial countries too (the euro area, Japan and the U.K.), monetary policy is constrained by the zlb. Conventional fiscal expansion with government debt-financed deficit increases would be ineffective or infeasible because of fiscal unsustainability.

Like the Fed, the ECB, the Bank of Japan and the Bank of England therefore should lobby for the legislation necessary to eliminate the zlb. The euro area and Japan, which don't suffer from deficient saving rates or undesirable current-account deficits, could in addition stimulate consumption through helicopter drops of money—base money-financed fiscal stimuli.

All three methods for eliminating the zlb, although administratively feasible and conceptually simple, are innovative and unorthodox. Central banks are conservative. The mere fact that something has not been done before often is sufficient grounds for not doing it now. The cost of rejecting institutional innovation to remove the zlb could, however, be high: a material risk of continued deficient aggregate demand, persistent deflation and, in the U.S. and the U.K., unnecessary conflict between short-term stabilization and long-term sustainability and rebalancing.

—Willem Buiter is chief economist for Citi.

What's News

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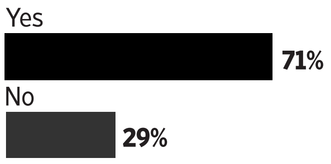

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NEWS

Seychellois fume over sheikh's home

U.A.E. leader's mountaintop mansion contaminates island paradise, and fuels ruling party's political opponents

By Margaret Coker

LA MISERE, Seychelles—The president of the oil-rich United Arab Emirates has sent millions of military and financial aid to this tiny East African archipelago, a longtime get-away for the rich and famous.

But it's the construction of his private residence here—a seven-story mountaintop palace with a 360-degree view of the surrounding Indian Ocean—that's getting all the attention these days. More than 8,000 residents, claiming their water source was tainted by sewage and diesel runoff from the construction site, are demanding more than $10 million in compensation from Sheikh Khalifa bin Zayed al-Nayan and the Dubai-based construction company he hired to build the palace.

Local environmental and health officials call the contamination the nation's worst environmental disaster ever. Public anger has spread ever since, with activists and landowners claiming negligence by local officials. They accuse the government of letting the sheikh circumvent land-ownership laws and failing to enforce environmental and safety regulations during the construction, which has involved an estimated 2,000 foreign workers.

"Our paradise is lost, and our lives have been turned upside down," says Eddie Westergreen, a landowner and neighbor of Sheikh Khalifa. Mr. Westergreen's modest, low-slung bungalow—surrounded by flowers he grows commercially—is dwarfed by the partly-built palace that, when finished, will be the nation's highest-standing edifice. "Both our own government and Sheikh Khalifa are responsible for destroying it," he says.

The controversy has ignited a scandal in a political landscape typically as serene as the islands' jungle-covered landscape. Angry residents have taken to the street leading to the site a handful of times, blocking construction vehicles' access.

Fueled by the outrage, opposition politicians think they may be able to unseat the ruling party that has reigned here since independence in 1976. President James Michel has painted himself as a close friend of Sheikh Khalifa, and opposition leaders accuse his government of taking short cuts with the project because of the U.A.E.'s financial largess to the government. Some opposition politicians are promising to overturn the La Misere sale if elected.

A U.A.E. official calls the contamination "unfortunate," and says Sheikh Khalifa's private office in Abu Dhabi is working to solve the problem. The official blames the Dubai-based construction company.

Mr. Michel, the president, has also deflected blame from Sheikh Khalifa and onto the construction company, **Associated Contracting & Consulting** Ltd., or Ascon. Ascon is partly owned by Abdulaziz al-Ghurair, a businessman appointed by Sheikh Khalifa to run the U.A.E.'s parliamentary body. Ascon denies any wrongdoing. Company officials say the firm has become a scapegoat in a domestic political battle. Telephone requests for comment from Mr. Ghurair weren't returned.

"Determination of the real causes and extent of such pollution and the allocation of responsibility are questions of fact which fall within the jurisdiction of the courts of law," said Ali Jahubar, an Ascon director, in a written response to questions sent by The Wall Street Journal. "These issues have been subject to political debate and not to due legal process." Mr. Jahubar said last week the company was fired from the project. President Michel, meanwhile, has ordered construction halted. On a recent visit to the site, however, work was still under way.

In addition to his federal position atop the U.A.E. government, Sheikh Khalifa is the hereditary ruler of Abu Dhabi, the country's capital and the richest of its seven semi-autonomous emirates.

Seychellois government records show that since 1995, Sheikh Khalifa has spent $2 million snapping up more than 26 hectaresof land on the Seychelles' main island of Mahe, where the palace is being built. During the same period, the Seychelles' government has received large aid packages from the U.A. E.

Margaret Coker/The Wall Street Journal (2)

Sheikh Khalifa's partly built Seychelles palace, above, has ignited a scandal in the jungle-covered Indian Ocean nation, which has received large amounts of foreign aid from the oil-rich United Arab Emirates, ruled by the sheikh..

In the past five years, the U.A.E. has pledged more than $130 million in social-service and military aid, including several patrol boats to boost the Seychelles' antipiracy efforts. In 2008, the U.A.E. came to the debt-laden government's rescue with a $30 million injection. U.A.E. officials say the aid is in keeping with its commitment to assist the developing world.

Sheikh Khalifa paid $500,000 for the 11.9-hectare site of his palace in 2005, according to the sales document.

Bernard George, a lawyer who negotiated one of Sheikh Khalifa's first land deals in the country, is an opposition member of parliament and one of the palace's harshest critics. He accuses the government of ignoring laws that required a public tender for the 2005 transaction."The sale was stitched up from the start," says Mr. George, who also represents the La Misere residents fighting for compensation from Sheikh Khalifa and Ascon.

A Seychelles planning authority initially rejected the palace's building plans. But last year, Mr. Michel's cabinet overturned the decision.

Construction of the palace started last September. A month later, the national utility company warned that the site's plans posed threats to the water supply, according to Joel Valmont, the deputy chief executive of the company.

Joel Morgan, the Seychelles' minister of environment and an aide to Mr. Michel, said the government didn't tender the land because it wanted it to go to Sheikh Khalifa. He says "the letter of the law" might not have been followed in the land sale.

"The government made the offer to Sheikh Khalifa...in the context of building up our diplomatic relations with the U.A.E., which is something that we value very highly," Mr. Morgan said in a recent interview. He declined to comment on the cabinet's decision to override the planning-authority veto of the plans.

Mr. Westergreen said that in October his household well was fouled with diesel runoff coming from the project. Government agencies ordered Ascon to clean it up.

Feb. 13, the sewage system set up by Ascon for workers building the palace overflowed, sending rivers of waste through the region, home to some 8,100 residents. Mr. Morgan, the environmental minister, says local-government agencies and officials from Sheikh Khalifa's office responded quickly to the problem, sending in technical experts and engineers. Amid the local uproar, officials concluded that Ascon ignored health and building codes for their workers. Mr. Morgan says the government fined the company $81,000.

Ascon denies it violated any rules. "Unpredicted weather conditions" outside the company's control, including heavy rain, caused the sewage and diesel leakage, said Ascon's Mr. Jahubar, in his statement.

This spring, Sheikh Khalifa's presidential office offered to pay $15 million to replace the water-piping system for the mountainside. Recently, negotiations between the residents, the company and the U.A.E. have bogged down over terms of a settlement, according to members of the residents committee. Government officials and residents say Ascon has offered to pay roughly $8,000 to each of the 360 households that the government says have been affected by the pollution.

Residents, as well as Mr. Michel, have rejected that offer. Ascon declined to comment on the negotiations.

Terror threats are harder to detect, new study says

Continued from first page

ist training, the report found. Meanwhile at least 43 American citizens or legal residents aligned with militant groups were charged or convicted in 2009 of terrorism crimes in the U.S. and elsewhere.

Al Qaeda and its allies have established "an embryonic terrorist recruitment, radicalization and operational infrastructure in the United States," the report concludes.

The report also placed odds on more and less likely targets and means of attack. More likely targets include commercial aviation, Western brand names like American hotel chains, Jewish targets and American soldiers fighting in Muslim countries. Potential tactics include suicide operations, gunman attacks in the model of the 2008 assault on Mumbai, India, and assassinations of key leaders.

The group hopes its findings will encourage the U.S. government to focus more of its limited resources on the most likely attack scenarios.

As public attention in recent years has turned to the global economic crisis, the report finds, attempted terror attacks have climbed.

"The polls say Americans are turning their attention away from the terrorist threat," Mr. Hamilton said. "This report says they better not because there's been a pickup in the pace of plots and efforts to get at us."

