Power investing: What you need to know about energy markets
THE JOURNAL REPORT

Life in Lehman's shadow: Markets still feel impact
BUSINESS & FINANCE 19

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 157 EUROPE Monday, September 13, 2010

DOW JONES A News Corporation Company europe.WSJ.com

£1.50
Bahrain BD 1.50 - Egypt $1.75 (C/V)
Jordan JD 2 - Kuwait KD 1 - Oman OR 2
Qatar QR14 - Saudi Arabia SR 14

THE WALL STREET JOURNAL.

Moscow police halt protest march

Reuters

Russian police officers detain an opposition activist during a protests in central Moscow on Sunday. Opposition supporters held an unauthorized rally dubbed the 'Day of Wrath' and demanded the resignation of Moscow Mayor Yuri Luzhkov, but police prevented them marching through the capital.

Regulators reach pact on bank rules

Bank regulators from around the globe reached an agreement Sunday on new rules for the world's largest banks in an effort to create a more stable financial system, potentially affecting banks and borrowers from New York to Tokyo.

*By **Damian Paletta** in Washington and **David Enrich** in London*

The deal would create new capital standards for banks, a move designed to prevent the companies from loading up on the risk and debt many saw as a precursor to the recent financial crisis. The new rules will force banks to hold more capital against a wider range of their loans and investments.

"The agreements reached today are a fundamental strengthening of global capital standards," said Jean-Claude Trichet, president of the European Central Bank.

The new rules will likely push down profits at the world's largest banks, many of which have warned such a move could drive up the cost of credit for borrowers and restrict lending.

The focus of the agreement is on the amount of capital banks are forced to hold. Capital is what banks use to absorb losses. Regulators and analysts typically believe that banks with more capital have a lower risk of failure.

Regulatory officials agreed to require banks to hold a specific level of a basic type of capital known as common equity. Common equity is considered the most effective type of capital because it is used to directly absorb losses. Officials agreed large, internationally active banks will have to hold levels of common equity equal to at least 7% of their assets, much higher than the roughly 2% international standard or 4% standard for U.S. banks.

Banks will be allowed to phase in these new standards over a period of years, so they will have more time to comply. For example, banks will be required to hold common equity at levels equal to 3.5% of their assets by 2013, 4% by 2014, and 4.5% by 2015.

At that point, banks will have to begin building a 2.5% "buffer" of capital that must be fully in place by Jan. 1, 2019. U.S. officials had pushed for this to be in place by Jan. 1, 2018, but some other countries had wanted the final adoption of the rules to be pushed back toward 2020. They agreed to the 2019 date as a compromise.

Regulators have said the new rules are necessary to ensure the interconnected global banking system doesn't face another crisis such as that which led to taxpayer-funded

Please turn to page 4

■ Deutsche Bank unveils plan to raise $12.5 billion 24

The Quirk

Keeping Thailand's water buffalos off the dole queue. Page 29

World Watch

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

Editorial & Opinion

The Basel Committee's gift to taxpayers. Page 13

Turkey vote gives big win to constitutional changes

By Joe Parkinson

ISTANBUL—Turks voted to amend the nation's constitution by a wide margin Sunday according to unofficial results, in a result that would deliver a strong boost for Prime Minister Recep Tayyip Erdogan ahead of elections next year.

The referendum was touted as a key battleground by both sides in a struggle between the country's secular establishment and a rising conservative elite for the power to determine Turkey's future shape.

Opponents had warned the changes, which include a transformation of the country's top judicial bodies, would remove essential checks on Mr. Erdogan's growing power.

State television channel TRT1 reported that the government's package of constitutional amendments won approval by 58% to 42%.

If confirmed, that margin would be significantly larger than most opinion polls predicted.

Mr. Erdogan appeared to have won convincing backing for his message that the changes would instead strengthen the rule of law, ending a long period of Turkey's history in which generals and judges held ultimate power, toppling four elected governments since 1960 and blocking legislation considered too Islamic.

"Once more it has been seen that transformation is possible within democracy," Mr. Erdogan said in an hour-long victory speech to party faithful in Istanbul Sunday night. "Today, tonight the mindset of putschists has lost," he said of his election victory.

The package of 26 amendments includes a range of improvements to individual rights, but the core provisions would expand membership in the Constitutional Court to 17 from 11, and of the Supreme Board of Judges and Prosecutors to 22 from 7. Turkey's

Please turn to page 4

PAGE TWO

The regulators have won six-nil, but it's Europe that will be the loser

[Agenda]

By Irwin Stelzer

We have before us a job application from a team eager to regulate the financial services industries in the 27 member-nations of the European Union. Their qualifications include a failure to detect book-cooking that has brought Greece close to insolvency; stress tests that failed to uncover billions of questionable sovereign debt on bank balance sheets; a division of authority that gives equal weight to Poland, with a financial services sector that accounts for 0.3% of the EU total and Britain, with 36%; a system of overseeing national finances that has resulted in some countries paying record premiums over bunds; German banks undercapitalized by well over €100 billion ($127 billion); and a bureaucracy world-famous for its pokey inefficiency.

Nevertheless, this team got the job after whipping Britain six-nil. Four goals scored by setting up new regulatory agencies to supervise national regulators—one each for insurance, banking and securities markets, another to ensure financial stability. "No one will escape... We want to know who is doing what. The EU authorities are going to look at every product," asserts EU internal markets chief Michel Barnier. Two more points for pushing through an increase in the EU budget in the face of cuts in member-state spending, and for granting Olli Rehn, the EU commissioner for economic and monetary affairs, the power to review national budgets and to impose the eurocracy's notion of acceptable deficit limits. The latter two goals were scored despite the vow of Britain's goalkeeper, Chancellor of the Exchequer George Osborne, that he would never, ever, allow such scores. In a perversion of Teddy Roosevelt's advice to speak softly but carry a big stick, Mr. Osborne roared loudly but carried a twig. His boss, the prime minister, promised to fight tooth and claw to prevent any further transfer of British sovereignty to the EU; he now stands toothless and declawed.

Bloomberg News

Michel Barnier, the European Union Internal Market Commissioner.l

National borders can no more contain financial contagion than they can contain a flu epidemic.

The funny thing is that by beating Britain, Europe also lost. But start with Britain. It is no surprise that the Liberal Democrats do not regard the City as a congenial place. They dislike the inequality of incomes and wealth resulting from the profits generated by the financial sectors, and have never really believed that capital markets, even properly regulated, can be relied upon to allocate capital to uses they find socially preferable.

What is a surprise is that their coalition partners also aim to cut the City down to size. Leading Tories tell me that the financial sector bulks too large in the UK economy, creating excessive macroeconomic volatility. That view spawns a host of misbegotten policies, including the decisions to raise the effective marginal tax rate to 52%, and to subsidize economic development in low- or no-growth areas of the country. Why anyone would believe it good policy to attack an industry in which Britain has a clear competitive advantage remains a mystery.

Britain, of course is not the only loser. The EU, by burying financial-sector entrepreneurs under tons of paperwork, and ensnaring them in a web of regulations that will inevitably grow in reach and complexity as the four new regulators get their feet under their thousands of desks, have added another impediment to rapid growth.

For two reasons. The first is that regulating financial services is more difficult than regulating, say, gas, electric and water utilities. These are relatively staid industries, regulated in part because they are monopolies—no new entrants with new ways of doing business continually appear. Unlike financial services, where new financial instruments, new ways of raising capital, new everything, are the order of the day. As is risk-taking, a process that makes risk-averse bureaucrats and regulators very nervous. "People taking crazy risks... have to be brought to their senses," says Mr. Barnier.

Moreover, utilities have assets that are easy to value—the books show what was paid for pipe, wire and fuel—whereas the valuation of financial assets is an on-going challenge. Individual national regulators, imperfect instruments though they be, are at least connected to the markets they patrol. They hear the gossip, know the players, understand local politics.

This is not to say that financial markets are purely national in scope. If recent experience teaches anything, it is that national borders can no more contain financial contagion than they can contain a flu epidemic, or immigration. But informal cooperation among national regulators, markedly increased since the financial crisis, should be sufficient to manage that problem. Or at least a more efficient way of managing it than to expand the already-bloated eurocracy.

The second reason all of this intervention will stifle growth is that financial services entrepreneurs are mobile. True, many already in the business in London will be loath to pull up stakes, although some will, and are. More important, newcomers, foot-loose and fancy free, will survey global opportunities, and shun the multiple layers of bureaucracy awaiting them in the EU. Europe might be inward looking, but financial players are not.

