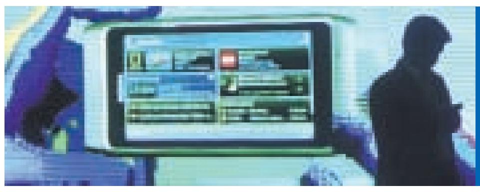
DJIA 10526.49 ▼ 0.17% | Nasdaq 2289.77 ▲ 0.18% | Stoxx Eur 600 266.40 ▼ 0.02% | FTSE 100 5567.41 ▲ 0.03% | DAX 6275.41 ▲ 0.22% | CAC 40 3774.40 ▲ 0.19% | Euro 1.2980 ▲ 0.86% | Pound 1.5497 ▲ 0.41%



Nokia shake-up gathers pace as revolving door spins faster
BUSINESS & FINANCE 19

Pentagon cost-cutting plan unveiled by defense chief
U.S. NEWS 8

THE WALL STREET JOURNAL.

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EU draft rules target short sales

By Stephen Fidler

BRUSSELS—New European Union proposals are set to emerge Wednesday, aimed at regulating financial practices that were blamed for intensifying the global financial crisis, including the short selling of securities.

The European Commission, the EU's executive arm, will propose regulations for short selling, the sale of borrowed securities by an investor who hopes to make a profit by buying an equal number of shares at a lower price to replace the borrowed securities. The proposals also cover credit-default swaps and the clearing and greater standardization of derivatives.

Officials say the draft legislation would increase the convergence of the EU's framework of financial regulation with those of the U.S. and Hong Kong.

According to European officials and documents reviewed by The Wall Street Journal, the proposed rules would, if adopted, force investors to disclose short positions to regulators if they exceed 0.2% of a company's issued share capital. They would require disclosure to the rest of the market if the short position exceeds 0.5%. Each short sale would be flagged to regulators.

Regulators would also require access to more data on short sales of sovereign bonds and of credit-default swaps, through which buyers can insure themselves against the risk of default.

The proposals also address so-called naked short selling, where investors sell securities they don't own without making arrangements to deliver them when settlement comes due. This increases the risk of settlement failure, the commission said.

To enter a short sale, the commission proposes, an investor must have borrowed the instruments, entered into an agreement to borrow them, or have an arrangement with a third party to locate them in time for delivery, at the latest four days after the trade.

The commission is also set to announce separate proposals designed, according to a draft regulation, "to increase transparency of the derivatives market, reduce counterparty and operational risk in trading and enhance market integrity and oversight."

It proposes that all trades of financial derivatives made in the over-the-counter market are reported to data centers called trade repositories.

The aim is to allow regulators a better view of trading in the OTC derivatives market and avoid a build-up of risks like the one that destabilized the financial system following

Please turn to page 4

Police feel the force of French farmers' anger

European Pressphoto Agency

French farmers belonging to the Confederation Paysanne clash with the police in Rennes on Tuesday disrupting the inauguration of the International Trade Fair for Livestock by Agriculture Minister Bruno Le Maire. Several stands were destroyed during protests linked to action across France against government economic reforms.

Burqa ban is approved in France

By David Gauthier-Villars

PARIS—France's Parliament banned the burqa, niqab and other full-body robes worn by some Muslim women, by passing a law forbidding people to conceal their faces in public.

The bill passed Tuesday after a final vote in the Senate, the upper house of Parliament, and is scheduled to come into force after a six-month observation period. It has already passed the National Assembly. At the Parliament's request, the law will be reviewed by France's Constitutional Council before it is formally promulgated.

"Showing one's face is a question of dignity and equality in our republic," said Justice Minister Michèle Alliot-Marie during Tuesday's debate in the Senate.

The vote came as a number

Please turn to page 4

The Quirk

Remote control: A blind man goes sailing with help from afar. Page 33

Editorial & Opinion

MP Steve Baker on how to end crony capitalism. Page 15

Gold hits a record as investors shun dollar

By Rhiannon Hoyle

LONDON—Gold rallied to a record high of almost $1,275 a troy ounce as investors piled out of the U.S. dollar and into commodities.

The yellow metal cracked its former spot-market record high of $1,265.50 an ounce, reached in June, on a broad rally in both precious and base metals as the dollar came under pressure and orders to buy gold were triggered, helping propel the market higher.

"It was important to get through $1,265.50 an ounce. Once we passed that point, a huge resistance had been broken," said Walter de Wet, metals analyst at Standard Bank.

Spot gold hit the record at midafternoon in London, when it topped out for the day at $1,274.80 an ounce. VTB Capital analyst Andrey Kryuchenkov said that once the June record had been overcome, the rally was then driven "by technical buying all the way."

He described the break as "very significant," and said the market could now push toward $1,300 an ounce.

The move came as London-based metals consultancy GFMS Ltd. forecast gold may rally to close to $1,350 an ounce before the year's end, supported by concerns about the economic recovery.

The economic backdrop "remains highly supportive" for gold investment, GFMS said in the first update to its 2010 Gold Survey. It forecasted anemic economic growth in the industrialized world and predicted that concern about sovereign debt will continue to weigh on market sentiment.