ECB pushes belt-tightening

By Brian Blackstone

FRANKFURT—The European Central Bank is pressing the case for fiscal belt-tightening despite an uncertain global recovery, arguing that the benefits from higher private-sector confidence outweigh any drag on demand.

"Credible and ambitious consolidation raises expectations of future economic growth and induces economic reactions," the ECB wrote in its September monthly bulletin. It is the third time in four months that the ECB has used its monthly bulletin, which summarizes economic conditions in the euro zone, to advocate for fiscal belt-tightening as a means to achieve growth.

Yet the ECB finds itself increasingly isolated with its position.

"This particular argument is one that you don't really find being advanced at the global level," says Julian Callow, economist at Barclays Capital.

In Washington, the Obama administration is pushing fresh tax cuts for businesses and new infrastructure spending to bolster a weakening recovery and spur job creation in the U.S. The Organization for Economic Cooperation and Development appeared to endorse that course on Thursday, warning that fiscal-austerity efforts may need to be put off if the global economy weakens.

"The world economic recovery may be slowing faster than previously anticipated," the OECD said in an update to its economic forecasts. If the risks of a renewed downturn intensify, "countries with more fiscal space could also delay plans for fiscal consolidation," the OECD said.

The Paris-based organization now expects the world's largest economies to grow just 1.5%, at an annualized rate, in the second half of the year, down from its previous forecast of 1.75%.

According to OECD estimates, Europe has considerably more fiscal maneuvering room than other big economies. The combined deficits of the euro zone's 16 members will be around 6.6% of gross domestic product this year, compared with 10.7% in the U.S. and 7.6% in Japan, the OECD has said.

ECB officials reason that if consumers and businesses think government finances will be kept under control, they are more likely to commit to new spending.

Those "expectation effects" may be "particularly large" in the current economic climate, the ECB said. "Moreover, with sound fiscal positions, households and enterprises can trust in the government's ability to smooth out economic fluctuations," the ECB said.

Agence France-Presse/Getty Images

A Volkswagen factory in Dresden, Germany. The country's economy has continued to grow amid austerity programs and plans to cut the deficit.

The austerity debate had shifted in Europe's favor until recently. Germany, which announced deficit-cutting plans even before its economy showed convincing signs of strengthening, will expand as much as 3.4% this year, the Kiel-based Institute for World Economic Studies, known as IFW, said Thursday, a significant upgrade from its 2.1% growth forecast just three months ago.

Critics of Europe's approach counter that the region still benefits largely from growth and stimulus measures elsewhere, and needs to do more to stimulate its own domestic demand to become more of a contributor to the global economy. If key trading partners including the U.S. and China slow, as many economists expect, then Europe will be left with few sources of growth in late 2010 and 2011 when the damping effects of austerity kick in.

Germany's rapid recovery—it grew 9%, at an annualized rate, in the second quarter—is already showing signs of weakening. Exports, manufacturing orders, retail sales and car registrations all fell in July, suggesting a sluggish start to the third quarter. Despite upgrading its 2010 forecast for Germany to above 3%, IFW still expects a significant slowdown in 2011, to just 1.7%.

German Finance Minister Wolfgang Schäuble said on Thursday that Berlin has no intention of changing course on austerity.

"We're on the right path and we have no intention of leaving that path," he told a banking conference.

Fiscal consolidation is already taking a toll in southern Europe and Ireland, suggesting the confidence that ECB officials have been touting hasn't kicked in yet.

On Wednesday, Greece's statistics agency released revised second-quarter GDP figures that showed a 6.8% plunge in output, at an annualized rate, in the second quarter, steeper than the 5.8% drop first estimated.

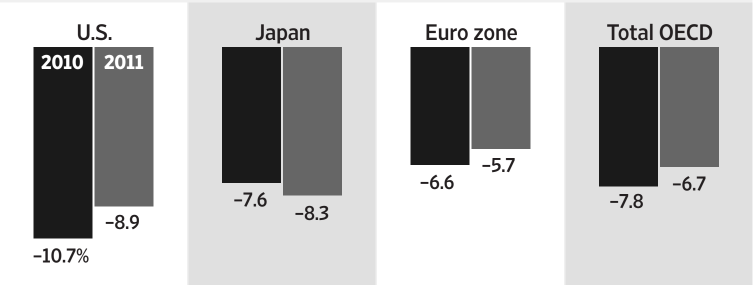
Greece and others in Europe's periphery such as Ireland and Spain started raising taxes and cutting spending this year to trim deficits that register in the double digits as a share of their economies.

"I suspect that developments over the next year will strongly challenge" the ECB's argument that austerity boosts growth, says Ken Wattret, economist at BNP Paribas.

In its report Thursday, the OECD said if economic risks intensify central banks should consider new stimulus in the form of asset purchases, known in some quarters as quantitative easing, or keeping policy rates near zero.

Betting on austerity

Europe is reluctant to expand fiscal policy, though it has more room to than others. OECD estimates for budget deficit as a percentage of GDP



Source: Organization for Economic Cooperation and Development

Big split between ECB and OECD stances

[Analysis]

By Terence Roth

Maybe we need a third opinion: New warnings over a slowing recovery in the global economy have featured clashing advice from two voices investors and governments listen to.

A slowdown, the Organization for Economic Cooperation and Development says, might require additional stimulus and a delay in plans to cut budget deficit "where public finances permit" to avoid accelerating the slowdown. What is or isn't permissible wasn't specified.

The European Central Bank wasn't at all equivocal when insisting that its 16 countries do the very opposite.

The ECB, in a monthly report that carried more points of interest than usual, predicted a reckoning for "overly optimistic" economic forecasts. What the ECB didn't say was that government's deliberately shot high to write 2011 budgets that complied with reinforced rules to return budget deficits to under 3% of GDP.

Whatever the motive, the ECB insists that governments need to redouble cutbacks if the economy undershoots expectations, with the rationale being that deficit reduction is confidence enhancing, while widening deficits are confidence eroding and the recipe for a new financial crisis.

Pressure on governments to take the OECD's path in an economic relapse will be intense. The depleted tax intake and rocketing welfare costs associated to a downturn—or worse—would derail even the most committed deficit cutters.

The ECB's argument makes a great deal of long-term sense to reorder government finances and unleash new forces into the economy. But the harsh approach could backfire shorter-term, risking a double-dip recession.

Most governments are free to chose their own road. What the ECB is saying is that euro-zone governments aren't. Not unless they want to fall afoul of EU rules, impair the integrity of the euro system, and see its standing in credit markets collapse, which Greece has learned to its cost.

—More at blogs.wsj.com/source

Debt sales succeed in Ireland, Hungary

By Emese Bartha And Veronika Gulyas

Announcements by the Irish government about **Anglo Irish Bank** Corp. and by the Hungarian government on its 2011 budget target Wednesday paved the way for well-received government-debt auctions in both countries Thursday, but analysts said whether the governments follow through effectively on their plans will be decisive.

Ireland sold just €400 million ($508.6 million) of Treasury bills, at the bottom of its targeted range of €400 million to €600 million, but it paid lower yields than previously. Hungary sold 40% more bonds than planned, although at higher yields than two weeks ago.

Debt markets reacted well to both tenders, and the cost of credit-default swaps, or CDS, fell after the auctions.

The Hungarian forint firmed to about 285 forint to the euro after the auction from 287.50 forint before it. On Wednesday, prior to the government's pledge about the 2011 budget, it was at 289.50 forint to the euro.

CDS function like insurance against default by a borrower.

Ireland said Wednesday that it will split Anglo Irish into a government-backed bank with customer deposits and an "asset-recovery bank" that will hold loans, in a bid to discourage depositors from fleeing the lender.

Hungarian Economy Minister Gyorgy Matolcsy vowed to push the country's 2011 budget deficit to below 3% of gross domestic product next year. Investors' nerves have been frayed by the Hungarian government's break with the International Monetary Fund.

The cost of insuring €10 million of Irish debt for five years fell to €370,000 per year by Thursday afternoon, from a record €400,000 on Wednesday. The cost for Hungarian debt came down to €366,000 from €378,600, according to data provider Markit.