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

What's News

■ **British trade unions** are fighting the coalition government's plan for major spending cuts by pressing the junior partner, the Liberal Democrat Party, to rebel against the austerity drive. 4

■ **Greece's prime minister** continued to rule out the possibility of a debt restructuring as he pledged to stick to a savings plan to shore up public finances. 6

■ **Volkswagen is expected** to name former GM executive Jonathan Browning as its new U.S. chief, succeeding Stefan Jacoby. 19

■ **Two years after Lehman** collapsed, scars of the global financial crisis can be seen on almost every market world-wide. 19

■ **Afghanistan is reviewing** the role of U.S. and European officials who mentor anticorruption prosecutors, a move Western officials see as the latest attempt to undercut efforts to stamp out graft. 11

Inside

Taking the drudgery out of sorting all your photographs. **27**

Italian footballers bring a new meaning to the term striker. **28**

ONLINE TODAY

Most read in Europe

1. GoDaddy.com Goes on the Auction Block
2. The 'Why?' Questions, Chapter and Multiverse
3. Intel Chief Looks Beyond PCs
4. Better, Cheaper French Cuisine
5. Monarch of the Movie Set

europe.WSJ.com

FREE daily access for every reader
First time users please register at:
wsj.com/accesstoday
Once registered, redeem future daily codes at:
wsj.com/accessrenew
Today's code is: **EUROPE-TMR-907**

The Source

blogs.wsj.com/source

'The key issue facing the new CEO is how to tie together its products into a package like Apple...'

Paul Sharma on the tasks ahead for Nokia's new CEO Stephen Elop

Continuing coverage

Get insight, news and analysis on the EU from our team in Brussels at **blogs.wsj.com/brussels**

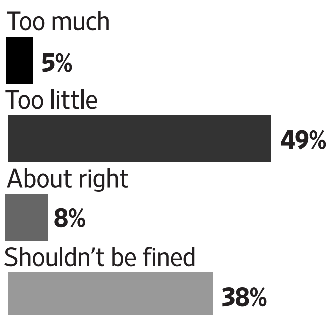
Question of the day

Vote and discuss: Where will Nokia's share of the smartphone market be a year from now?

Vote online today at **wsj.com/polls**

Previous results

Q: What do you think of Goldman's U.K. fine?



THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Commodity Quay, East Smithfield,
London, E1W 1AZ

SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 20 3426 1234. Calling time from 8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com. Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones International. Frankfurt: 49 69 29725 390;
London: 44 203 426 1111; Paris: 331 40 17 17 01.

Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Baslnevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

NEWS

Vera Wang builds a fashion empire

Designer of celebrity wedding dresses brings her aesthetic to mass-market retailers David's Bridal and Kohl's

By Ray A. Smith

Last week, Vera Wang worked feverishly in her studio in the Garment District as a model twirled in a black jumpsuit layered with what looked like a futuristic gun holster, one of the looks she plans to send down her runway on Tuesday.

"You look ... phenomenal," she told the model, drawing out the word.

Moments later, she was just as enthusiastic discussing a new collection of inexpensive wedding dresses she is designing for David's Bridal, a 300-store chain, with stores mainly in the U.S., whose specialty is affordable wedding dresses.

The appreciation of both markets is key to Ms. Wang's 20-year-old closely held company that includes the signature bridal business, a high-end ready-to-wear line, fragrances, mattresses, eyewear, stationery, housewares, and a collection of clothing, bath, bedding and costume jewelry that she launched at **Kohl's** Corp. three years ago.

Ms. Wang, 61 years old, is pursuing a three-tiered retail strategy of selling through luxury, midpriced and discount stores. A growing number of designers including Zac Posen and Max Azria are trying to deploy similar strategies as economic worries linger.

But it is a tricky path to navigate. High-end designers risk tarnishing their images if they don't carefully oversee the production of all the products bearing their names. Few besides Ralph Lauren have been able to do so successfully. There's also the risk of alienating core customers who won't appreciate seeing their favorite designer sold at down-market stores.

"It takes careful planning and maintenance so that it's done properly," says Andrew Jassin, managing director of the Jassin Consulting Group in New York. Consumers have by now become used to high-end designers doing separate collections, he adds, and may not object so long as the lower-priced collection isn't poor quality.

Ms. Wang said she isn't worried about a backlash from her sales through discount stores. "I feel privileged that they have thrown so much support behind me and believed in my vision, which is a casualized couture."

The designer believes she can't afford to turn her nose on the democratization of high-fashion. "Just because you're from a city 10 miles outside of St. Paul, it doesn't mean you don't read magazines or the incredible Internet and what's going on in the world," she said. "I never, ever take a client, or women for granted." Having a well-heeled foot span retail markets helped buoy her company as the economy collapsed.

Her embrace of mass market sales doesn't appear to have cost her celebrity fans. Already this year, Ms. Wang designed bridal gowns for Chelsea Clinton and Hilary Duff. Her wedding collection dresses start at $2,000 and can go up to $20,000. The David's Bridal gowns will cost between $600 and $1,400.

As a young woman, Ms. Wang gave up her dreams of becoming a figure skater and set her sights on fashion, working as an editor and stylist at Vogue for 16 years before moving to **Polo Ralph Lauren** Corp. as a design director. In 1990, she, with her father's financial backing, launched a bridal business. Her intricately designed dresses became sought after by the rich and famous. She went on to expand the business into other categories through licenses and launched her ready-to-wear collection in 2004.

Bryan Derballa for The Wall Street Journal

Vera Wang, above in her Manhattan office preparing for Tuesday's show, is pursuing a multitiered retail sales strategy.

For all her renown for wedding dresses, it's her Kohl's line, called Simply Vera Vera Wang, and licensed products such as the Serta mattresses and china for Wedgwood that are the biggest part of her estimated $700 million business. The company is midsize compared to such giants as Ralph Lauren and Tommy Hilfiger.

The David's Bridal collection is scheduled to reach stores next spring. More details will be released this fall.

Ms. Wang said she retains tight control over the product that results from her licensing arrangements. "I'm really involved," she said. "I don't just get a check and I go up to my country home."

The designer learned the value of keeping a close watch on the production of licensed products bearing her name in part from her former boss Ralph Lauren, who has one of the biggest licensing businesses in the business.

While the wedding dresses she creates are ethereal, Ms. Wang is down to earth when it comes to the business of fashion. The ready-to-wear collection she launched six years ago and that she shows on the runway during New York fashion week is dark, and borderline gothic—the very antithesis of her wedding gowns. She concedes her high-concept runway collection isn't for everyone and certainly isn't enough to keep her in business.

The recession made that even clearer. Even her bridal business was hit hard. Shortly after the financial meltdown in September 2008, Ms. Wang began cutting costs for her bridal and ready-to-wear collections. "I started working in fabrics that were $8 to $10 a yard versus $30 to $90 and that's not even the whole story," she said.

"Now we're creeping back a little bit but we've learned to work in kind of a new way. I just structured what I did down 10% to 12%" in price, she said.

Ms. Wang and Mario Grauso, who joined the company as president a year ago, plan to relaunch Lavender, a contemporary line for adults that is more affordable than Ms. Wang's ready-to-wear collection for department stores that the company shuttered within the last year. "It was trying to be too many things," Mr. Grauso said.

Since Mr. Grauso joined, the company has outlined a five-year plan to expand in Asia and Europe and create more affordable products. It currently has no stores outside the U.S. and declined to discuss its international rollout.

The company isn't abandoning the high-end audience. This spring, it opened up its third U.S. store, in Los Angeles, the first of which carries both Ms. Wang's bridal and ready-to-wear lines. Mr. Grauso says this new store will be the prototype for future outlets. They also are aiming to court celebrity brides more aggressively.

"We have a room that just does celebrities now which I had abandoned entirely," Ms. Wang said. "It's extremely costly, in more ways than one and I'm not just talking about the seamstresses. I'm talking about the servicing and the attention and the time and effort. Believe me, they're not coming to me for me just to phone something in."

WSJ.com

NEW YORK FASHION WEEK: See photos and coverage of Alexander Wang's and Diane von Furstenberg's collections, and return for this week's reporting on Donna Karan, Mark Jacobs and others at **blogs.wsj.com/runway.**

EUROPE NEWS

U.K. unions target Lib Dems

By Alistair MacDonald

LONDON—British trade unions are fighting the coalition government's plan for major spending cuts by pressing the junior partner, the Liberal Democrat Party, to rebel against the Conservative-led government's austerity drive.

Unions are urging their members to lobby Liberal Democrat lawmakers through letters and at constituency meetings; they plan protests at the party's conference in Manchester, which begins next weekend; and they are urging local Liberal Democrat politicians to pressure parliamentarians to resist the government's drive to slash spending.