GFMS said it felt a "well-defended floor" for gold now exists in the low $1,200-an-ounce range. "From this base, we expect prices to rise in the coming months, with the market possibly even spiking towards the $1,350/oz market before the year is out," it said.

Mr. Kryuchenkov warned, however, of a significant rise in volatility, saying macroeconomic factors are likely to be influential in the coming days. Traders have their sights set on U.S. consumer-price index data to be released Friday. Market participants said a result showing little risk of in-

Please turn to page 28

On the rise

Comex gold daily settlement price on the continuous front-month contract

Source: WSJ Market Data Group

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Bahrain BD 1.50 - Egypt $1.75 (C/V)
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Qatar QR14 - Saudi Arabia SR 14

37
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PAGE TWO

Gordon Brown and lessons worth learning from the financial crisis

[Agenda]

By Iain Martin

Did Gordon Brown save the world in the midst of the financial crisis? The then U.K. prime minister famously slipped up in the House of Commons by saying that he had. He obviously meant to say that the global banking system had been saved, but paused for breath in the wrong place and left enough time for his critics to howl down the place with mocking laughter. It certainly demonstrated Mr. Brown's weakness as a communicator and played to the idea that he imagined himself to have economic super-powers.

Here was the prime minister who had, when chancellor of the exchequer, proclaimed "the end of boom and bust." As though the business and economic cycles had been ended by his actions and replaced with never-ending growth and prosperity. The tide of human affairs had apparently stopped flowing in and out because Gordon Brown had given operational independence to the Bank of England to set interest rates.

That theory not quite having worked out as planned, Mr. Brown popped up midcrisis with another. Governments should take vast stakes in ailing banks to save the crumbling financial system. His decision to authorize the implementation of such a policy in Britain in relation to the stricken Royal Bank of Scotland and HBOS was influential in the U.S. and had enormous implications.

Mr. Brown is just about to launch a campaign to reclaim his reputation from the dustbin of history, and no wonder. He has faced a tsunami of criticism at home and since he lost the election has had to contend with his great rival, Tony Blair, saying that it was always clear Mr. Brown would be a "disaster" as PM. "He has to try and rebuild his reputation. It's all he can do. It won't be easy," one of Mr. Brown's former cabinet colleagues told me in the summer.

Reuters

A worker carries documents from Lehman Brothers' London offices in 2008.

Mr. Brown is just about to launch a campaign to reclaim his reputation from the dustbin of history.

Mr. Brown has thus far opted for a dignified silence, other than making it clear that his work outside the House of Commons, where he remains a backbencher with a poor attendance record, will be of a charitable nature. Not so subtly he is seeking flattering comparisons with the multi-millionaire money-spinning Mr. Blair.

On Tuesday it was announced that Mr. Brown is to become a visiting fellow at the Kennedy School of Government at Harvard. He will deliver a lecture there next week, and lead discussions with students in seminars.

A book on the financial crisis is also in the pipeline; he has been bashing out thousands of words a day at his modest home in Scotland.

His bid for rehabilitation will surely center on his efforts on RBS and HBOS. It is, in one sense, the strongest card he has to play. In this version, it was Mr. Brown who led the way and demonstrated to the Americans that it was a credible response that could be sold to taxpayers fearful of a total collapse.

In the U.S., policy makers such as Treasury Secretary Hank Paulson certainly seemed stuck. Their hastily cobbled together plan to buy up banks' toxic assets was under fire.

What would be a fair price for these assets? Pass. Wouldn't it allow banks that had behaved badly to dump their worst assets on the taxpayer and then start again? Yes. Would that encourage them to behave better in the next boom? Highly unlikely.

The alternative, buying shares in the banks and making the taxpayer the underwriter, had been discussed by Mr. Paulson and others. But it had been regarded as impossible to sell in Washington and beyond.

Mr. Brown broke that logjam, although not by any grand design. He and his chancellor, Alistair Darling, simply thought that certain British banks would not be able to open the next Monday morning and felt they had no choice other than to press the nuclear button of nationalization late in 2009.

The problem is that it is not the whole story, although Mr. Brown can be relied upon to try to make it appear as though it is.

On all the occasions in the two years since Lehman Brothers went bankrupt when Gordon Brown has been asked about his role he has talked as though it was a natural disaster to which he scrambled a decent response. Press him further and he will say that nobody knew what the banks were up to. Beyond that, he can talk endlessly but say very little and concede less.

The big lessons he has been so far unwilling to learn are not even that complicated. Run government surpluses in good times, so that an economy can be insulated against the impact of shocks to the system and inevitable periodic crises. Try not to spend more than you earn. Be wary of people selling products they don't understand. Make regulation simple and easy to understand. Embrace innovation, fine, but don't assume it's all good. Most important of all: Don't think you've solved the problems of human behavior and economics just because you've made speeches saying you have.

Will those lessons feature much in Mr. Brown's Harvard lecture and in his book? I doubt it.

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Previous results

Q: Will new bank regulations help prevent another financial crisis?