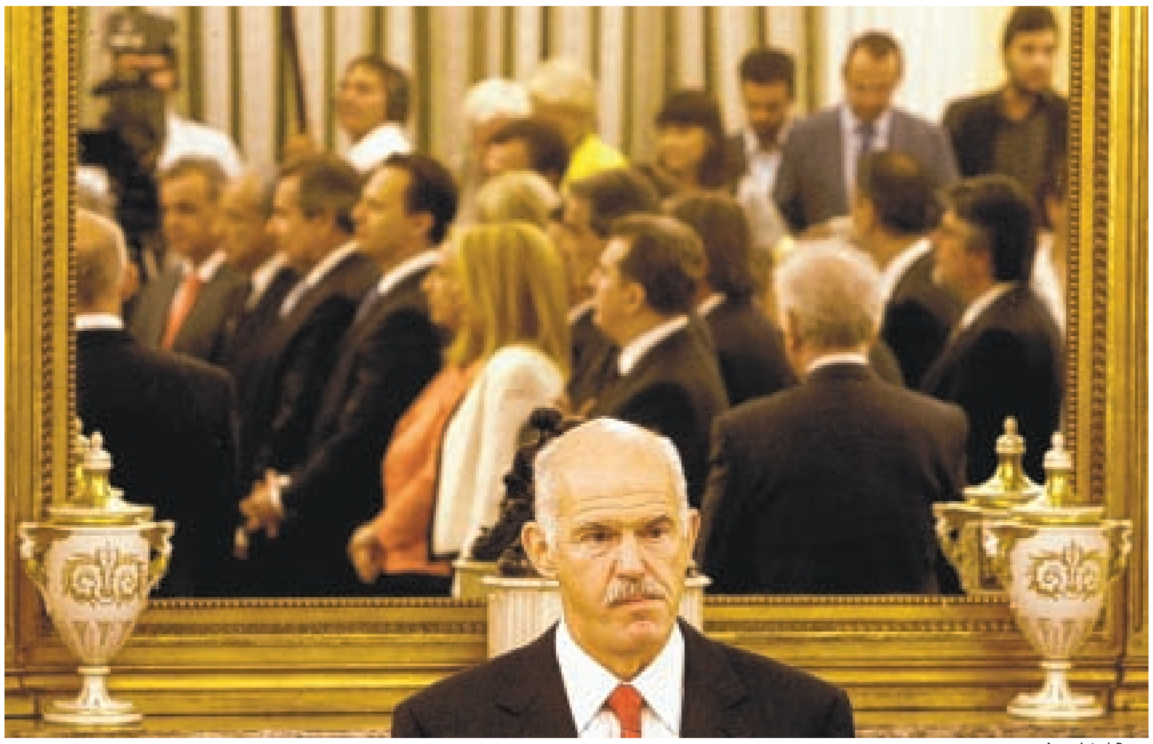
"While average yields came in lower than expected, this was balanced by news of the [European Central Bank] being in the market purchasing Irish, Greek and Portuguese paper," Markit said.

Ireland's T-bill sale was helped by the small size of the offering as well as restored confidence after Dublin's decision on Anglo Irish. The February 2011-dated Treasury bills were sold at an average yield of 1.925% compared with 1.978% two weeks ago, while the April 2011-dated bills were allocated at 2.19%. compared with 2.348% previously.

"The [Irish] auction saw good demand. Indeed, the very low offer size was supportive," said Giuseppe Maraffino, a strategist at Barclays Capital in London. "No concession in the market was needed to attract investors, with the average yields lower than levels in the secondary market."

Hungary sold 70 billion forint ($310 million) in three bond series maturing in 2014, 2016 and 2020. The total was 40% above the 50 billion forints Hungary had set as a target.

EUROPE NEWS



Associated Press

Prime Minister George Papandreou watches as his cabinet attends a swearing-in at the presidential palace Tuesday.

Greek prime minister to make concessions

By Nick Skrekas

ATHENS—Greek Prime Minister George Papandreou is expected to make a major annual policy announcement Saturday that could offer some concessions to groups hit hard by austerity.

The measures could include a small assistance package for vulnerable households, certain private-sector funding subsidies and a cut in corporate taxes., according to people familiar with the matter. Mr. Papandreou will speak at an international trade fair Saturday afternoon in the northern city of Thessalonica.

Despite very tight fiscal conditions after Greece's agreement to cut its 2010 budget deficit to 8.1% of gross domestic product from last year's 13.6%, the prime minister is likely to announce support measures for low-income pensioners, the handicapped and families with more than three young children.

Political analysts said they expect the largely token and low-cost measures to be incorporated to defuse public anger over wage and pension cuts as well as hikes to value-added and excise taxes, which have hit local voters hard.

"The mini-social package will be fiscally responsible and realistic," said a senior government official with direct knowledge of the matter. "Papandreou will also be setting out future government initiatives to put the country on a path to a healthier future."

But the person said he expects the prime minister to explain to Greek voters the dire situation to prevent the opposition from trying to score political points from the austerity.

Market watchers will also be listening closely for guidance on what future tax changes will look like, news on the government's privatization program and further restructuring of the rigid and uncompetitive economy.

George Kyrtsos, a leading political commentator and editor of newspaper City Press, said, "This speech won't contain the traditional usual handouts because there is no money."

He said Mr. Papandreou will probably concentrate on measures to subsidize social-security payments for new private-sector hires and direct funds to small and midsize businesses to boost jobs and investment while also cutting the corporate tax rate to 20% from the 24% now to stimulate the economy.

Mr. Papandreou also will be trying to persuade many in his own Pasok socialist party as well as some trade unions—closely aligned to the socialist party that backed his election—that because the debt-strapped Mediterranean country is in a deepening recession, economic reform and restructuring are critical and shouldn't be militantly resisted. "That won't be easy, given vested interests," added Mr. Kyrtsos.

Meanwhile, next week a delegation from Greece's lenders, the International Monetary Fund, the European Central Bank and the European Commission, will again visit Athens to audit progress on the terms of their €110 billion ($140 billion) bailout.

Talks are expected to focus on progress on fiscal targets, tax revenues that are lagging somewhat, continuing actions to liberalize "closed off" professions and the opening of the transportation and energy sectors.

A senior official at the finance ministry said the delegation will also take a close look at deficits in the health system, local government and state-controlled enterprises, which threaten the larger overall debt targets.

The state-controlled railway system, OSE, alone has amassed €10 billion in debt, which the government will assume so the system can be spun off and privatized.

U.K. trade data deflate hopes

By Ainsley Thomson And Ilona Billington

LONDON—The continued failure of U.K. exporters to take advantage of a much weaker pound makes it unlikely the economic recovery will be as strong as policy makers hope, raising fresh doubts about the wisdom of pushing ahead with austerity measures that will crimp domestic demand.

Since coming into office in May, Prime Minister David Cameron's new coalition government has placed exports and investment at the heart of its strategy to secure the country's economic recovery.

With domestic demand for goods and services likely to remain suppressed due to the public-sector spending cuts and tax increases, the government is banking on a jump in the goods and services it sells to other countries.

The Office for Budget Responsibility, which produces the government's growth and borrowing forecasts, is forecasting that over the next five years the U.K.'s economy will grow by £183 billion ($283 billion), with exports of goods and services growing by £112 billion over the period, and investment increasing by £80 billion.

However, the Office for National Statistics on Thursday reported that the U.K.'s goods trade deficit widened to £8.7 billion in July, making it the largest on record. The data show that despite a big depreciation in the pound over the past two years—that should have made British-manufactured goods cheaper for foreign buyers—the U.K. has failed to lift its exports.

"July's dreadful U.K. trade figures cast further doubt over the ability of the external sector to drive the recovery once the boost from government and consumer spending fades," said Vicky Redwood, senior U.K. economist for Capital Economics.

As part of its strategy for an export-led recovery, the government has said it wants to push trading and other ties with rapidly developing economies. Mr. Cameron's goal of forging deeper links with key emerging economies in July saw him lead a high-powered delegation of ministers and businesspeople to India to promote trade links.

Separately, Treasury Chief George Osborne said the U.K. government will earmark £4 billion in extra welfare spending cuts as part of its austerity plans. In an interview with the British Broadcasting Corp., excerpts of which were broadcast Thursday afternoon, Mr. Osborne said "there will be further welfare cuts announced" as part of the comprehensive spending review.

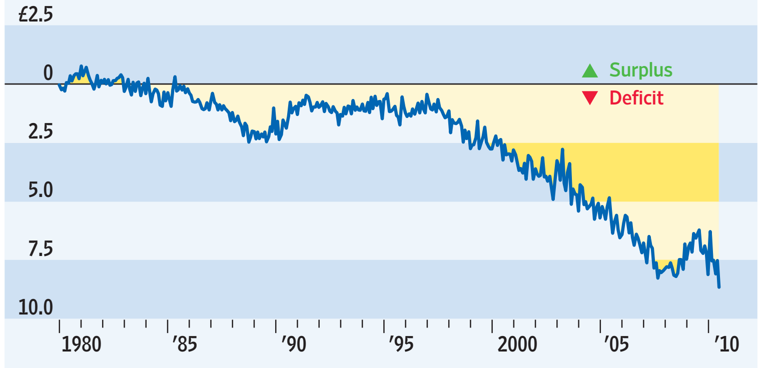
The BBC reported Mr. Osborne saying that the £4 billion in extra cuts come on top of the £11 billion in welfare cuts targeted in June's emergency budget statement. Mr. Osborne has promised a fiscal consolidation of £113 billion over the next five years, made up largely of spending cuts. The chancellor has said most departmental cuts may need to be cut by some 25%.