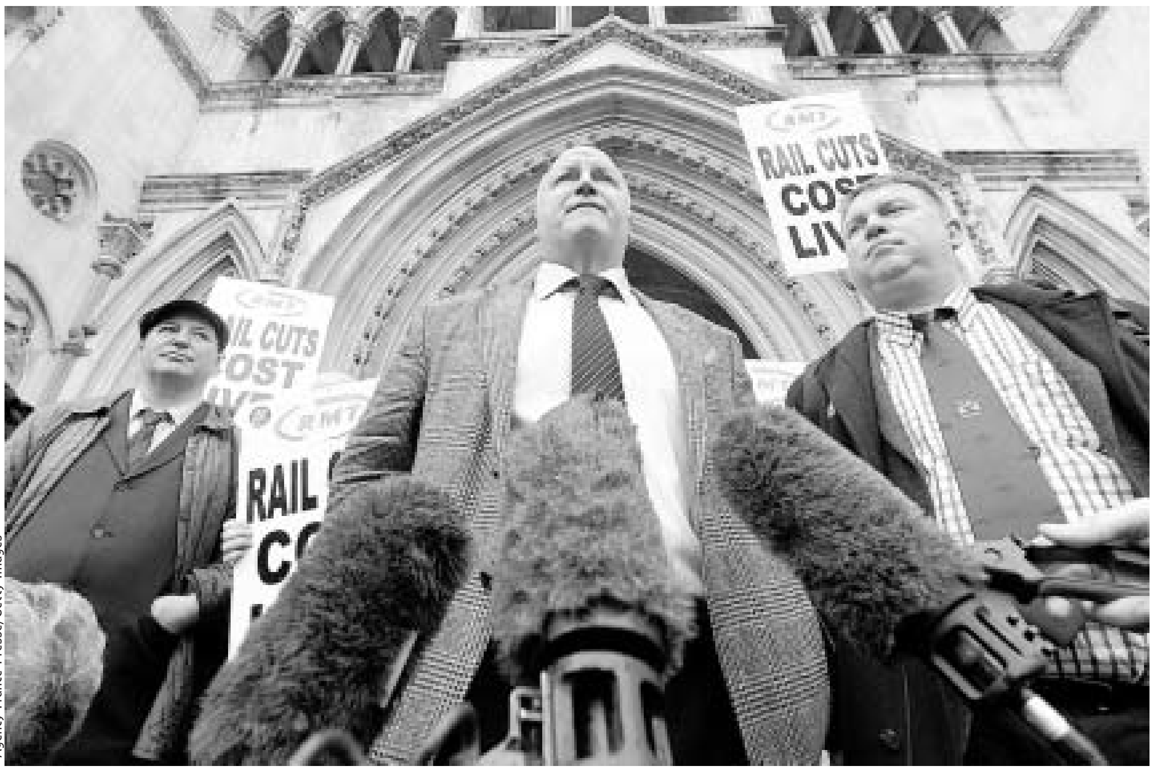
"We will use every tool at our disposal, including exploiting the cracks in the coalition that will widen into gaping holes as we head into the autumn," said Bob Crow, general secretary of the National Union of Rail, Maritime and Transport Workers.

So far the tactics aren't working. But the unions' drive underscores the dangers facing a coalition as the government prepares to reveal where the ax will fall in a spending review this autumn. It also reflects increasing activity by unions across Europe, as they battle the budget cuts and political reforms aimed at reducing large fiscal deficits.

"We know what is going on, and we are getting on with our jobs," said Ian Swales, a Liberal Democrat member of Parliament for Redcar, in northeast England.

The Liberal Democrats are seen as an ideal pressure point for the unions. Some members of the left-leaning party disliked joining the Conservative Party in government after May's close election, and many believe that the Tories' aggressive budget cuts stem more from a small-government ideology than concern about fiscal problems.

A recent poll showed that four in 10 people who voted for the Liberal Democrats in the election now regret it. On Friday, three Liberal



Agency France-Presse/Getty Images

Bob Crow, center, general secretary of Britain's rail, maritime and transport union, addresses the media in April.

Democrat lawmakers went public with opposition to an announcement by Tory Treasury Chief George Osborne Thursday that the government would seek to cut a further £4 billion ($6.14 billion) off the welfare budget this year on top of a previously announced £11 billion in cuts.

Critics note that Liberal Democrats campaigned saying budget cuts needed to be delayed to protect the nascent recovery. The Conservative's policy was for immediate cuts, and that is what is now happening.

"The Lib Dems...many of them are the most uneasy [coalition partners]. So they would be particularly fertile ground perhaps for making the case that there needs to be an alternative," said Brendan Barber, general secretary of the Trades Union Congress, as the unions' annual conference began Sunday.

Unions plan to stage a mass protest at the Liberal Democrats' annual conference. In addition, Unite, Britain's largest union, plans a meeting near the conference to focus on the government's move to scrap the agricultural wages board, which fixes minimum pay for agricultural workers. Unite sees potential for leverage with the Liberal Democrats as the party's southwest England stronghold is relatively agricultural. While the Conservatives had committed to scrap the board in their election manifesto, the Liberal Democrats hadn't.

On a more local level, unions are putting pressure on Liberal Democrat municipal lawmakers to pressure their members of Parliament. "We are saying to the local councilors: At the next council elections, because you are part of the same party, we are going to come for you," said Kevin McHugh, an official in northeast England for the Public and Commercial Services Union.

In recent weeks, unions campaigned against a bill before Parliament that will limit severance payouts for civil servants, and many predicted a Liberal Democrat rebellion. On Wednesday all but eight of the Liberal Democrat's 57 lawmakers voted it through.

Liberal Democrats argue that the campaign is politically motivated, given that unions are the opposition Labour Party's biggest donors. Despite antipathy to the Tories, many party members—who are enjoying their first taste of government since the 1920s—blame the 13-year Labour government for many of today's troubles. "What the unions like to forget is that the Labour Party were also planning major cuts, but simply didn't specify what they were," lawmaker Mr. Swales said.

Turkey votes to pass constitutional changes

Continued from first page

parliament, where the AKP enjoys a majority, and President Abdullah Gul, who hails from the AKP, would play important roles in the appointments.

Both bodies are currently controlled by a small group of self-proclaimed secularists. In 2007, the Constitutional Court struck down legislation passed by parliament that would have lifted a ban on wearing headscarves at Turkey's universities. Mr. Erdogan's daughter Sumeyye is among the thousands of daughters of wealthier conservative families who have studied abroad rather than take off their headscarves. In 2008. the court came within one vote of banning the AKP as a threat to Turkey's secularist foundations.

"We need judicial reform, but if implemented with ill will these amendments could really damage the separation of powers in Turkey, and the separation of powers is key to any democracy," said Sedat Ergin, a senior columnist with the daily Hurriyet newspaper, who opposed the changes. He noted also that the vote had confirmed the faultlines in Turkish society, with the more secular coastal regions voting "No," and conservative central Anatolia voting "Yes." Ethnic Kurds, meanwhile, mostly boycotted the vote. Turnout nationwide was 78%, TRT1 reported.

Economists and businessmen said investors were likely to welcome such a clear "Yes" vote, as they look for indications that Mr. Erdogan's ruling Justice and Development Party, or AKP, will be able to win a third term of stable single party government in elections due next summer.

"Many were suspicious about the government's intentions, but the markets like stability and this result will contribute to that....I hope it will make us richer," said Sinan Eroglu, a 37-year old advertising executive in Istanbul, as he watched Turkey take on the U.S. in the basketball world championship final, which the U.S. won 83-64.

The strong "Yes" vote could prove a blow to Kemal Kilicdaroglu, the new leader of the main opposition Republicanm People's party as he tries to present himself as a strong candidate in coming elections.

On the campaign stump, Mr. Kilicdaroglu had warned Mr. Erdogan might build a "civilian dictatorship" in Turkey.

On Sunday, Mr. Kilidaroglu was unable to vote, after apparently misunderstanding registration rules.

The European Union has backed the amendment package, although it also criticized what it said was a lack of consultation and consensus building as the government pushed them through.

On Sunday, Mr. Erdogan in his speech said Sunday's amendments could lay the foundations for drafting a whole new constitution, for which he pledged to seek consensus across Turkey's bitterly divided society.

Most analysts predicted a government victory, although some economists warned the market has underestimated the impact of the vote.

A narrow margin of victory or a defeat was seen as unnerving the government ahead of elections and raising the prospect of a public-spending spree to secure votes.

Morgan Stanley economists last week advised clients to hedge their positions, noting that many investors, especially nonresident ones, have been "assuming a comfortable margin of support."

Doubts about the government's commitment to fiscal discipline had escalated following last month's decision to suspend plans for legislation limiting the budget deficit.

Mr. Erdogan's government in recent years won plaudits for its economic policy and prudent fiscal management.

Turkey's per-capita gross domestic product has roughly tripled since the AKP came to power in 2002, while the economy is tipped to grow 6% this year.

But economists note the AKP loosened purse strings during election campaigns in 2007 and 2009.

Ratings agencies were warning Turkey's government a more expansive fiscal policy would lead to bigger budget and current-account deficits.

Senior government ministers had warned rejection of the referendum reforms would deal a blow to the Turkish economy.