Yes **19%**

No **67%**

Not sure **14%**

What's News

■ **Evidence that Europe's** economic recovery is losing steam accumulated, with Germany reporting flagging confidence in September and the euro zone posting stagnant factory output in July. **4**

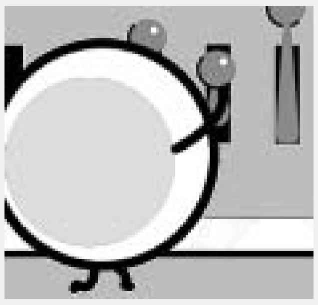
■ **Credit Suisse agreed** to pay $425 million for a 30% stake in hedge-fund firm York Capital Management, a deal that ends talks that were threatened at times by new Wall Street regulations. **19**

■ **A U.K. parliamentary** committee criticized the government for rushing into a historic strategic-defense review that could reshape the country's armed forces. **5**

■ **AIG's Asian** life-insurance unit AIA named Marc de Cure as chief financial officer, removing one question hanging over its planned IPO. **19**

■ **IBM's chief executive** criticized rival H-P's decision to spend heavily to acquire 3PAR and pay a hefty severance to Mark Hurd. **21**

Inside



Freeze! Zap! Bye-bye, fat! Two new devices offer help. **31**

Nadal's U.S. win caps a summer of Spanish dominance. **32**

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NEW YORK FASHION WEEK

Designers reclaim individual voices

Gone are the attention-grabbing looks that dominated spring 2008 and last year's flight from riskier styles

By Christina Binkley

The talk at New York Fashion Week is that designers are returning to being themselves.

"Derek [Lam] looked like Derek. Catherine [Malandrino] looked like Catherine," said Michael Fink, dean of the School of Fashion at the Savannah College of Art and Design and a former Saks Fifth Avenue executive.

Likewise, the clothes that Carolina Herrera showed Monday at Lincoln Center could be immediately recognized as Ms. Herrera's even if fashion people did the sort of anonymous paper-bag tests that wine reviewers do (which isn't a bad idea, actually).

Many of Ms. Herrera's gowns were the kind of dramatic Oscar-worthy creations that people have come to expect from her. The dresses, with blown-up botanical prints, maintain the designer's focus on flattering the female physique without flaunting it. For instance, a silk sheath dress had an asymmetrical neckline that hovered over the shoulders, framing the model's neck and shoulders like a picture. There was some transparency, but only where it counts. The ever-classy Ms. Herrera doesn't reveal what shouldn't be.

If you look at fashion as a barometer for the economy and culture, the fact that designers are being themselves suggests that the fashion world is getting back to the business at hand. Designers can hardly be blamed for getting nervous and excited [read that as freaking out] over the past two years when the economy was in shambles and even design greats such as Yohji Yamamoto were closing stores and letting staff go.

Soon after the crash in 2008 many New York designers went wild with embellishments and detail in an attempt to grab attention. Last season the look veered the opposite direction, going classic and risk-free. That might do for cautious consumers but it doesn't create much action on the runways.

Today, shorter staffed and accustomed to a new, less-blingy world order, many designers are striking a more minimalist pose while returning confidently to their own tastes.

"I've lived in many countries," said Maria Cornejo, the Chilean-born designer of Zero + Maria Cornejo. "It's about heritage and finding what my signature is and sticking to it. It's about being confident this season." She showed a minimalist collection with structural jackets and tops with Japanese inflections and a softly draped white sheath dress with black color-blocks.

Mr. Fink says he's applauding the shift away from creating collections with "one jacket, three pants, and a three-armed sweater" that a consultant advised them to do. "You know when it's not them on the runway—when it's something someone told them to do."

Thakoon Panichgul on Sunday showed familiar silhouettes with interesting finishing details such as an asymmetrical dress with hook-and-eye closures all the way up the front. A delicate look with lavender flowers on white pants and a transparent silk top was totally modern and New York, but hinted at Mr. Panichgul's Thai heritage.

It was also easy to imagine much of the artsy, purposefully wrinkled, earth-toned collection that **Donna Karan** showed being worn by the designer herself. There were the obligatory red-carpet gowns that any designer of her caliber must do—including a spectacular gold version with flower embroidery at the bodice. But most of the collection seemed aimed at an urban woman who does yoga, meditates, is an artist, and isn't afraid of fashion. And that's Ms. Karan.

British designer Jenny Packham debuted her first New York collection Monday with a series of gauzy dresses that would look at home in a vintage Katherine Hepburn film. Her party and evening dresses had puff sleeves, lots of sparkle and hand-painted floral prints for the contemporary young debutante.

Mixed among solid-color staples, like a rich tan shirt dress, by Tracy Reese were playful prints inspired by nature, tree bark and waves. A sundress had coy cutouts and a floral dress was reminiscent of a slip. The clothes had a '70s vibe, with hats that flounced and skirts that flowed; perforations and embellishments, including beading and pompoms, furthered the feel.

"I'm just ready to cut out the mess, to do the real thing," Ms. Reese said after her show Monday.