Also Thursday, the Bank of England's Monetary Policy Committee kept its key interest rate and the size of its bond-buying program unchanged, as expected, as officials wait to see how severe a slowdown in the U.K. economy will be in the latter half of this year.

—Laurence Norman contributed to this article

Widening gap

U.K. global goods trade balance, in billions



Source: U.K. Office for National Statistics

Sarrazin to leave Bundesbank board

A Wall Street Journal Roundup

FRANKFURT—The Bundesbank said Thursday that board member Thilo Sarrazin has asked the German president to release him from his office by month's end, after a public outcry over controversial comments he made about race and ethnicity.

As a result, the board of directors at the central bank has withdrawn its request to German President Christian Wulff to dismiss Mr. Sarrazin. Mr. Wulff is the only German official with the power to dismiss Mr. Sarrazin, 65 years old, from the central bank's board. Neither the Bundesbank or Mr. Sarrazin will comment further, the board's statement said.

Mr. Sarrazin had warned of what he sees as an Islamic takeover of Germany and said that Muslim immigration threatens the nation's identity and economy.

In a new book titled "Germany Abolishes Itself" and in interviews and appearances over the past week to support its release, Mr. Sarrazin said Muslim immigrants cost the state more than they contribute, and that Jews share a common gene, claims that many Germans found echoed the racial theories posited by the Nazis.

The comments from Mr. Sarrazin, a member of the center-left Social Democrats, have prompted political leaders to call for a comprehensive dialogue on the challenge of integrating immigrants and minorities into the country's shrinking native population. Germany has long struggled with how to integrate its ethnic-minority population, which makes up as much as 20% of the country's 82 million residents.

EUROPE NEWS

Sarkozy faces new strains over Gypsy expulsions

BY DAVID GAUTHIER-VILLARS

PARIS—France's President Nicolas Sarkozy faced new pressure on Thursday, including fresh criticism of his recent law-and-order drive and a police search of his ruling party's headquarters.

In Strasbourg, the official seat of the European Parliament, lawmakers urged France to suspend immediately the expulsion of Gypsy migrants, saying the policy was tantamount to racial and ethnic discrimination and breached European Union laws. A resolution expressed "deep concern at the measures taken by the French authorities and by other Member States' authorities targeting Roma," as the Gypsies are also known.

Earlier in the day, French police searched the headquarters of Mr. Sarkozy's Union pour un Mouvement Populaire, or UMP, as part of an investigation into accusations of illegal political funding. A UMP spokesman said police left after 90 minutes, without taking any documents.

At the center of the accusations are labor minister and former ruling party fund-raising chief, Éric Woerth, and his relations with Liliane Bettencourt, heiress to the **L'Oréal** SA cosmetics empire. He has been cited in preliminary judicial probes into alleged illegal political financing and conflicts of interest.

Mr. Woerth has said he only raised funds legally. Mr. Sarkozy has said talk of illegal political financing was an attempt to tarnish his reputation.

On Thursday, police officials said they were seeking copies of letters exchanged between Mr. Woerth and Ms. Bettencourt's financial adviser.

Mr. Sarkozy is struggling with a number of challenges. He is trying to push through an unpopular increase in the retirement age and to shuffle his cabinet, possibly next month, in preparation for the 2012 presidential election.

The president's latest attempt to prop up his sagging approval ratings was the announcement of a law-and-order drive at the end of July. The French government said Roma were often linked to drug trafficking, prostitution and the exploitation of children and vowed to expel all those who don't reside legally in France. Since then, France has ordered the dismantling of illegal sites used by Roma, and has put nearly 1,000 on charter planes to their countries of origin, mainly Romania and Bulgaria.

Mr. Sarkozy's law-and-order push was well-received by a majority of French voters, according to various opinion polls. But it also led to charges—by European Union authorities, the Vatican and a United Nations antiracism panel—that France was stigmatizing the Roma as an ethnic group, instead of combating offenses committed by individuals.

Agence France-Presse/Getty Images

Lawmakers in Strasbourg hold up signs reading 'equal rights for all citizens.'

The French president's anticrime drive has sown divisions within his own government.

Thursday's resolution, put forward by several left and green parties in the European Parliament, drew immediate condemnation from the French government, which said it was sending Roma back to their countries of origin in full compliance with EU laws.

France said it would ignore the parliament's nonbinding demand and continue persuading Roma to leave France voluntarily.

"The European Parliament stepped out of its prerogative and, obviously, we have no reason to conform to a political diktat," French Immigration Minister Éric Besson said on the sidelines of a visit to Romania on Thursday, according to an aide.

Mr. Besson has denied stigmatizing Roma, saying that most Gypsies were leaving France voluntarily and with a €300 (about $380) stipend each. The EU guarantees freedom of movement to citizens of member states, but only on condition they can support themselves.

Mr. Sarkozy's anticrime drive has sown divisions within his own camp: Several cabinet members and UMP lawmakers have publicly said they opposed the mass deportation of Roma.

Political analysts have said the crackdown was a populist ploy to distract French public opinion from the accusations of illegal political financing.

Spain approves new labor laws

BY JONATHAN HOUSE

MADRID—Spanish lawmakers Thursday gave their final approval, without making major changes, to a long-awaited overhaul of labor laws expected to help cut unemployment and spur economic growth.

The parliamentary vote came at the end of a two-month period allowing lawmakers to make changes to legislation approved in June. The changes aim to encourage hiring by reducing Spain's high cost of dismissal and giving companies more flexibility to reduce working hours and staff levels in economic downturns.

The legislation removes most restrictions on the use of indefinite contracts with unfair dismissal costs equal to 33 days of salary per year worked. The standard indefinite contract currently in use has a cost of dismissal equal to 45 days.

Furthermore, it makes it easier for workers to be dismissed on a "fair" basis, which has a 20-day cost of dismissal.

The change has come at high political cost for Socialist Prime Minister José Luis Rodríguez Zapatero who has seen his standing fall in opinion polls and who faces a general strike on Sept. 29.

Mr. Zapatero's government, however, has come under intense international pressure to take measures to reduce a double-digit budget deficit and spur economic growth. Spain's 20% unemployment rate is twice the 10% average for the wider euro zone.

A weakened Russia seeks closer European ties

[Brussels Beat]

BY STEPHEN FIDLER

The severe blow dealt to Russia by the West's financial crisis is prompting a recalibration of Russia's foreign policy. Among the ideas now surfacing in Moscow: a much closer relationship between Russia and the European Union.

After years of rapid economic growth, Russia was hit hard by the crisis. Last year, its economy shrank by 7.9%. That put it in 206th place out of 213 countries in a comparison of 2009 growth rates, according to the Central Intelligence Agency.

"What became clear from the financial crisis is that Russia is not a sustainable BRIC," said Mark Leonard, director of the European Council on Foreign Relations, using the initials for Brazil, Russia, India and China coined in 2001 to identify fast-growing emerging economic powers. "While the other BRICs kept on growing, Russia's economy contracted. This emphasized the limits of Russian power."

The enthusiastic "Russia is Back" slogans being bandied about two or three years ago have been replaced by growing fears of further decline. A draft report prepared by Russian members of the Valdai International Discussion Club, a group of academics and journalists who met over the past week in Russia, spelled out that fear.

Unless Russia and the EU join forces and develop a strategy for co-development, the report said, "their international political influence will most likely be doomed to degradation." Without that alliance, the report said Europe would turn into a "monument to its old grandeur," while Russia would risk becoming a raw-materials backyard for a rising Asia.

One strong motive for moving closer to Europe, say some analysts, is indeed fear of the Chinese economic powerhouse and what it will mean for Russia's increasingly sparsely populated lands. (United Nations projections suggest by 2050 there will be 116 million Russians and 1.4 billion Chinese, compared with 140 million Russians and 1.3 billion Chinese currently.)

At the Valdai conference, some Russians spoke of China and Asia as an alternative if Moscow is spurned by Europe. At a meeting with foreign members of the group, Russian Prime Minister Vladimir Putin repeatedly emphasized his country has nothing to fear from China. However, some participants argued that Asia's future is very uncertain even five years out.

Others were fearful of what closer ties to China would mean. Greater economic integration with China was described by one Russian speaker as the "union of a rabbit and a boa constrictor." In this metaphor, Russia wasn't the boa constrictor.