Deputy Prime Minister and Economy Minister Ali Babacan told a delegation of young business leaders last week that Turkey would suffer "traumatic consequences" if investors doubted the country's economic stability.

Opponents of the amendments accused Mr. Babacan of scare-mongering.

Regulators reach pact on new rules for banks

Continued from first page

bailouts in 2008 and 2009. Officials want regulators to have large stockpiles of capital so that they will be able to continue lending even if the economy worsens.

If banks fall below the buffer, regulators could force them to hold onto more of their earnings to augment their capital, which means the companies will have less money on hand to pay dividends. Some analysts believe the new standards could essentially force banks to shrink their loan portfolios or shed other assets in order to improve their capital positions.

Because of the long phase-in schedule, the new rules aren't expected to force major U.S. banks to immediately raise capital, as they already meet the initial common-equity standards. Banks in other countries could nonetheless move aggressively to raise new funds, particularly as concerns persist about the condition of some European banks.

Regulators say the rules are necessary to ensure the global banking system doesn't face another crisis

The Basel panel said it believes "large banks will need, in the aggregate, a significant amount of additional capital to meet these new requirements."

The deal was brokered through discussions by the Basel Committee on Banking Supervision, a consortium of regulators that meets in Switzerland. Top officials from around the world, including Federal Reserve Chairman Ben Bernanke, were at the meeting Sunday to sign off on the final compromise. The group of regulators is expected to present their framework to world leaders at a meeting of the Group of 20 nations in South Korea in November.

Twenty-seven countries were involved in the talks, and they couldn't reach agreement on every issue. For example, officials agreed new requirements were needed to force banks to have access to ample liquidity, the funding banks use to finance daily operations. The financial crisis exposed deep holes in the liquidity plans at major global banks.

Officials were concerned that imposing these new standards could have a negative impact on financial markets including those for commercial loans. They said they planned to begin phasing in new liquidity rules by 2015 but they vowed to spend several years studying the issue and could make changes.

Officials also didn't reach an agreement on how much more capital banks considered to be "systemically important" to the global economy should be forced to hold. Regulators could revisit this issue at some point, but any rules could be hard to implement if different countries continuing harboring different views on the matter.

The tale of Chimay's blues

By Michael Rothfeld

He isn't the king of Ponzi schemes, but Guy Albert de Chimay, accused of swindling investors, had a prince on his corporate payroll.

A charismatic, silver-haired figure who traveled frequently across the world, Mr. Chimay, 47 years old, allegedly established trust with investors by claiming that he managed $200 million for royal relatives in Belgium, prosecutors say. The relatives are real; prosecutors say the portfolio wasn't. Now, Mr. Chimay is sitting in a New York jail awaiting trial on criminal charges of grand larceny, fraud and forgery. Mr. Chimay has pleaded not guilty.

Through his family name, popularized by connections to the famous Chimay Belgian beer, he fostered a convincing illusion of his financial prowess, prosecutors say. His reputation helped earn him a spot on a reality television series, "Wall Street Warriors," in which he was portrayed as a successful money manager.

Mr. Chimay's alleged financial damage of $7 million doesn't rival the estimated $20 billion fraud committed by Bernard Madoff. But no frauds do. At least 10 of 28 alleged Ponzi cases this year were for amounts of $20 million or less, according to Securities and Exchange Commission records.

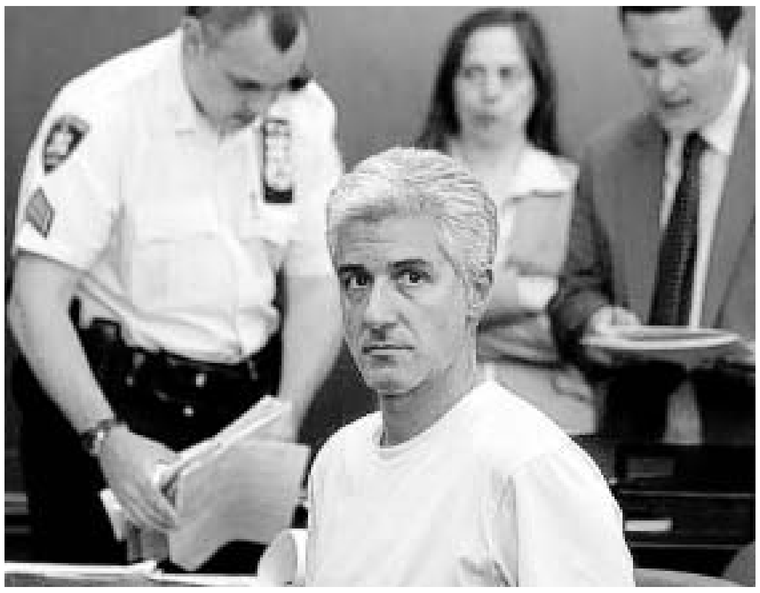
Mr. Chimay had an agreement to pay Prince Philippe de Riquet Caraman-Chimay, his father's cousin, to solicit wealthy European investors, according to interviews and documents reviewed by The Wall Street Journal.

"I would like nothing more than to be able to include you in our little circle," Mr. Chimay wrote in an email to the prince in November 2007. "We have considerable traction with the investing community in Europe at the moment, as we are having a stellar year."

The prince hasn't been charged with any criminal wrongdoing. There is no indication that he knew Mr. Chimay was claiming to manage a royal fortune, or that he had such a fortune.

"Thank you for the marketing documents that look very impressive," the French-speaking prince wrote as he considered the job offer from his American cousin. "I must now think all about the best way to be in your team and how my contribution could look credible to your clients knowing that I do not have a particular financial profile."

Ultimately, the prince didn't succeed at raising money, according to his own emails. But a friend of his, a Frenchwoman named Elizabeth de Beaumont, secured $4 million from investor Olivier Rolin, whose money was supposed to be put into a program of short-term real-estate loans



Steven Hirsch

Suspected Ponzi-scheme figure Guy de Chimay, above, is arraigned in June. Below is Prince Philippe de Riquet Caraman-Chimay, shown in 2005. The prince, who hasn't been charged with wrongdoing, was paid to solicit investors.

Editions de L'avenir

that Mr. Chimay said would pay 12%, according to a lawsuit Ms. Beaumont and Mr. Rolin filed in federal court in Manhattan to recover their investment. Ms. Beaumont, who was to earn a commission, put $220,000 in herself.

Though they aren't named as victims in the criminal case, the details of their alleged losses are included in it and a separate SEC civil action for fraud against Mr. Chimay, who hasn't yet responded to the SEC's allegations.

An attorney for Mr. Rolin and Ms. Beaumont declined to comment. Mr. Rolin couldn't be reached. Ms. Beaumont confirmed that she was introduced to Mr. Chimay by Prince Philippe but declined to elaborate.

Mr. Chimay is accused of diverting investors' money to pay his own expenses, according to prosecutors in the Manhattan district attorney's office. He parceled it out pay his divorce lawyer, travel bills, credit cards and more, authorities say.

Mr. Chimay's lawyer, Gordon Mehler, declined to comment. Relatives said they don't believe the accusations. "My son is not a crook," his mother, Nadia de Chimay, said.

Prince Philippe has distanced himself from his cousin in public, noting to reporters that Mr. Chimay was "not acting in our name." Prince Philippe referred requests to his attorney, who said the prince had filed a complaint against Mr. Chimay with Belgian prosecutors, but he declined to disclose the details.

Mr. Chimay was raised without wealth in the New York borough of Queens, attending public schools. Mr. Chimay always had an affinity for business, his mother and sister said. But his early entrepreneurial efforts—a nightclub, music promotion, a construction product made of Styrofoam—didn't pan out. In 1994, he filed for bankruptcy.

He soon turned to investing, advertising himself as a member of the royal family, according to a breach-of-contract lawsuit filed earlier this year in federal court in Manhattan against him by James Woodyatt, a businessman and alleged victim who said he never got back his $670,000 investment.

Pitching himself as a royal money manager helped him win a role in 2006 on "Wall Street Warriors."

In it, Mr. Chimay was shown analyzing potential investments and reflecting on the fleeting nature of success. "It's really important to be humble, because the market will humble you in an instant," he said.

Growing up in the U.S., Mr. Chimay didn't know his royal relatives. His father was the stepson of Joseph de Chimay, who introduced Guy to his nephew, Philippe, according to Guy's mother.

The two men socialized in the U.S. and abroad, family members said. Mr. Chimay attended Philippe's son's wedding. After going to work for Mr. Chimay in late 2007, the prince held meetings with contacts in places like Abu Dhabi and Geneva, his emails show. But by 2008, investors were still unwilling to commit money, the prince said in an email. And his monthly advance, initially $6,000, had stopped coming, he wrote.

"Is this a reason why you are perhaps not pleased with my work and that I do not have the expected fees since a few months" the prince asked. It isn't clear whether the payments resumed, but the prince continued to work.