Yeohlee Teng's collection, inspired, the designer said, by leaf-cutter ants, introduced a silhouette that she referred to as crescent. It artfully managed to be flattering—with fabric that jutted out at the hips and then quickly in at the thighs. Of course, we expect the Yeohlee brand to play with forms and fabrics without being ungraceful.

Her show was held in a penthouse on Central Park South, overlooking the park. The intimacy of a spectacular apartment encouraged the designer to mingle with her guests beforehand, a rarity in the luxury-branded world of fashion.

"I felt like I should welcome people," Ms. Teng said.

Red-carpet favorite Monique Lhuillier presented a confident collection of feminine frocks, in hues ranging from heart-stopping red to buttery toffee to a sweetly demure blush. Cap sleeves have been appearing in several collections; the Monique Lhuillier iteration appears on a cream gazar blouse paired with high-waisted apple red trousers. A blonde model in a slick ponytail wafted by in a swishy floral shirt dress, suggesting "Mad Men" character Betty Draper. The show-stoppers of the collection were cocktail dresses in dripping metallics and ball gowns with yards of luxurious organza in what the designer called "poppy," "stardust" and "cherry blossom."

—Elva Ramirez and Elizabeth Holmes contributed to this article.


Getty Images


Associated Press

Above, designer Carolina Herrera steps on to the runway Monday at her spring 2011 fashion show. Right, models in evening gowns walk in the fashion-show finale for designer Donna Karan's spring collection.


Mustafah Abdulaziz for The Wall Street Journal

Marc Jacobs runway show in New York this week

Marc Jacobs excites with new collection

[Heard on the Runway]

By Christina Binkley

Marc Jacobs surprised us all with his own choice of garb at his show—the to-die-for ticket of New York Fashion Week. Rather than the kilts or skirts he's worn at past shows—or the birthday suit his momma gave him that he wears in the ad campaign for his new fragrance "Bang"—Mr. Jacobs stepped calmly out in a pair of black slacks, a slim leather belt, and a black buttoned shirt.

He looked "wearable." And so did his collection, though it certainly wasn't bland.

I'm increasingly coming to believe that it's a mark (no pun intended) of a great designer to create a runway that is both wearable and exciting. The two should not be mutually exclusive. And with Marc Jacobs this season, they are not.

The '70s were the era being plumbed, with an earth-tone palate of rust, mauve, mustard and a tad of orange. It was a collection with a lot of movement as well as deep color: drapey silk dresses and skirts, wide-legged trousers, and caftans.

Mr. Jacobs didn't surprise us with his timing. As he has for three years, he started the show at precisely 8 p.m.—the time on the invitation. That's 30 minutes earlier than most designers start, but woe to the ingenue who doesn't know that by now. And woe to the designer who has a 7 p.m. show in front of Mr. Jacobs.

Mr. Porter's appearance

There has been a new face showing up in the front rows of men's shows this week. **Net-A-Porter** has been scoping out the men's presentations as the e-tailer gears up to launch its men's site soon. Among the shows the company hit: the hot menswear designer Michael Bastian on Monday night. The move comes as an increasing number of online fashion shopping sites boost their efforts to woo men.

—More at blogs.wsj.com/runway

Europe's recovery loses pace

By Brian Blackstone

FRANKFURT—Evidence that Europe's economic recovery is losing steam accumulated Tuesday, with Germany reporting flagging confidence and the euro zone posting stagnant factory output.

Industrial production in the 16-nation currency bloc was flat in July compared with June, disappointing analysts who had expected a small rise.

Separately, the German ZEW economics institute's index of expectations for the German economy, based on a monthly survey of financial analysts, plunged by more than 18 points in September to minus 4.3. The monthly drop was the biggest since the height of the global financial crisis in October 2008.

Although economists say the index doesn't always predict the economy's performance accurately, the latest reading adds to signs such as exports and industrial orders that suggest Germany's export-driven rebound may be weakening along with the slowdown in global trade.

The euro-zone's slowdown could further weaken the momentum behind economic growth in the U.S. and Asia, due to Europe's importance as an export market.

However, many economists say they are confident that the euro zone won't slip into a renewed, "double-dip" recession, a scenario European Central Bank officials have repeatedly ruled out.

The latest data are reinforcing many economists' belief that Europe's economic recovery is slowing, after a second quarter in which the euro zone's gross domestic product grew at a 3.9% annualized pace.

"We are witnessing a payback" from the last quarter's strong growth, said Marco Valli, economist at lender UniCredit in Milan. He expects euro-zone GDP to grow at an annualized rate of around 1.5% in the third quarter, with growth weakening to a 1% pace in the fourth.

Figures from the European Union's statistics unit showed German industrial production stagnated in July, after a series of robust increases earlier in the year that propelled Europe's largest economy to an annualized 9% growth rate in the second quarter.

Bloomberg News

A worker assembles a Porsche at a factory in Leipzig, Germany, last week. Fresh data suggest the economic recoveries both in Germany and the euro zone are weakening.

Industry in Europe's vulnerable southern tier remains mired in a slump, illustrated by output declines in Greece, Portugal and Spain. French industry was among the few bright spots, posting 0.9% output growth, albeit after sliding by more than that in June.