Up to now, the EU's own regular meetings with Russia have achieved little: Mr. Leonard of the ECFR called it "a Potemkin dialogue." That's in part because the attitudes of the EU's 27 member states to Russia have been all over the place. Germany has usually been the country seeking the closest relations, while some new members states along with others such as the U.K. have been harboring greater suspicions about the Russian bear.

More recently, however, bilateral tensions have eased, notably with Poland. The past winter wasn't accompanied by threats that Russian gas supplies to Europe would be cut off; and there have been no repeats of the 2008 Georgia war or murders like that in London of Alexander Litvinenko. Russia stayed out of Kyrgyszstan's ethnic troubles this year, suggesting less of an appetite for military interventions in its near-abroad. President Dmitry Medvedev called earlier this year for an all-European security pact.

But there's still a huge gap between Europe and Russia. "Russia's world view focuses more on power than on rules," which largely guide the EU's behavior, Charles Grant of the Centre for European Reform, told the group.

One foreign participant, suggesting that Russia's enormous size meant it couldn't be integrated into the EU, cited what he said was a Chinese saying: "Encourage the elephant to go into the refrigerator and close the door behind it."

The Valdai report speaks of a "values gap" between Russia and hints at Russia's impatience with lecturing from a pious EU. But the fact is, said many experts, the EU won't cozy up to an autocratic power with rampant government corruption, an arbitrary legal system, and scant regard for human rights. Moreover, the suspicion will remain among many in the EU that as soon as the oil price goes back up, Russia will start throwing its weight around again.

Some would like to test Russia's good faith before moving ahead. Germany has suggested Russia could help resolve the frozen conflict in Moldova, where the Russian-speaking population of Transdniester has broken away. Mr. Putin this week spoke of future "cooperation" between Georgia's break-away regions of South Ossetia and Abkhazia and the Georgian government—a vague statement that led some of his audience to suggest he may be hinting at a solution in which Georgia could remain whole.

Much closer union between Russia and the EU, however, appears to most experts to be a long way off. For one thing, the EU is still in the throes of a financial crisis that is likely to keep it absorbed and unwilling to embark on major new initiatives. And then there is Russia.

"The main obstacle to any union with Europe is that we are not ready," said one Russian speaking at the conference under the usual rules of nonattribution. "You can't combine an airplane and a steam engine."

U.S. NEWS

Union targets China on trade

By Tom Barkley

WASHINGTON—The United Steelworkers union formally requested Thursday a U.S. trade investigation into China's policies to support its burgeoning green-technology sector, in a case that could end up before the World Trade Organization.

The petition, filed with the U.S. Trade Representative's office, accuses China's government of providing hundreds of billions of dollars in subsidies and other means of support to provide an unfair advantage to local firms.

"We believe these practices have enabled China to emerge as a dominant supplier of green technologies," Steelworkers President Leo Gerard told reporters.

He said the wide-ranging measures by the Chinese government violated global trade rules and posed a direct threat to the Obama administration's focus on creating green jobs and doubling exports over the next five years.

The union, which has been a major agitator against Chinese trade policies, is hoping the Obama administration will take up the case and potentially file a WTO complaint against China.

The administration has 45 days to decide whether to investigate the allegations of unfair trade practices and a year to complete the probe and determine a course of action.

A USTR spokeswoman said late Wednesday that the office would review the petition.

"USTR has been discussing issues surrounding China and green technology with the steelworkers and with other stakeholders, and will continue to do so," she said.

The 5,800-page petition covers five major areas that the union alleges violate WTO rules: restrictions on access to critical materials, investor-performance requirements, discrimination against foreign firms and goods, and export and domestic subsidies.


European Pressphoto Agency

A technician works at Goldwind Science & Technology in China. Goldwind is a major global wind turbine supplier.

The steelworkers union has been among the most active critics of China trade policy, with some success. President Barack Obama decided in the union's favor last September in a landmark case to impose a special safeguard provision to impose tariffs on Chinese tire imports. The group has also brought several successful countervailing and anti-dumping cases against Chinese products.

Amid increasing calls in Congress to take action against China's tightly managed currency policy, the Obama administration sent a high-level delegation to Beijing over the weekend to ease tensions on trade and other issues.

Trade gap narrows, boosting outlook

By Sara Murray

The U.S. trade gap narrowed sharply in July, boosting expectations for third-quarter growth and adding to a string of modestly upbeat signals on the economy.

A separate report Thursday showed new claims for jobless benefits fell to their lowest point in two months last week.

The U.S. trade deficit declined 14% to $42.8 billion in July from $49.8 billion in June, the Commerce Department said. Exports grew 1.8% to $153.3 billion, while imports declined 2.1% to $196.1 billion.

The latest reports come in the wake of other signs the American economy, while slowing, isn't slipping back into recession. Last week, Washington reported that private-sector employers created more jobs than expected and an earlier report showed factories doing well.

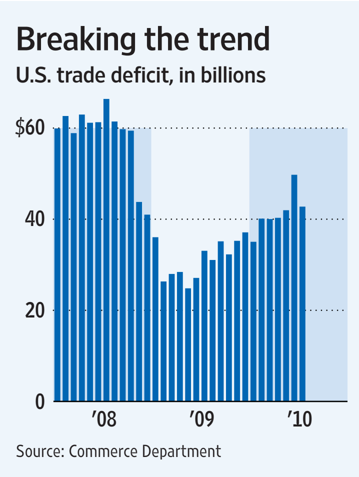
"We're getting a little help from overseas," said Drew Matus, a UBS Securities economist, referring to July's jump in exports. "In terms of the growth side, it suggests we're going to see a little bit of a boost from trade."

The trade deficit had widened in previous months, with an especially sharp uptick in June. The July report is prompting some economists to recalculate upward their expectations for third-quarter growth—reflecting the fact that more of what the U.S. consumes will likely be produced on its own soil.

Economists at Morgan Stanley say they now expect the economy to grow at a 2.4% annual rate in the third quarter, up from their previous estimate of 2.1%.

Trade deficits with many major U.S. trade partners narrowed in July. The deficit with China fell to $25.9 billion from $26.2 billion in June. Deficits also narrowed with Canada, Mexico and Japan.

In Europe, however, the deficit widened to $12.3 billion from $9.4 billion in June.



Exports were fueled by stronger sales of airplanes and capital equipment, while the decline in imports mainly reflected weaker domestic demand for consumer goods.

The Commerce Department said imports of autos and auto parts fell, along with a range of consumer goods—including diamonds, toys, televisions and pharmaceuticals.

Consumer demand is likely being held back by the weak job market. On Thursday, the Labor Department said new claims for jobless benefits dropped 27,000 to 451,000 last week. A four-week moving average for claims, designed to smooth volatility in the numbers, fell by 9,250 to 477,750.

Despite the improvement, economists noted the labor market remains weak.

"This high of a number is consistent with businesses having not slowed layoffs since late last year and shows they're still nervous the recovery won't last," Moody's Economy.com economist Andrew Gledhill wrote in a note to clients. "Under these conditions, businesses are not doing much hiring."

—Sarah N. Lynch contributed to this article.

Health outlays seen rising

By Janet Adamy

The health-care overhaul enacted last spring won't significantly change national health spending over the next decade compared with projections before the law was passed, according to government figures released Thursday.

The report by federal number-crunchers casts fresh doubt on Democrats' argument that the health-care law would curb the sharp increase in costs over the long term, the second setback this week for one of the party's biggest legislative achievements.

The Wall Street Journal reported Wednesday that insurance companies have proposed rate increases ranging from 1% to 9% nationwide that they attribute specifically to new health-law coverage mandates.

Democrats signaled they would ratchet up pressure on the companies. "Insurers are using the consumer protections in health reform as a cover for their own greed," said Rep. Pete Stark (D., Calif.), chairman of the House Ways and Means health subcommittee.

Michigan Rep. Dave Camp, the top Republican on that committee, said the rate increases underscore why lawmakers should repeal the legislation and replace it with changes that make care more affordable.

Regardless of the health law, national health spending has been rising in recent years and economists expect that to continue. In February, the federal Centers for Medicare and Medicaid Services projected that overall national health spending would increase an average of 6.1% a year over the next decade.

The center's economists recalculated the numbers in light of the health bill and now project that the increase will average 6.3% a year, according to a report in the journal Health Affairs. Total U.S. health spending will reach $4.6 trillion by 2019, accounting for nearly one of every five U.S. dollars spent, the report says.

"The overall net impact is moderate," said lead author Andrea Sisko, an economist at the Medicare agency. "The underlying impacts on coverage and financing are more pronounced."