Mr. Chimay began having trouble in 2008 supporting an expensive lifestyle that included a home in the Hamptons, a luxury car, and worldwide jet-setting. He also was going through a costly divorce.

His problems mounted as he entered into business ventures but failed to meet his obligations, prosecutors, regulators and alleged victims say. Those obligations included Mr. Chimay's agreement in 2009 to invest $10 million in stock in **xG Technology**, a little-known Florida company marketing Internet phone services.

Around the same time, he obtained a $670,000 investment in his real-estate loan program from one of the company's executives, Mr. Woodyatt, according to the lawsuit Mr. Woodyatt filed against Mr. Chimay, who never responded to the suit. Mr. Woodyatt obtained a judgment against Mr. Chimay's company.

An xG executive, Roger Branton, said the company believed Mr. Chimay represented royalty. "He had all the right answers," Mr. Branton said.

Papandreou stands by Greece plan for austerity

By Nick Skrekas

THESSALONICA, Greece—Greek Prime Minister George Papandreou promised to ease the tax burden on businesses to spur investment, but he continued to rule out the possibility of a debt restructuring and he pledged to stick to a savings plan to shore up public finances.

Mr. Papandreou's closely scrutinized address at the Thessalonica international trade fair Saturday was accompanied by more public protests against unpopular austerity programs and a worsening recession.

This northern Greek city had been locked down since Wednesday with about 1,000 extra police officers called in to control mostly peaceful protests.

Mr. Papandreou resisted calls to provide more help for the socially vulnerable as the government cuts back on spending to meet stiff conditions set by the International Monetary Fund and the European Union for helping Greece avoid insolvency last May.

The IMF on Friday said it would disburse another €2.57 billion ($3.27 billion) to Greece, praising the country's "strong start" on an economic austerity program. The payout is the second under the €110 billion rescue package designed earlier in the year to help Greece ward off insolvency. Disbursements now total about €8.28 billion.

Mr. Papandreou held out hope that the government might as early as this winter distribute a "social dividend" for low-income pensioners, but that this depended on the government's meeting its public-revenue targets. In one concession, Mr. Papandreou emphasized the government's focus on growth and investment, saying that as of 2011 the tax on reinvested corporate profits will be lowered to 20% from the current 24%.

The prime minister also promised to create a "fast-track investment framework law" to attract, expedite and create a certain and transparent environment for large investments.

Mr. Papandreou defended the IMF and the EU, which have been the target of much of the protest because of strict criteria for continued payouts. "It's not the IMF and EU that are at fault" for the bitter medicine Greece has to swallow, but rather "the debts amassed over many decades, and the ineffective state and the political social culture that developed," Mr. Papandreou said.

"All together we will fundamentally reshape the country and exit from the crisis that brought us to the brink of catastrophe," he said.

The prime minister also promised to strengthen its pursuit of tax dodgers and corrupt officials. "Corruption and a lack of transparency cost Greece the equivalent of 8% of our [gross domestic product], or a shortfall of €20 billion to the state purse," he said.

So far, the government's efforts have satisfied the IMF but not financial markets. Investors still demand sky-high interest rates for Greek government debt.

Iceland panel splits over former leaders

Associated Press

REYKJAVIK—Iceland's parliament will have to decide whether to charge former leaders for failing to prevent the country's financial meltdown, after a committee of lawmakers split Saturday over whether they should be indicted.

The deadlock means it will be harder for parliament to try former Prime Minister Geir Haarde and three other top officials for their role in the 2008 economic crash. Iceland was one of the first victims of the world-wide downturn sparked by the collapse of the U.S. subprime mortgage market.

Having grown frenetically in the previous years, Iceland's debt-fueled financial system imploded under the weight of its obligations. Its currency has crumbled as inflation and joblessness soared.

A Parliament-commissioned report this year put much of the blame for the catastrophe on Mr. Haarde and his colleagues. But the decision on whether to charge them under the law on ministerial responsibility has been left to Parliament. The ministers would be tried by a special constitutional court, and punishments could include fines or up to two years in prison.

A cross-party committee was set up with the aim of recommending whether to level charges against Mr. Haarde, along with former Commerce Minister Bjorgvin Sigurdsson, former Finance Minister Arni Mathiesen, and former Foreign Minister Ingibjorg Gisladottir. But the committee split three ways along party lines on Saturday.

A parliamentary vote on the charges is expected within days, but Baldur Thorhallsson, a professor of political science at the University of Iceland, said: "If they are charged, we are going to see a long debate ahead."

U.S. NEWS

Tensions still high over mosque plan

By Russell Adams

The Florida pastor who inflamed the debate over construction of an Islamic center near Ground Zero in Manhattan faded from public view, but anger simmered during a weekend marked by a memorial for 9/11 victims and dueling protests near the site of the proposed project.

Protesters from both sides of the divide filled the area around the Islamic center's site on Saturday amid services commemorating the ninth anniversary of the 2001 attacks. Pastor Terry Jones's campaign and the protests have served to draw a spotlight to the growing debate about religious tolerance in the U.S.

President Barack Obama on Saturday alluded to the tensions. Speaking at the Pentagon, he said Americans "are not—and never will be—at war with Islam. It was not a religion that attacked us that September day. It was al Qaeda, a sorry band of men which perverts religion."

In an interview with ABC's "This Week," Imam Feisal Abdul Rauf defended his plans to put the Islamic center near the spot of the 2001 attacks: "My major concern with moving it is that the headline in the Muslim world will be, 'Islam is under attack in America.' This will strengthen the radicals in the Muslim world, help their recruitment. This will put our people, our soldiers, our troops, our embassies, our citizens, under attack in the Muslim world."

On NBC's "Meet the Press," former New York Mayor Rudy Giuliani chastised the pastor for threatening to burn the Quran and the imam for locating his Islamic center near Ground Zero. "In either case, common sense and a real dedication to healing that these men of God would theoretically have would tell you not to do it because you're hurting too many people," he said.

After whipping up a frenzy of publicity over plans to burn copies of the Quran, Mr. Jones was greeted at New York's La Guardia airport Friday night by a throng of news trucks and cameras. But by Sunday he had failed in his mission to meet the imam in a bid to move the project away from its site near Ground Zero.

Along a stretch of Broadway near City Hall, about 2,000 people, according to the New York Police Department, rallied in support of the mosque on Saturday, many of them representing the International Action Center, an activist group. They carried signs saying "No to Racism and Bigotry—from NYC to Palestine" and "Racism and Bigotry Promote War."

The protests were mostly peaceful, but tempers flared at times. Police officers intervened between a small group of supporters of the Islamic project and a Vietnam veteran who called it a "lousy idea." One of the supporters, who carried a sign saying "The Attack on Islam is Racism," read from the Quran while the Vietnam veteran, 61-year-old Ed Dougherty, recited the U.S. Constitution.

The proceedings climaxed midafternoon when an overwhelmingly anti-mosque crowd jammed two blocks along West Broadway for a rally hosted by the organization Stop Islamization of America. The crowd repeatedly broke into chants of "U-S-A!" and "No more mosque!" which at times Dutch politician Geert Wilders and other speakers led. About 1,500 people attended the anti-mosque rally, police said.

The controversy over the Islamic center turn an unusual turn Thursday when Mr. Jones abandoned plans to burn copies of the Quran on Sept. 11 after a direct appeal from U.S. Defense Secretary Robert Gates. Mr. Jones said he dropped his plans after reaching an agreement to move the Islamic center away from its planned location. However, representatives of the center denied there was any such agreement.

Mr. Jones's campaign has drawn condemnation from around the world. In Afghanistan, two protesters died and four were injured as Afghans protested for a third day Sunday against Mr. Jones's Quran-burning plans, even though he has called the event off, the AP reported.

Appearing on the "Today Show" on Saturday, Mr. Jones said he could "absolutely guarantee" that he wouldn't carry out his original plans to burn copies of the Quran, even if the Islamic center gets built on its proposed site. "We hoped that would open up a door to be able to talk to the imam about the Ground Zero mosque," he said.


Getty Images

Tempers flared Saturday over a proposed Islamic center near Ground Zero.