German government officials acknowledge that their economy, which accounts for almost 30% of euro-zone GDP, will slow, though they say the recovery itself isn't in doubt and they are pressing ahead with austerity measures aimed at cutting the budget deficit.

"No one can expect that ... this growth will continue in 2011 as it did in 2010," German Finance Minister Wolfgang Schäuble told Germany's parliament on Tuesday as he introduced the government's proposed budget for next year. "But we have every chance of seeing steady, sustained economic growth."

Berlin plans €11.2 billion ($14.37 billion) in austerity measures next year, phase one of a four-year plan to shave €80 billion from its deficit, which is already among the lowest in developed countries as a share of GDP. Other measures include taxes on nuclear fuel and a levy on air travel.

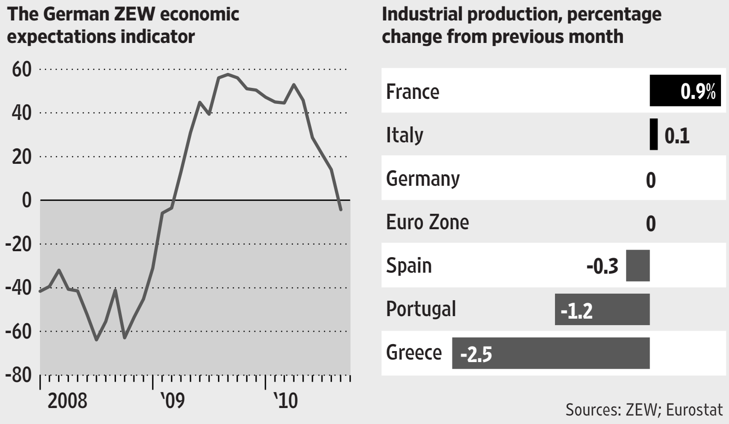
Germany is facing criticism of those plans by economists, primarily in the U.S., as well as international organizations worried about the fragility of global growth.

"The prospect of a premature exit from stimulus in Europe has heightened the risk of a double-dip recession in that region, or even world-wide," the United Nations Conference on Trade and Development warned in a report Tuesday.

—Patrick McGroarty and Paul Hannon contributed to this article.

Losing steam

Confidence is low as factories stalled



Sources: ZEW; Eurostat

Short selling to be targeted by new EU rules

Continued from first page

the collapse of Lehman Brothers in 2008.

Together with other proposals due in coming months that will affect derivatives trading and capital requirements for traders, the EU's draft legislation is meant to encourage a greater standardization of derivatives and to ensure that as many transactions as possible pass through centralized counterparties, or CCPs. CCPs act as the buyer in every sale and the seller in every purchase.

The proposed regulation carves out a partial exception for nonfinancial companies. A late draft said nonfinancial companies would in principle not be subject to its requirements unless their positions "reach a threshold and are considered to be systemically important."

"In concrete terms, this means that the clearing obligation will only apply to those OTC contracts of non-financial counterparties that are particularly active in the OTC derivatives market and if this is not a direct consequence of their commercial activity," it said.

The proposals will be amended during separate discussions among European governments and in the European Parliament. Differences that emerge between the two versions will be resolved with the help of the commission.

The short-selling regulations are expected to be in place by July 1, 2012, and the derivatives rules by the end of 2012.

French Senate approves ban on burqas, niqabs, full-body robes

Continued from first page

of European countries are trying to figure out how to reconcile the values of modern Europe with more assertive expressions of Islamic faith. Some countries, such as the U.K., have over the decades encouraged the expression of immigrant cultures and religions under the principle of multiculturalism.

But others have taken the position that it is more important for immigrants and their descendants to adopt the values of the country they have settled in.

The niqab, a head-to-toe garment thought to be worn by just 2,000 women in France—a country of 65 million people—is seen by many as an affront to French republican values. However, France's republican values also include freedom, which makes it problematic to outlaw niqabs and burqas.

The new law makes no reference to Islam and doesn't single out robes such as burqas or niqabs. It includes exceptions for people who need to cover up for work reasons, such as riot police, surgeons and welders, and for people wearing carnival costumes.

Several Muslim lobby groups had urged the French Parliament not to outlaw the burqa, saying such a prohibition would stigmatize France's six million Muslims, Europe's largest Muslim community. Under the bill, the ban will apply to everyone in France, including visitors.

Turkey seeks higher rating as GDP rises

By Marc Champion and Joe Parkinson

ISTANBUL—Turkey reported double-digit economic growth in the second quarter on Tuesday, just a day after its stock market soared on the government's resounding victory in a constitutional referendum.

The situation has Finance Minister Mehmet Simsek wondering: Why are international ratings firms still grading Turkey, a country on the cusp of running a budget surplus and growing up to twice as fast as Poland, as a worse financial risk than Greece, Romania or Egypt?

"I certainly think now is the time" for the agencies to upgrade Turkey from its current spot below investment grade, Mr. Simsek said in a telephone interview with The Wall Street Journal. "Ratings agencies, particularly S&P and Moody's are way behind the curve."