The White House said the law will lower costs for insured consumers by removing the hidden price they pay to subsidize the uninsured.

In the next year, spending from private health insurance is expected to grow while out-of-pocket medical costs decline because more people will stay on Cobra insurance coverage for the unemployed, the report said.

The law's early provisions will increase overall health-care spending, the report says, while adding to benefits for consumers. The creation of new high-risk insurance pools, a requirement that children can stay on their parents' insurance plans until age 26 and other early provisions will increase U.S. health expenditures by $10.2 billion through 2013, the report says.

The new projections take into account other factors, including a delay in payment cuts to doctors who treat Medicare patients.

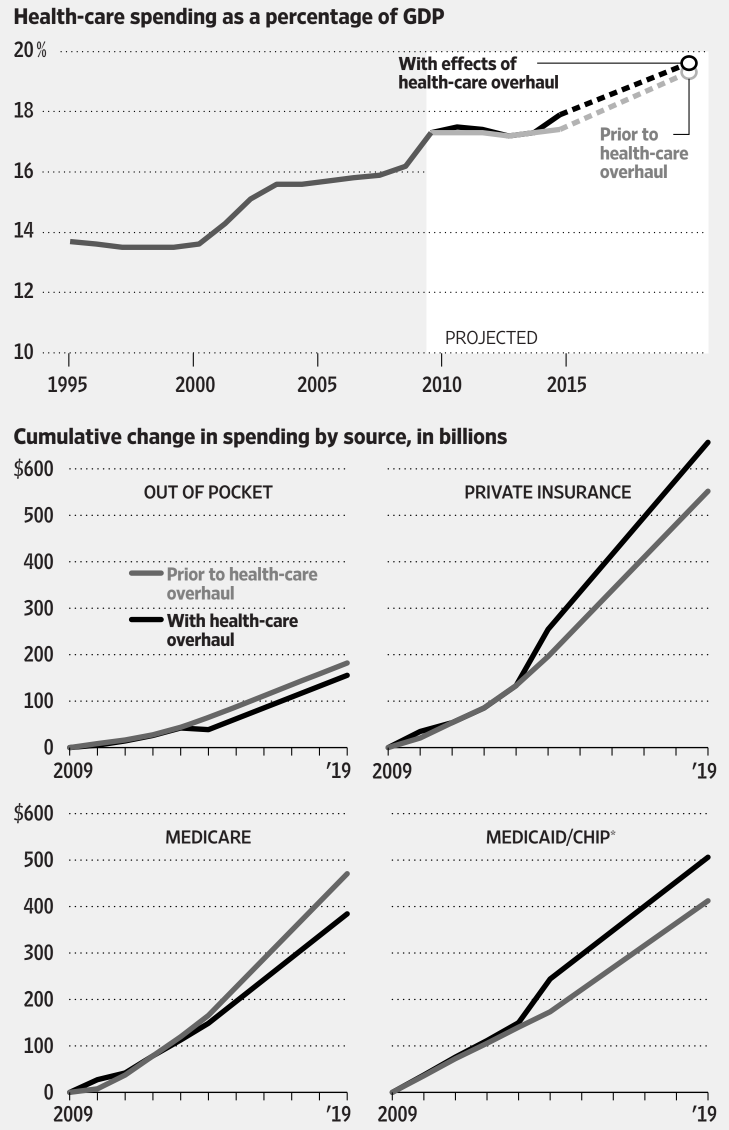
U.S. health spending is projected to rise 9.2% in 2014, up from the 6.6% projected before the law took effect. New mechanisms kick in that year to expand insurance coverage. The report estimates 92.7% of U.S. residents will have health insurance by 2019, up from 84% this year.

Once the insurance expansion begins, U.S. health spending is expected to grow slightly more slowly. Between 2015 and 2019, the report predicts, it will increase 6.7% a year on average, down from the 6.8% projected before the overhaul passed.

Out-of-pocket spending is expected to fall sharply starting in 2014 when more people gain insurance coverage through new tax credits and an expanded Medicaid federal-state insurance program. But an excise tax on high-cost plans that takes effect in 2018 will increase out-of-pocket spending as insurance providers reduce their plan benefits to stay below the tax threshold. The law is expected to slow growth in Medicare spending by 1.4 percentage points because it contains lower payments to health-care providers.

Law's effect

The rate of increase in total U.S. health spending will be little changed by the health-care overhaul, according to federal economists.



*Children's Health Insurance Program Sources: Centers for Medicare & Medicaid Services; Health Affairs

Highway deaths show big drop

By Joseph B. White

Highway deaths in the U.S. fell last year to the lowest level since 1950, a milestone that government and industry officials credited to safer cars, safer drivers and, possibly, the slow economy.

Highway crashes killed 33,808 people in the U.S. in 2009, down 9.7% from 37,243 people in 2008, the U.S. Transportation Department said Thursday. The fatality rate—calculated as deaths per 100 million vehicle-miles traveled—fell to 1.13 from 1.26 in 2008.

Wrecks on the highway remain a leading cause of death and serious injury in the U.S. But despite recent scares about runaway cars, and concern about texting and telephoning behind the wheel, driving in the U.S. is the safest it has been since the post-World War II boom made car ownership and long commutes standard features of American life.

Transportation Secretary Ray LaHood cited several factors for the declining death rates, including drivers who are buckling on their seat belts at record rates and less frequently driving after drinking alcohol. Alcohol-related deaths fell 7.4% to 10,839 in 2009.

The economy played a role, too, Mr. LaHood said. "Because of the economic downturn, fewer people may be going out for after-work or evening entertainment, which the data suggest are higher-risk trips than the daily commute," he said. But when the economy rebounds, he said, death rates could, too.

The decline in highway death rates has coincided with a turnaround in the auto industry's approach toward safety. For decades, auto makers resisted calls for new standard safety equipment. Now, safety technology is routinely highlighted in industry marketing.

Sharp debate offers voters a real choice on the economy

[Capital Journal]

By Gerald F. Seib

While Democratic President Barack Obama stood before a crowd in Cleveland delivering a speech describing his economic philosophy Wednesday, Republican Rep. Paul Ryan sat in his Racine, Wis., district office, eating a Quiznos sandwich and describing his.

Those parallel discussions are significant, because these bright young men—Mr. Obama is 49, Mr. Ryan 40—have become the opposite poles of economic debate in the current congressional campaign.

Mr. Obama describes an America where the middle class has been squeezed by tax cuts for the wealthy that have left education, research and infrastructure investments underfunded, undermining job creation even as unfettered market forces helped push wealth away from Middle America and toward the top.

Mr. Ryan, ranking Republican on the House Budget Committee, describes an America where the middle class finds its aspirations snuffed out by job-killing tax rates and the massive burden of health and Social Security programs that need to be transformed with market forces and eased into the private sector.

Republicans caricature the Obama view as a nanny-state philosophy that strangles growth. Democrats caricature the Ryan view as a Darwinian philosophy in which the social safety net is shredded.

Either way, the words of these two refute the notion that elections don't offer real choices. Listen to Mr. Obama in Wednesday's speech:

"I ran for president because for much of the last decade, a very specific governing philosophy had reigned about how America should work: Cut taxes, especially for millionaires and billionaires. Cut regulations for special interests. Cut trade deals even if they didn't benefit our workers. Cut back on investments in our people and in our future—in education and clean energy, in research and technology. The idea was that if we just had blind faith in the market, if we let corporations play by their own rules, if we left everyone else to fend for themselves that America would grow and America would prosper."

Mr. Obama then described his alternative view:

"But in the words of the first Republican president, Abraham Lincoln, I also believe that government should do for the people what they cannot do better for themselves. And that means making the long-term investments in this country's future that individuals and corporations can't make on their own: investments in education and clean energy, in basic research and technology and infrastructure."

So Mr. Obama calls for a government prodding the economy forward. Thus, he's offered new proposals for rapid tax write-offs to encourage business investments, while also expanding regulation of Wall Street and seeking a rise in income tax rates to pre-George W. Bush levels for those making more than $250,000 a year: "This isn't to punish folks who are better off—God bless them. It's because we can't afford the $700 billion price tag" of extending the Bush tax cut for those Americans.

As for a partial privatization of Social Security: "As long as I'm president, no one is going to take the retirement savings of a generation of Americans and hand it over to Wall Street."

Now listen to Mr. Ryan offer his retort in an interview the same afternoon: "They want to divide the world into class structures. We should not take the bait on that."

He describes his alternate philosophy: "I would rather speak to people's aspirations and dreams, with an approach that rewards risk-taking and individual aspirations and success."

Messrs. Obama and Ryan have become the opposite poles of economic debate in the midterm campaign.