U.S. NEWS

Oilmen had chance to stop explosion

By Ben Casselman

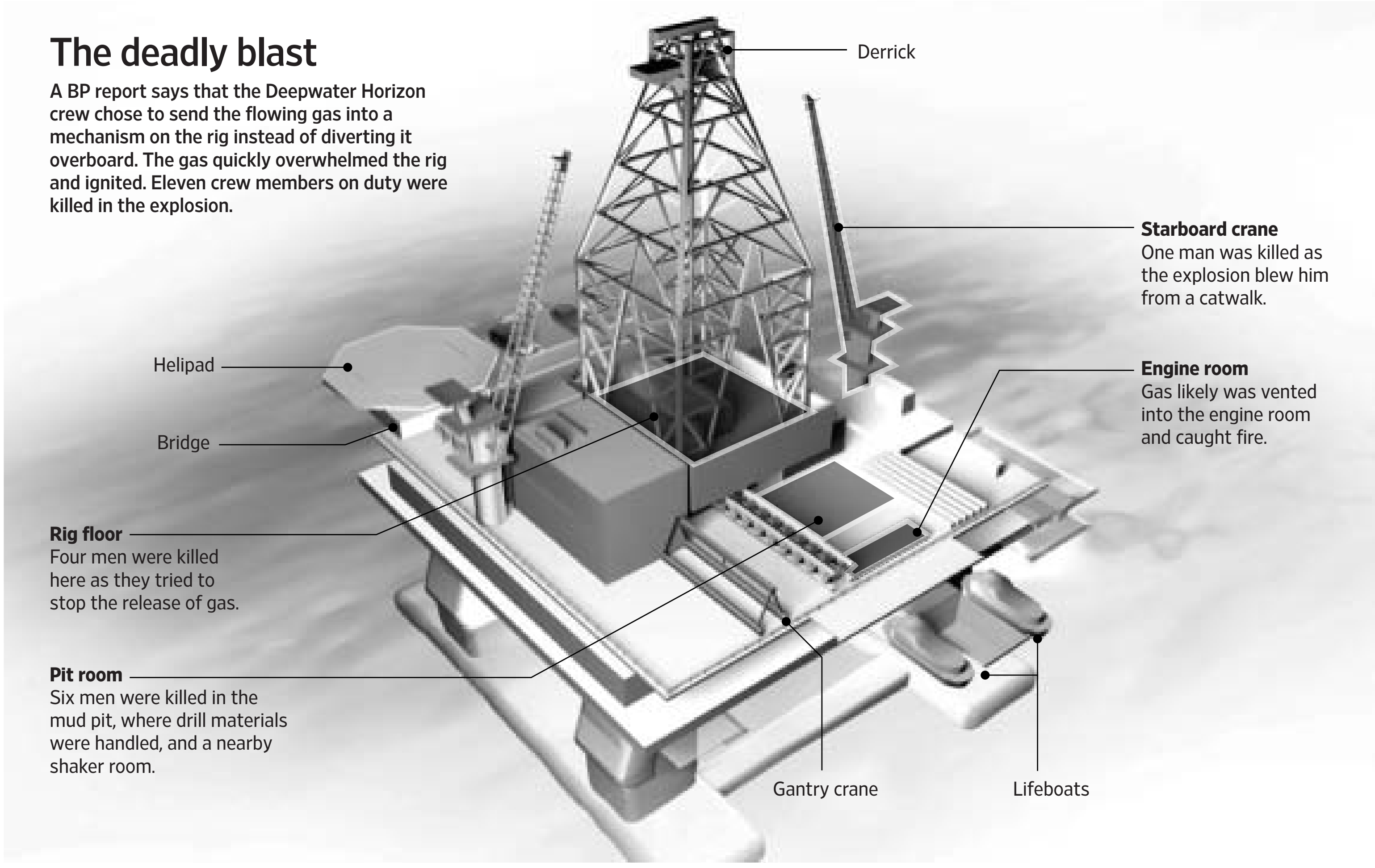
Workers aboard th e Deepwater Horizon drilling rig briefly regained control of **BP** PLC's ruptured oil well on the night of April 20 and may have come far closer than previously believed to averting the disastrous explosion.

The finding, somewhat buried in an internal investigation report issued by BP last week, puts a new, tragic twist on the disaster, which killed 11 workers and set off the worst offshore oil spill in U.S. history.

Contrary to what most oil industry experts thought based on testimony in government hearings, not only did the crew manage to activate the blowout preventer—the huge set of valves designed to shut off the flow of gas in an emergency—but the preventer worked. Unfortunately, workers only triggered it after gas had blown past its valves.

Then, as the gas in the pipe raced upward toward them, workers decided to divert the flow through a system aboard the rig, rather than over the side, giving the gas a chance to envelop the rig and ignite.

If workers had either realized the problem with the incoming gas moments sooner or steered the flow of gas differently, it might never have reached the rig floor, the report finds.



They "were just so close to this being the topic of a training video," instead of a disaster, said Dan Pickering, co-president of **Tudor Pickering Holt &** Co., an energy-focused investment bank in Houston.

BP's investigation, led by a company executive and released publicly on Wednesday, isn't the final word on the disaster. Other companies and government bodies are conducting their own studies, which could reach different conclusions. BP based its conclusions on data from the rig and the testimony of surviving crew members, but had to make some assumptions because the workers most directly involved in the final minutes were killed.

Mr. Pickering and other experts said BP's version of events was convenient for the company because it focused attention on the actions of workers from rig-owner **Transocean** Ltd., rather than controversial decisions made by BP managers. "The entire report throws the drill crew under the bus," said Scott Bickford, an attorney representing the family of one of the workers killed in the accident.

BP has said the report wasn't intended to cast blame. On Friday, the company said the failure to identify the problem earlier and the decision not to send the flow overboard were two of eight key factors that its investigation found led to the disaster.

But while the various parties argue about blame and liability, no one involved has yet challenged the BP report's description of the final few minutes in which disaster was almost, but not quite, avoided.

At 9:41 p.m., the report says, heavy drilling mud shot out the top of the well, apparently the first time the crew realized they were in serious trouble. Workers quickly triggered a part of the blowout preventer that seals off the well with a rubber valve. The valve closed, but didn't fully seal, allowing some gas to squeeze through, the report says.

By then, even if the valve had sealed, gas had already risen past the blowout preventer and was racing up the mile-long pipe from the well on the sea floor to the rig floating at the surface, the report said.

At 9:47 p.m., the blowout preventer did finally stop the flow of gas, either because workers clamped down tighter on the rubber seal or because they deployed a different, tougher valve, the report says. But at the same moment, alarms on the rig began to blare, indicating that gas had reached the surface.

Still, with the well at least temporarily sealed, workers had a finite amount of gas to control. If they could get rid of the gas without it catching fire, the flow would stop and there would be time to find a more permanent solution.

"After I saw the mud shooting up, then it just quit," said an unnamed eyewitness quoted in the BP report. "I took a deep breath, thinking that, 'Oh, they got it under control'."

Workers had made another fateful decision in the first moments of the blowout: They had directed the gas and drilling fluid coming out of the well through a system on board the rig rather than straight overboard. Normally, that would have been the right decision. Dumping oil-based fluid overboard is a violation of federal law and could have drawn a substantial fine. The system on the rig was designed to capture the fluid and get rid of the gas.

But in this case, the sheer volume of gas overwhelmed the system. Transocean said in a statement that sending the flow through the on-board system was "the appropriate course of action for crew to take based on the information they had at the time." The company said it wasn't clear whether workers diverted the gas overboard once they realized the extent of the problem.

Within minutes, gas had surrounded the rig and was being sucked into the engines. Somewhere, likely in the engine room, the gas hit a spark and ignited. At 9:49 p.m., just two minutes after the blowout preventer sealed the well, an explosion rocked the Deepwater Horizon, knocking out power.

The crew now had no way to trigger the blind-shear rams, the final safeguard on the blowout preventer meant to cut off the pipe and seal the well permanently. And with the rig now adrift and on fire, the report says, the temporary valve that workers had closed worked loose, starting the flow of millions of barrels of oil into the Gulf.

Geithner urges action

By Deborah Solomon

WASHINGTON—Treasury Secretary Timothy Geithner said Washington is at risk of undercutting an already sluggish economic recovery if it fails to provide quick, additional support to business and individuals.

In an interview, Mr. Geithner said the biggest challenge facing the economy right now was Washington paralysis. He urged Congress to take up the White House's proposals to give tax incentives to business and fund new infrastructure projects.

"If the government does nothing going forward, then the impact of policy in Washington will shift from supporting economic growth to hurting economic growth," Mr. Geithner said, citing the example of countries who "shift too quickly to premature restraint" after a crisis, including the U.S. in the 1930s.

Mr. Geithner's comments are part of a White House campaign to convince a nervous public that the administration understands what ails the economy, and to push lawmakers to act on its prescriptions, including extending tax cuts for the middle-class. Coming ahead of the November midterms, his comments also echo the Democrats' emerging election pitch: that they are better stewards of the economy than Republicans.

Congress returns this week for its final session ahead of the November midterm elections to confront a series of contentious issues, including the expiration of the Bush tax cuts and a $30 billion package to aid small business.

On Sunday, a top Republican lawmaker signaled there might be room to compromise on extending Bush tax cuts for high-income earners. "I want to do something for all Americans who pay taxes," House Minority Leader John Boehner of Ohio said on CBS's "Face the Nation."