Mr. Simsek cited Tuesday's growth numbers—gross domestic product rose 10.3% in the second quarter compared with the year-earlier period, and by 3.7% quarter on quarter, according to official statistics—as evidence that Turkish fundamentals are good. The numbers were boosted by a 32% jump in private investment and strong domestic consumption. The data returned Turkey's economy to its peak before the global financial crisis and prompted many economists to raise their forecasts for Turkey's 2010 growth to as much as 7%.

Turkey's economy has changed since a financial crisis in 2001, and its ratings—which make it more expensive for the government to borrow money—are now out of step, some economists say. Raters S&P and Moody's have Turkey at two notches below investment grade, while Fitch rates it one notch below.

The ratings firms and some economists say Turkey suffers from a burgeoning current-account deficit that the government forecasts to hit 5% of GDP this year, and a massive unregistered economy that makes it difficult for the government to raise revenues to fund the gap. Turkey is vulnerable to a hard landing should the global economy hit another bump in the road, causing external financing to dry up.

Ratings debating

Turkey's credit rating lags many emerging or crisis-stricken economies despite recent significant improvements

	Sovereign ratings		GDP 2010	Debt 2010 as	Current account
	Rating	Outlook	forecast	pct. of GDP	balance 2010
Bulgaria	BBB	Stable	0.2%	16.2%	$–3.2bn
Egypt	BB+	Stable	5.0	74.1	–5.5
Greece	BB+	Negative	–4.0	133.2	–31.5
Romania	BB+	Stable	–2.0	35.0	–9.4
Russia	BBB	Stable	4.3	8.1	5.1
Turkey	BB	Positive	6.1	44.5	–28.3

Sources: Standard and Poor's; IMF

EUROPE NEWS

Pope's offer colors first British visit

By Dave Kansas
And Stacy Meichtry

In October 2009, the Vatican surprised the Anglican Communion with an extraordinary recruitment offer: defect to the Roman Catholic Church without surrendering certain Anglican traditions, including the right for clergy to be married.

A year later, as Pope Benedict XVI arrives Thursday for his first-ever papal state visit to the U.K., his offer hasn't resonated widely with Anglicans, officials in both churches say.

Archibishop of Canterbury Rowan Williams, first among equals in the Anglican Communion, the world's third-largest Christian group after Roman Catholics and Eastern Orthodox, indicated that he had little warning of the Vatican move and reacted coolly to it at the time.

Most people who will act on the Vatican's still-undefined arrangement, called a special ordinariate, are expected to come from groups that have already split from the Anglican Communion. That reality, along with the resumption of the official ecumenical dialogue between the churches, has helped to smooth relations between Pope Benedict and Archbishop Williams, who will host the pope at Lambeth Palace in London on Friday.

"The Vatican offer "felt like a hard thing at first, especially since we were in Rome preparing for the next round of ecumenical talks when it took place," said Rev. Canon Alyson Barnett-Cowan, director of unity, faith and order for the Anglican Communion, who leads the Anglican side of the official dialogue between the churches. "But I think it won't cause disrepair to the Roman Catholic-Anglican Communion discussions."

Reuters

Pope Benedict XVI, left, shakes hands with Archbishop of Canterbury Rowan Williams at the Vatican in November.

The pope's four-day tour will include a meeting with Queen Elizabeth II at the Palace of Holyrood House in Edinburgh on Thursday, an interfaith gathering in London Friday and an outdoor Mass Sunday in Birmingham. Benedict's state visit comes almost 30 years after Pope John Paul II's 1982 pastoral visit to England and Wales.

The latest ecumenical discussion between Catholics and Anglicans ended in 2007 with a joint report titled "Growing Together in Unity and Mission." The two churches' bodies have in the past year taken steps toward new talks that will focus on the nature of the church and ethical teachings.

When Cardinal Joseph Ratzinger became pope, observers believed his most likely ecumenical ally would be Archbishop Williams, and that has largely been the case.

"They're both coming from the same place—the lecture hall," says Msgr. Mark Langham, the Vatican official in charge of relations with Anglicans. "Both appreciate and recognize the high quality in each other's intelligence and theology."

Francis Campbell, the British ambassador to the Holy See, added that the two leaders are deeply concerned about retaining a position in the increasingly secularized public square for men and women of faith. "It comes back to this notion that the religious voice cannot be dismissed in society simply because it's a religious voice," he said.

The Vatican says it will keep pursuing its overture to Anglicans. For now, the ordinariate exists only "on paper," Msgr. Langham said. Catholic bishops have established committees to discuss how the administrative body will be set up in different regions and countries.

In England, Msgr. Langham said, Catholic bishops have involved their Anglican counterparts in talks on how Anglicans can convert to Catholicism without forsaking Anglican traditions.

Msgr. Langham said the Vatican isn't trying to "cherry pick" Anglican faithful. If the Church of England can't find a way to accommodate conservative members, who oppose the ordination of women, "it's very possible they'll come over" to the ordinariate, Msgr. Langham says.

Legislators criticize U.K. defense review

By Alistair MacDonald
And Jonathan Buck

A U.K. cross-party parliamentary committee criticized the government for rushing into a historic strategic-defense review that could reshape the country's armed forces.