America's economy, he says, isn't in the same position as in the last century, "when we were the undisputed economic superpower. We're not. We have to worry about our tax rates."

So Mr. Ryan likes and supports the Obama proposal for tax breaks for business investment and research; indeed, they were part of an economic stimulus plan he proposed last year. But he vehemently opposes any rollback in income-tax cuts.

His broader view is outlined in a blueprint ambitiously titled "A Roadmap for America's Future." It calls for lightening the tax burden in part by reducing the scope of government's social contract.

Health coverage would shift from being a joint government and employer responsibility to an individual one. Working Americans would get significant tax credits to purchase insurance.

Medicare would be transformed into an annual payment to purchase private insurance for those 55 and under, and they would get the option of investing a third of their Social Security taxes into private accounts.

All that would help clear the way for a flatter tax code and lower corporate tax rates to spur job creation.

Mr. Ryan knows he's provided Democrats a big target by putting Medicare and Social Security on the table.

But, he notes wryly, "I didn't think I would become their playbook."

In any case, he and the president show there's a real debate under way.

WORLD NEWS

U.S. Navy

A U.S. Navy photo shows the USS Dubuque, center, and U.S. helicopters providing aerial cover as Marines carried out the rescue of the German-owned M/V Magellan Star early Thursday.

U.S. Marines rescue pirated vessel

By Chip Cummins

DUBAI—U.S. Marines early Thursday boarded and seized control of a German-owned commercial vessel that had been commandeered by pirates, in what appeared to be the first American-led military boarding of its kind amid a recent surge of attacks in the Gulf of Aden and along the east coast of Africa.

A raiding party of 24 Marines boarded the ship about 140 kilometers southeast of Mukallah, Yemen, in the Gulf of Aden, according to the U.S. Navy. Pirates had captured the vessel, which was carrying steel chains, in the same vicinity the previous day, the Navy said.

The U.S. said there were no casualties among the raiding party or the ship's crew. Nine alleged pirates were captured in the operation.

The Gulf of Aden, a waterway connecting the Red Sea with the Arabian Sea and Indian Ocean, is a shipping route for goods going to and from Europe and Asia. It is also an important oil-supply route.

Somalia-based pirates started to ratchet up their attacks in the gulf and along the east coast of Africa in 2008. In January 2009, the U.S. set up Combined Task Force 151, designed specifically to fight the new piracy threat. Other bodies, including the European Union, have established their own maritime task forces, which tend to operate in coordination with one another, and with individual navies. Iranian and Chinese ships have also cooperated in more informal ways in the fight against piracy in the region.

In the spring of 2009, the U.S. military intervened in a pirate attack on an American-flagged merchant ship attacked offshore east Africa.

The crew of that ship retook control of the vessel, but pirates escaped in a lifeboat with the captain of the ship as a hostage. U.S. snipers killed three pirates, captured a fourth and freed the captain in an elaborate naval rescue.

American warships since then have intervened a number of times to ward off attacks while they were under way, often sending helicopters over ships being pursued by pirates, for instance. But this appeared to be the first time since the Somali piracy boom began that a U.S. military team boarded a large vessel under pirate control.

French commandos have in the past stormed French-owned ships taken by pirates, with mixed results. In April, the French Navy recaptured a 14-meter sailing yacht from pirates, who were holding five hostages, including a toddler. One of the hostages was killed during the French operation.

Amid the increase in attacks, a number of multinational naval task forces have sprung up to patrol pirate-infested waters in and around the Gulf of Aden. Still, naval commanders often have been frustrated by not having ships or aircraft available to respond to attacks, because of the large expanse of ocean they are patrolling.

A U.S. Navy spokesman said Thursday's raid didn't necessarily signal a change in tactics in the U.S. response to pirate attacks. Because commanders had resources available, they decided to act, he said.

"This is a case of us having the right people, with the right capabilities at the right place and at the right time," said Lt. John Fage, a spokesman for the U.S. Fifth Fleet, based in Bahrain.

The Fifth Fleet said 24 Marines from the 15th Marine Expeditionary Unit, attached to the amphibious warship USS Dubuque, boarded the German-owned M/V Magellan Star, after pirates attacked it the previous day. The U.S. military said a warship from Turkey, currently in command of a multinational antipiracy task force in the region, responded to a distress call from the German ship. Two U.S. warships from the task force, the USS Dubuque and the guided-missile cruiser USS Princeton, joined the Turkish ship on the scene.

A spokesman for the task force said no shots were fired during the boarding, which lasted about one hour. No pirates were injured in the operation, he said.

The U.S. Navy said the pirates were "currently under control" of the task force, "pending further disposition."

Somali militants turn to piracy to fund attacks

Reuters

Al Shabaab militants take part in an exercise in southern Mogadishu Sunday.

By Sarah Childress

A Somali militant group that has pledged allegiance to al Qaeda has turned to piracy to finance its effort to topple Somalia's government, posing new risks for shipping companies and the international naval forces patrolling the waters off the horn of Africa.

Al Shabaab, which has been designated by the U.S. as a terrorist group, has proceeded from taxing Somali pirates' ransom revenue to dispatching its own fighters to attack ships—American vessels in particular—according to pirates, al Shabaab officials, residents of seaside towns and the Somali government.

In a recent sermon in the southern port city of Kismayo, Sheikh Mahad, a senior al Shabaab official, branded the group's piracy as "sea *jihad*" and called on young militants about to head to sea to target American ships. "America is our enemy," he said, according to a person who was present and recorded the sermon. "We have to retaliate against them by sea or by land."

The U.S. views the Somali government as a bulwark against al Shabaab and a rare chance for stability in Somalia—though it controls only a few blocks of the capital, Mogadishu, under the protection of African Union troops.

Much of southern and central Somalia is controlled by al Shabaab. The rest is dominated by other militant groups, clans and along the northern coast, pirates.

Al Shabaab has been waging an offensive against the government since the beginning of Ramadan that has left 230 people dead and about 20,000 people displaced, according to the United Nations. On Thursday, al Shabaab suicide bombers struck Mogadishu's airport, leaving two African Union troops, two civilians and five militants dead.

In July, al Shabaab claimed responsibility for its first known attack outside the country: three coordinated bombings in the Ugandan capital of Kampala that killed at least 79 people. The suspected mastermind of the attack said Americans were among its targets.

Al Shabaab largely funds itself by taxing businesses that operate in the territory it controls—much of southern and central Somalia—as well as with contributions from supporters outside the country.

In recent months, the group has sought more funds to support its fight. "We know they are directly using the pirates" to raise money, said Abdirisaq Qaylow, spokesman of Somalia's information ministry.

Al Shabaab officials and pirates say the group has begun to send out militants in pirate skiffs from two southern cities it controls, Kismayo and Barawe. Residents of the cities, which previously weren't believed to be involved in piracy, say they have seen militants heading out to sea with rocket-propelled grenades and AK-47 rifles.

Since January, there have been 119 attempted or successful hijackings by Somali pirates, according to the International Maritime Bureau. Analysts say the average ransom payment to Somali pirates is about $2 million, twice last year's average. Shipping companies have become increasingly willing to pay as quickly as possible to secure a ship's release, according to Roger Middleton, an analyst at Chatham House who studies piracy.

In January, hijackers aboard a Greek supertanker reported receiving $7 million to release it—the highest ransom that has been reliably reported, according to analysts.

The piracy boom has prompted foreign governments to dispatch multinational naval patrols, including the European Union Naval Force Somalia's Operation Atalanta. Russia, Japan and China have also sent warships to patrol these waters, and the U.S. Navy has established a multinational antipiracy task force.

An al Shabaab associate and businessman said the group has attempted to attack American ships, but hasn't succeeded.

Spokesmen for the U.S. Fifth Fleet, which oversees the U.S. task force, and the EU Naval Force declined to comment on al Shabaab's threat to attack U.S. ships.

The Islamist militants-turned-pirates have been instructed to avoid ships from Muslim countries, in contrast to established Somali pirates, who are known for an impious lifestyle and chiefly seek targets that are easier to board from their small skiffs.

Al Shabaab's piracy activities began with a militant leader who hails from the pirate haven Harardheere, and whose clan is involved in the piracy business, according to an al Shabaab official.

About five months ago, when al Shabaab commanders called a meeting to discuss the group's need for funds, the leader proposed launching the group's own pirate skiffs, according to an al Shabaab member based at Kismayo port.

Veteran pirates complain that the involvement of a terrorist-branded militant group carries risks for them. "This could cause the antipiracy ships to shoot us since [al Shabaab] is an enemy to them," said Nur Abdi, a Somali pirate in Kismayo. "If the Americans find out, every seized ship will be rescued by force, and that's troublesome!"