U.S. NEWS

Banks steer home prices

[The Outlook]

By Nick Timiraos

The speed at which U.S. house prices fall over the next few months could depend less on mortgage rates and Americans' appetite for home buying than on how banks decide to manage the huge number of foreclosed homes they own or may take from delinquent borrowers in the near future.

Unlike home owners, banks often are much quicker to slash prices to unload properties quickly.

The upshot is that, the more homes being sold by lenders, the faster prices tend to fall. That pattern was clear over the past two years: Price declines that began four years ago accelerated rapidly in 2008 as banks dumped foreclosed properties at fire-sale prices. By January 2009, the share of distressed sales had soared to 45% of all sales nationally, and was even higher in hard-hit markets such as Phoenix, according to analysts at Barclays Capital.

Even though mortgage defaults kept mounting, housing markets began to stabilize early last year as low prices and government interventions broke the downward spiral. Policy makers spurred demand for homes by holding down mortgage rates, offering tax credits for buyers, and extending low-down-payment loans through the Federal Housing Administration.

The government also attacked the supply problem. Regulators relaxed mark-to-market accounting rules, giving banks more flexibility in valuing certain real-estate assets and removing some of the impetus for banks to quickly foreclose. Meanwhile, the Obama administration put in place an ambitious program to modify mortgages.

The Home Affordable Modification Program, or HAMP has fallen far short of its goals. So far, fewer than 500,000 loans have been modified, below the target of three million to four million. Yet the program served as a "closet moratorium" on foreclosures that stanched the flow of bank-owned inventory, said Ronald Temple, portfolio manager at Lazard Asset Management.

The result: The distressed share of home sales fell to 25% last November, and home prices stabilized considerably. After rising in the winter, the distressed share fell to 22% in June, before bouncing to 30% in July.

The problem is that these measures worked temporarily and they are wearing off. Demand plunged this summer after tax credits expired, and unsold homes are piling up. More foreclosures could move onto the market as borrowers fall out of the loan-modification program.

"We see the perfect storm brewing with rising supply and falling demand," says Ivy Zelman, chief executive of research firm Zelman & Associates and one of the first to warn of trouble five years ago. She estimates that distressed sales could account for half of the market by year-end if traditional sales don't rebound.

This time, there are some tailwinds: Housing starts are at all-time lows. Banks have hired more staff to manage problem loans and government entities such as Fannie Mae and Freddie Mac that own a growing share of foreclosures are less likely to deluge the market.

The next leg down in prices "isn't going to be the foreclosure-induced freefall where you just had inventory coming out the wazoo, and it was going to be sold one way or the other," says Glenn Kelman, chief executive of Redfin Corp., a real-estate brokerage.

Prices also have come down so much already they have less distance to fall. During the housing boom, prices inflated much faster than incomes rose, thanks to speculation and lax lending. The ratio of home prices to annual incomes reached 1.6 at the end of June, which is below the ratio of 1.88 from 1989 to 2003, according to Moody's Analytics.

By those metrics, prices are actually undervalued in markets that have already seen huge declines, such as Las Vegas, Phoenix, and Los Angeles. But Moody's data show that prices remain "significantly overvalued" elsewhere, including Boston, New York, Seattle, Orange County, Calif., and Charlotte, N.C. Markets in both camps face supply imbalances that will pressure prices for years.

The fastest cure for housing would be job creation because it would boost demand for homes while putting delinquent borrowers back on solid footing.

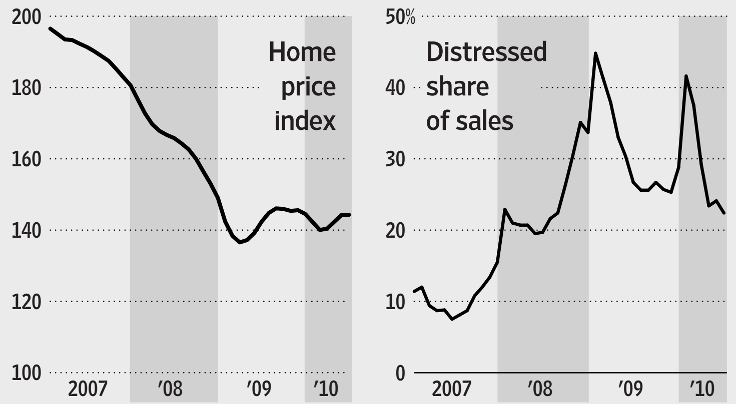
But if that doesn't materialize, policy makers face a thorny question: whether to intervene if price declines accelerate beyond the 5%-10% that most economists expect. In recent weeks, the White House has been surveying industry analysts on how to manage the inventory overhang.

Analysts at Barclays Capital estimate that some four million loans are in some stage of foreclosure or are at least 90 days past due, down slightly from a January peak.

Ultimately, market fundamentals will prevail "and any attempt to get around that will only be short-term," says Susan Wachter, a professor of real estate at the University of Pennsylvania's Wharton School. But officials should be prepared to intervene anyway, she says, if psychology spurs a downward spiral "where price declines are feeding further price declines."

Stressed sales

Home price declines slowed last year as policy makers spurred demand and held back the supply of foreclosures and other distressed sales. Prices could come under pressure as the share of involuntary home sales rises.



Source: CoreLogic; Barclays Capital

Mixed view of Fed's plans

By Phil Izzo

Three in five economists surveyed by The Wall Street Journal expect the U.S. Federal Reserve to resume large-scale purchases of securities in the face of a deteriorating economic outlook—but, by a 3-to-2 margin, most of them also think that would be a mistake.

The survey showed economists continuing to cut their growth forecasts for the rest of this year and into 2011.

"The issues the economy is facing aren't monetary policy issues," said Ram Bhagavatula of Combinatorics Capital. "Monetary policy can't bring asset prices back in the short term. Animal spirits will revive when they revive."

The Journal surveyed 53 economists, not all of whom answered every question, from Sept. 3-7. Most don't expect the Fed to raise rates from the current 0% to 0.25% range until some time after the second half of 2011, while more than a quarter of respondents don't see higher rates until 2012 at the earliest.

Of the 51 who answered the question, 31 expect the Fed to purchase additional long-term securities to stimulate growth. But only 19 of 51 said the central bank should do so.

The Federal Reserve ended a program to acquire $1.15 trillion in long-term Treasurys and mortgage-backed securities earlier this year. At its policy-setting meeting last month, the central bank said it would reinvest the proceeds of those purchases back into government securities.

Though the Fed promised to act as needed to support the economy, a vow echoed last month by Chairman Ben Bernanke in a speech in Jackson Hole, Wyo., policy makers gave no hint that a new round of purchases was imminent.

In an interview Friday, St. Louis Fed President James Bullard, who has a vote on the rate-setting Federal Open Market Committee, said the Fed was more prepared to move than it was in May or June. But he added that in the absence of a shock that would significantly alter forecasts, "I don't think it's necessary to take additional action."

In the survey, economists on average predicted the U.S. economy would expand at a 1.9% annual rate in the third quarter and 2.4% in the fourth—down from expectations of 3% for both periods three months ago. The Commerce Department reported that the economy grew 1.6% in the second quarter.

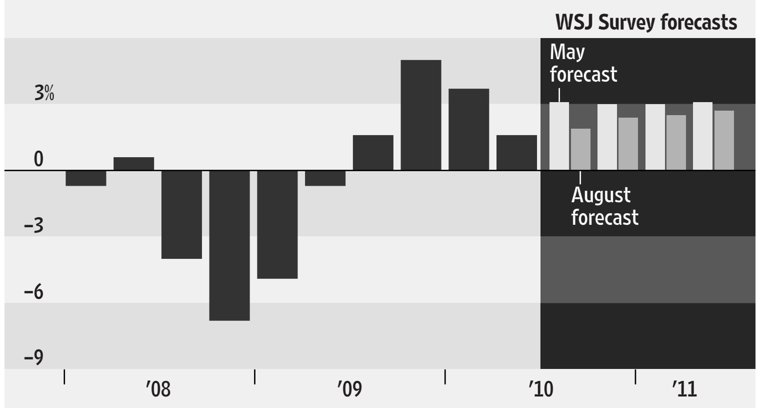
The economists on average put a 22% chance on another recession, or double-dip, hitting the U.S. economy in the next 12 months.

But amid such slow growth, the unemployment rate is expected to be 8.9% in December of next year, down 0.7 percentage point from the August rate.

Economists on average forecast that the economy will add around 1.66 million jobs over the next 12 months, barely keeping pace with the natural expansion of the labor force.One silver lining: Most think the problems in the job market are cyclical, not structural.