The rebuke comes as Britain's armed services, and many members of the public, fret that the review could have far-reaching effects on the country's defenses by dramatically reducing troop numbers and cutting U.K. orders of military hardware, such as the Joint Strike Fighter jets currently being developed with the U.S.

The government's strategic defense and security review, or SDSR, is meant to assess the country's military and security needs heading into the future, but it has taken on greater urgency in an environment in which the government is seeking deep cuts to master a huge deficit.

In its first report on the SDSR, the House of Commons Defence Committee raised concerns that the U.K. may be headed for a reduction in its military preparedness. The report expresses concern that medium- and long-term threats and the capabilities needed to meet them could be obscured by operational requirements in Afghanistan. It attacked the Ministry of Defence's failure to develop the role of reservists and was critical of limited consultation with the public and industry. "The rapidity with which the SDSR process is being undertaken is quite startling," the committee said. "We conclude that mistakes will be made and some of them may be serious."

Defence Secretary Liam Fox issued a swift rebuttal. "The SDSR will address the most immediate threats to our national security, while maintaining the ability to identify and deal with emerging ones," he said.

The Conservative-Liberal Democrat coalition government came to power in May and inherited a gaping budget deficit from the previous Labour administration. The government is carrying out a comprehensive spending review in parallel with the strategic defense and security review. The SDSR is due to be delivered Oct. 20.

But according to one person familiar with the review, the Joint Strike Fighter is likely to go ahead, though the size and type of orders could be changed. Still, everything "is still up for consideration," this person said.

However, big cuts could be in store to the overall size of the army, this person said. Many fear that such cuts will hamper the force.

"Another Afghanistan or Iraq would be hard. You can't cut to a great degree a force that is already overstretched," said Carina O' Reilly, an analyst at defense publication group Jane's.

The defense committee said it is concerned that the Ministry of Defence's budget isn't protected for the future, unlike those of the Department for International Development and the Department of Health.

EUROPE NEWS

Tymoshenko castigates West

By James Marson

KIEV, Ukraine—Ukraine's opposition leader accused the West of turning a blind eye to what she called the "harsh force" of authoritarianism in the former Soviet republic.

Yulia Tymoshenko, heroine of Ukraine's 2004 Orange Revolution, said President Viktor Yanukovych is squeezing her party, clamping down on the media and eroding the "democratic foothold" the country represents in a region of strongman rulers.

"People in Ukraine ... are horrified when Western leaders say they are very pleased that there is stability in Ukraine," she said in a three-hour interview Monday. "Every time they come here, Yanukovych's image is cleaned up, and people begin to get confused and start thinking that [his] values ... are those of the liberal democratic world."

"It's the stability of a graveyard," she added.

Ms. Tymoshenko spoke calmly but firmly, displaying the conviction and energy that were missing early this year when she campaigned for president while fighting a recession as prime minister. An aide said that in recent weeks she had overcome the disappointment of defeat by Mr. Yanukovych and regained her spirit.

Her rivalry with Mr. Yanukovych stems from her role in the peaceful revolt that overturned his allegedly fraudulent victory in the 2004 presidential election. After gaining office in February in a vote considered as fair, Mr. Yanukovych dismissed her as prime minister the next month and moved to consolidate power.

Several of her allies have been arrested, and some journalists are reporting increased pressure to toe the official line. Mr. Yanukovych denies her accusation that he's antidemocratic but has suggested constitutional changes to strengthen presidential powers and give him tighter control over an economic recovery program.

The turnabout has cast the combative "Tigryulia," as she became known after posing for campaign photos with a tiger, back into the political opposition, a terrain she has known off and on for 14 years. With a peasant braid curled atop her head like a crown, Ms. Tymoshenko still inspires loyal devotion among supporters and loathing among opponents.

In a new twist, however, the targets of her sharp tongue include Western governments that she says were once more supportive of democracy in Ukraine.

Reuters

Ukraine's opposition leader Yulia Tymoshenko greets supporters during Independence Day celebrations in Kiev last month.

Western leaders have chided Mr. Yanukovych but spared him of blunt criticism. Visiting Kiev last week, U.S. Undersecretary of State William Burns urged him to protect freedom of speech and democratic gains. Political analysts say the West doesn't want to push Mr. Yanukovych closer to Russia's authoritarian leaders, with whom he has warm relations.

Ms. Tymoshenko called on the West to send a strong message that Ukrainians aren't "alone against this harsh force."

She flies to Brussels Wednesday to make her case at the summit of the European People's Party, the center-right alliance of which her Fatherland party is an associate member. Welcoming Mr. Yanukovych to Brussels on Monday, European Council President Herman van Rompuy praised Ukraine's "political stability, based on a strong parliamentary majority."

Ms. Tymoshenko said that majority had been achieved by bullying lawmakers from her party to switch sides, a charge the government denies. Grabbing a pencil, she sketched her version of Ukraine's political map, with most parties on the government side, and her party and a few smaller allies on the other.

Mr. Yanukovych's team says the recent arrests are part of his government's fight against corruption. He has pledged to protect democracy and and media independence.