—Spencer Swartz contributed to this article.

WORLD NEWS

Bomb kills 16 in Russian city

By Richard Boudreaux

MOSCOW—A suicide bomber exploded a car near the crowded central market of a major city in Russia's volatile North Caucasus on Thursday, killing 16 people and wounding more than 100 others in the region's deadliest attack in more than a year.

The late-morning blast in a square outside the market's entrance left a bloody tableau of corpses and scarred vehicles in the center of Vladikavkaz. Officials said they found the headless body of the presumed assailant in the bomb-car's wreckage and called it an act of terrorism, the apparent work of the region's Islamic insurgency.

"It's a terrible scene," said Zaur Farniyev, a special correspondent for the Russian newspaper Kommersant, who got there 20 minutes later and found a half-meter-deep crater where the bomb went off. "Bodies and parts of bodies are scattered about. People are searching for their loved ones. Many of them are crying."

Car alarms wailed as firefighters doused flames of vehicles set ablaze in the shrapnel-littered square, an area frequented not only by shoppers but also by people looking for work. Bystanders helped carry away the wounded on makeshift stretchers. No group claimed responsibility for the attack.

The bombing in the capital of the predominately Christian North Ossetia was a blow to the Kremlin, which is struggling to tame Islamic insurgents in the neighboring, mainly Muslim North Caucasus republics of Chechnya, Ingushetia and Dagestan.

President Dmitry Medvedev dispatched his special North Caucasus envoy to the blast scene and vowed to "do everything to capture these monsters," the RIA Novosti news agency reported.

Authorities said the car used in the bombing, a Russian-made Volga sedan, had crossed into North Ossetia from Ingushetia earlier in the morning.

Prime Minister Vladimir Putin told Russia's chief mufti: "Criminals like those who acted today in the North Caucasus hope to sow hatred among our peoples. We have no right to let this happen."

"The people who do this, these are people without a soul, without a heart," the prime minister added in televised remarks.

Police said the bomber was male. The bomb contained the equivalent of at least 30 kilograms of TNT and was packed with metal bars, bolts and ball bearings, the Russian prosecutor general's Investigative Committee said.

Tamuraz Mamsurov, North Ossetia's top official, told news agencies the bomber's car was passing the market entrance when it exploded. The Investigative Committee said it was parked.

Local officials said 138 people were wounded and 110 of them were hospitalized, with at least 10 in serious condition.

Alexander Bastrykin, the head of the Investigative Committee, was dispatched to Vladikavkaz to lead a probe of the bombing. Mr. Medvedev also sent his envoy to the region, Alexander Khloponin.

The attack was the deadliest in the North Caucasus since a suicide car bomber attacked a police station in Nazran, the capital of Ingushetia, in August of last year. Twenty people were killed in that attack.

The insurgency, stemming from a separatist movement in Chechnya, has boiled for years and occasionally strikes into Russia's heartland, as when twin suicide blasts killed 40 in the Moscow subway in March.

Russia has fought two civil wars in Chechnya. But as violence has subsided there it has surged in neighboring republics. The separatist fighters have broadened their goals and called for the creation of a pan-Caucasus state under Islamic law.

North Ossetia lies in the heart of the North Caucasus region, north of the Georgian breakaway region of South Ossetia, over which Russia and Georgia fought a war in August 2008. It is the only majority-Christian Russian republic in the region.

Although it is less plagued by violence than its Muslim neighbors, North Ossetia has suffered ethnic tensions and occasional terrorist attacks.

In 2004, Chechen separatist rebels took hundreds of hostages in a school siege in Beslan that ended with more than 330 people dead.

Bombings in or near the market in Vladikavkaz, a city of more than 300,000 people, killed 55 people in 1999, six in 2001 and 11 in 2004. A bus bombing in 2008 killed 12 people in the city.

Security was tightened across the region and in Moscow after Thursday's blast. Authorities called off classes in schools throughout North Ossetia. Markets were closed in North Ossetia and Ingushetia.

Reuters

People gathered at the blast site in the center of Vladikavkaz, in Russia's North Caucusus, on Thursday.

China's energy goals prompt rush

By Shai Oster

BEIJING—Some local governments in China are rationing power to factories, homes and hospitals—and even shutting down traffic lights—in a scramble to fall into line with Beijing's unyielding energy-efficiency targets that also underscores the challenges in finding apt and lasting measures.

The efficiency targets call for a reduction in energy intensity, or the amount of energy used relative to economic output, by 20% over the 2006-2010 period. The target is aimed at limiting China's reliance on expensive natural resources, much of which is imported, and is also central to reducing China's emissions of greenhouse gases.

By the end of last year, China had cut energy intensity by 15.6%. In the first quarter of the year, energy use soared as massive stimulus funds flooded into the economy, spurring an infrastructure and housing boom. Premier Wen Jiabao vowed to use an "iron hand" to ensure that the five-year target is met.

"It's clear that they are frantic to meet this 20% energy target," said Arthur Kroeber, managing director of GaveKal Dragonomics, an economic research firm in Beijing. Wang Tao, China economist for UBS, said the target "is a big face issue" for the government.

The central government has long had difficulty getting local officials to comply with environmental-protection measures But the recent pressure on energy targets appears to have gained traction, in part because local officials are being judged on it in annual performance reviews, according to analysts.

In Changzhou, a city in the wealthy coastal province of Jiangsu, the local government issued a strict rotation, requiring factories to shut down five days for every nine they operate.

Other local governments have gone even further. In Anping, a city in Hebei province near Beijing, local officials rationed power to hospitals and homes and have turned off traffic lights that aren't solar powered. "All these measures are aimed at fulfilling Premier Wen's comments on emissions reduction," said an official at the Anping Development and Reform Bureau.

But the local blackouts are clearly not what the central government intended. The National Development and Reform Commission, China's main economic planning agency, issued a statement Monday on its website rebuking Anping officials, saying their measures weren't consistent with Beijing's policy.

Environmental experts say the local actions suggest the government is having difficulty implementing more lasting solutions. These measures show a "lack of understanding of the real meaning of the energy-efficiency targets," said Wen Bo, of the environmental group Pacific Environment.

European Pressphoto Agency

A worker sets up power lines on a high-voltage electricity tower in Qingdao, a city in eastern China's Shandong province, in May.

Myanmar seeks Asian backing for election

By A WSJ Staff Reporter

Myanmar's leader received a warm welcome in meetings with top Chinese officials in what analysts said was an effort to shore up China's support before Myanmar's first major election in 20 years.

Although many details of Gen. Than Shwe's trip weren't disclosed, it included meetings Thursday with the head of China's legislature and Premier Wen Jiabao. He also is expected to visit the World Expo in Shanghai and the manufacturing center of Shenzhen.

Myanmar needs the backing of China and other Asian neighbors to boost the legitimacy of its Nov. 7 vote, which is expected to usher in a new civilian government but which human-rights and exile groups say is really aimed at entrenching the country's military regime, led by the aging junta chief.

Western leaders have stepped up their criticism of the vote in recent months. They say it is unlikely to be free and fair under Myanmar's strict military rule, and the main opposition party, led by Nobel laureate Aung San Suu Kyi, has vowed to boycott.

Last month, the Obama administration intensified diplomatic pressure on the regime, saying it would back efforts to create an international commission to investigate alleged human-rights violations in Myanmar, including reports of torture, arbitrary arrests of political opponents, and other crimes.

Myanmar officials have repeatedly denied human-rights abuses and have said they will ensure the vote is fair.

The vote is the first since Myanmar leaders lost—and then subsequently ignored—a national election in 1990. Since then, Asian leaders have mostly expressed support for the regime, saying that it is better to encourage slow change in Myanmar rather than risk upsetting the regime and setting back any potential reforms to expand civil liberties and open its economy.

But this year a few Asian countries, including the Philippines, have expressed criticism, leading some analysts to conclude that Asian leaders may be losing patience with the regime.

That hasn't been evident during Gen. Than Shwe's latest diplomatic mission, though. Wu Bangguo, the top legislator and No. 2 figure in the Communist Party hierarchy, affirmed China's support for Myanmar and said "it is China's set policy to solidify and strengthen friendly relations with Myanmar," according to the state-run Xinhua news agency.

Earlier, President Hu Jintao told Gen. Than Shwe that China's support "will remain unchanged regardless of changes of international situation," Xinhua said.

Those words of support followed a similar welcome for Gen. Than Shwe during a rare visit to India in July, when he held talks with Prime Minister Manmohan Singh. During the visit, officials of the two countries signed agreements promoting technology and against arms smuggling. Human-rights groups criticized the trip.