Feeling gloomy

U.S. quarterly GDP, change from previous quarter at annual rate



Note: Seasonally adjusted

Sources: U.S. Commerce Department; The Wall Street Journal survey of economists (forecasts)

WSJ.com

ONLINE TODAY: See the full results of The Wall Street Journal survey and an interactive graphic at **WSJ.com/Economists.**

WORLD NEWS

Indians seek transparency amid fear

BY KRISHNA POKHAREL

NEW DELHI—Amit Jethava bombarded officials in India's western state of Gujarat for five years with requests for information about the Asiatic lions, spotted deer and wild boar in a nature reserve near his village and the mining activity nearby that was a danger to the wildlife.

In May, Mr. Jethava petitioned the High Court of Gujarat to order the federal and state governments to put a stop to the illegal mining. In July, as he was leaving a meeting with his lawyers in Ahmedabad, he was shot to death. Four men have been arrested in connection with his death, which police say was in retaliation for his activism.

India's Right to Information Act—a groundbreaking piece of legislation in a nation that struggles with corruption and stifling bureaucracy—allows citizens to request information from any government entity except the paramilitary and intelligence departments. Since the law's passage in 2005, more than a million requests have been filed for information on teacher attendance to money spent on village roads to the age of electronic voting machines.

Those requests for what's abbreviated as RTI haven't sparked attacks. But as the number has grown, violence targeting those making the requests has escalated, officials say, and threaten to damp voter confidence in a signature reform of Prime Minister Manmohan Singh's government.

"The number of murders has been mounting, and that's a cause for grave concern," says Wajahat Habibullah, India's chief information commissioner. "A remedy has to be found." Parliament is expected to vote this year on a bill to protect whistleblowers.

Eight individuals seeking information under the law have been killed this year, activists say. Authorities don't challenge the number, and local police are still investigating the deaths; they haven't made a connection to RTI in most cases and challenge the connection in one.

Atul Loke/Panos for The Wall Street Journal

Amit Jethava's children comfort their mother, Alpa, in August after their father was killed, allegedly in retaliation for his right-to-know activism. Violent incidents have increased against citizens employing India's 2005 Right to Information Act.

Activists and the families of those killed say people have been targeted for uncovering shady deals and illegal activity by politicians, bureaucrats, companies and organized-crime figures. Nonlethal attacks, threats and harassment also are increasing, activists say.

Many ordinary Indians have successfully used information from RTI requests to force improvements to problems such as bad tap water and irregularities in public distribution systems, which allow poor families to buy essential commodities at low prices at special government-run stores. Such vigilance has increased the government's responsiveness to common concerns, say many officials and citizens who have used the law.

"Fear diminishes when you seek and find the truth," says Shivaji Raut, a science teacher who has filed more than 180 information requests, mainly involving government subsidies to wind power companies. "But you cannot find the truth when the fear for your life ... is so strong."

Mr. Raut says a state government minister, a local businessman and a local bureaucrat all warned him to stop his requests. In October 2009, someone threw stones at his house, breaking a window. "Up to that date, there was no fear in my mind," he says. But since then, he has stopped going for his regular morning and evening walks.

Dattatray Patil, a 47-year-old sugarcane farmer in the Kolhapur district, south of Mumbai, used the law to get information about land sold in his town. Mr. Patil discovered that a land dealer had falsely claimed ownership of a piece of land, and filed a complaint. The dealer was convicted of fraud and served a short jail sentence last year.

One evening in May, Mr. Patil, who had received calls demanding that he stop meddling, was beaten to death by eight men at his farm, according to police. "He just wanted to have a corruption-free country," said Kshamanand Patil, his elder brother.

Police arrested the land dealer and eight other men and charged them with murder. The dealer offered money and a new car to each of the eight in exchange for killing Mr. Patil, says Prakash Gaikwad, the police officer investigating the death.

A lawyer for the land dealer and the eight men says his clients deny the charge. He calls the case police "imagination," and notes police don't have eyewitnesses to the crime.

Mr. Jethava, who brought the case against illegal mining in Gujarat, was a 34-year-old pharmacist who left a government job seven years ago to start the Gir Nature Youth Club, a group promoting the protection of wildlife in the Gir forest reserve.

Through a query, Mr. Jethava found out there were more than 50 unauthorized limestone mines near the preserve's border. Mining isn't allowed near protected forests because it blocks animals' movement and they can fall into open mines.

In May, Mr. Jethava filed his petition with the court, using the information he obtained to argue for a stop to the mining.

"He was telling people the truth," says L.M. Kandoriya, a public information officer at Gujarat's forest department.

On July 20, Mr. Jethava was shot dead.

Last Tuesday, police in Ahmedabad arrested a mine owner's nephew while he was trying to board a flight. Himanshu Shukla, the police officer investigating the case, said the nephew allegedly received the help of a local police constable in killing Mr. Jethava.

The constable and two other men whom police allege helped to carry out the killing are already in custody, and police are searching for two other men for their alleged involvement. Mr. Shukla said the police also are investigating the possible role of others, including a member of Parliament, in the killing. No one has yet been charged in the case.

Iran says it will grant bail to American woman

Associated Press

TEHRAN—A senior Iranian prosecutor said Sunday that authorities will release an American woman on $500,000 bail because of health problems, another sudden about-face by Iran in a case that has added to tension with the U.S.

Sarah Shourd was detained with two friends, Shane Bauer and Josh Fattal, along the Iran-Iraq border on July 31, 2009, and accused of spying.

The woman's Iranian lawyer met with the three Americans in Tehran's Evin prison on Sunday and said he is hopeful Ms. Shourd will be released in the next two or three days. Tehran prosecutor Abbas Jafari Dowlatabadi said the conditions of her bail don't bar her from leaving the country, though her case will still go to trial along with those of the other two Americans, who must remain in custody.

"Based on reports and the approval of the relevant judge about the sickness of Ms. Shourd, her detention was converted to $500,000, and if the bail is deposited, she can be released," the official IRNA news agency quoted Mr. Dowlatabadi as saying. It wasn't immediately clear whether such a bail payment to Iranian authorities would violate U.S. trade sanctions or whether a special waiver would be required.

Agence France-Presse/Getty Images

Iran detained Sarah Shourd last year.

Ms. Shourd's mother has said she has been denied treatment for serious health problems, including a breast lump and precancerous cervical cells. Her mother in Oakland, Calif., couldn't be reached for comment Sunday.

China economy shows uptick

BY ANDREW BATSON AND AARON BACK

BEIJING—China's major economic indicators picked up in August after slowing for several months, data issued over the weekend show, an unexpected rebound that could help prospects for global growth.

Industrial production, a major gauge of overall activity in China's manufacturing-driven economy, was up 13.9% from a year earlier in August, accelerating from 13.4% growth in July. The figure was well above market expectations, and reversed—at least for the moment—recent months' gradual slowdown from the 20.7% pace of the beginning of the year.

Output has now "stabilized," National Bureau of Statistics spokesman Sheng Laiyun told reporters Saturday as he announced the data. "We think this is a good phenomenon." Chinese authorities have been moving for several months to rein in a frothy property market and risky bank lending, but have also been trying to avoid a sharp domestic slowdown, given the uncertain prospects in major export markets.

The positive news from China contrasts with the loss of momentum in other major economies. Data from the U.S. have been generally weak in recent months, with unemployment stuck at high levels. Concerns about the outlook in Europe are also rising despite better-than-expected performance from Germany, and Japan recently unveiled another stimulus package to support its flagging recovery.

Clouding the picture in China is a continued pickup in inflation: The consumer price index rose 3.5% from a year earlier in August, official data showed, accelerating from a 3.3% increase in July for the biggest rise since October 2008.

Food prices, up 7.5% from a year earlier, were the main contributor; nonfood prices rose just 1.5%. Many economists think the pickup in inflation doesn't warrant government action, such as raising interest rates, since the increase in food prices, driven by heavy flooding this summer that hurt harvests, is expected to be a temporary.

Yet, the inflation rate is still higher than the interest rates Chinese banks pay to their depositors, meaning that anyone who has kept their savings in a bank over the past year has lost money in real terms. Some economists argue that China's government, which tightly regulates interest rates, needs to address this mismatch.

"It is time now for the monetary authorities to normalize the interest-rate policy, first by raising the deposit rate to alleviate the losses suffered by the ordinary Chinese depositors," economists at Australia & New Zealand Banking Group said in a research note.

The government so far appears to have achieved its goal of a modest economic slowdown without resorting to interest-rate changes. Officials have in recent weeks repeatedly signaled that controls on housing purchases, put in place to cool speculation and corral prices, will remain in place in coming months.

However, some economists suspect the government achieved the stabilization in growth in August by quietly loosening controls on bank lending and speeding up approvals for infrastructure projects. Banks extended 545.2 billion yuan, or about $80.5 billion, in new loans in August, up from 523.8 billion yuan in July, central bank data issued Saturday show. The broad M2 measure of money supply at the end of August was up 19.2% from a year earlier, compared with 17.6% at the end of July.

—Victoria Ruan,
—Liu Li and Stefanie Qi
contributed to this article.