Ms. Tymoshenko, in turn, says the government is trying to discredit and sideline her and her party. She accused Mr. Yanukovych of creating a climate of "fear and brutality." "The classical three branches of power have merged into one trunk, which ... has become a club in one person's hand," she said.

"They shouldn't rush to write me off," she added.

Serhiy Lyovochkin, Mr. Yanukovych's chief of staff, dismisses her claims of persecution and abuse of power. "She says a lot of things and, as life shows, not everything she says corresponds to reality," he said.

EU official criticizes French plan on Gypsies

By Charles Forelle

BRUSSELS — The European Union's justice commissioner excoriated France for its campaign to deport Gypsies, calling it a "disgrace" and saying the bloc would begin legal proceedings against the French government.

A visibly upset Viviane Reding said the removals appeared to violate EU antidiscrimination laws, which prevent the targeting of ethnic groups. She said she was "appalled," and directly criticized two French ministers and invoked the crimes of World War II, when the Nazis sent Gypsies along with Jews to die in concentration camps.

France accelerated the removal of Gypsies, known also as Roma in Europe, over the summer. French President Nicolas Sarkozy declared their encampments threats to public order and havens for criminals.

EU countries aren't allowed to restrict freedom of movement on account of race or nationality. French officials have insisted the deportations are proper, and that they aren't singling out any particular ethnic group.

Mrs. Reding said she and another commissioner received such assurances from France's immigration minister and its European affairs minister two weeks ago.

But over the weekend, a report emerged that France's interior ministry sent instructions to regional governors in early August that called for the clearing of hundreds of camps, "with those of Roma as a priority." On Monday, Interior Minister Brice Hortefeux sent revised instructions, which didn't contain any reference to Roma.

Mrs. Reding expressed fury that she had been apparently misled. "This is not a minor offense," she said. "This is a disgrace."

Mrs. Reding said Brussels would "have no choice" but to begin legal proceedings against France for violating the discrimination provisions of the EU's free-movement directive.

A French foreign-ministry spokesman, Bernard Valero, expressed "astonishment" at Mrs. Reding's statement.

"We don't think that with this type of statement ... we can improve the situation of the Roma," he said.

Court faults Turkey over killing

By Marc Champion

ISTANBUL—The European Court of Human Rights ruled that Turkey was guilty of failing to protect ethnic Armenian journalist Hrant Dink when authorities knew his assassination was imminent, and of then failing to adequately investigate his death.

Mr. Dink, the editor of the small, Istanbul-based Armenian-language daily Agos, was killed with three shots to the back of the head as he returned to the newspaper's offices in January 2007. His killing became a cause célèbre in Turkey, and a symbol of the state's alleged protection or even encouragement of nationalist extremists.

"None of the three authorities informed of the planned assassination and its imminent realization had taken action to prevent it," the court found, while "no effective investigation had been carried out" into those failures.

The decision is an embarrassment for the government of Turkey's Prime Minister Recep Tayyip Erdogan, which has pledged to improve the rights and treatment of the country's ethnic minorities. The government recently sought to settle with the family, after withdrawing a defense of the state's actions that relied on a precedent that appeared to compare Mr. Dink's comments aimed at reconciling Turkish and Armenian views on the 1915 slaughter of ethnic Armenians with hate speech by a neo-Nazi.

Turkey's foreign ministry issued a statement saying the government didn't intend to appeal the court ruling, and that "studies for implementation of Dink verdict rulings will be done and every possible measure for preventing repeat of similar violations will be taken."

Mr. Dink's family brought the case against the Turkish state at the European court in Strasbourg. Tuesday's ruling found for the family on all counts, said their lawyer Arzu Becerik, awarding Mr. Dink's widow €100,000 ($128,760) in damages.

Associated Press

Protesters, holding signs reading: 'For Hrant, for Justice' demonstrated on behalf of slain journalist Hrant Dink near a courthouse in Istanbul last year.

U.S. NEWS

Fed grapples with next steps on growth

By Jon Hilsenrath
And Sara Murray

Federal Reserve officials will wrestle with a vexing question at their Sept. 21 meeting: How weak does the economy have to get, and for how long, to warrant taking new steps to liven growth?

The latest data from the government were mildly encouraging: Retail sales increased 0.4% in August from the prior month after increasing 0.3% in July, the Commerce Department said Tuesday, in a sign that consumer spending is growing at a sustainable clip.

Weak consumer spending and stubbornly high unemployment have hobbled the recovery, and prompted fears in some quarters that the U.S. could slip back toward recession. But those fears have eased recently as the U.S. has notched several better-than-expected economic reports.

Because Fed officials don't agree on what threshold a slowdown would have to hit to prompt further action, the Fed is unlikely to launch a big new bond-buying program next week.

The central bank is considering whether to restart the bond-buying it undertook last year and early this year to drive-down long-term interest rates and encourage more private borrowing and, thus, economic growth. It has already pushed short-term interest rates to near zero, but growth remains stubbornly slow, unemployment high and inflation lower than the Fed wants.

Right now the Fed is holding its bond portfolio at a constant level. Fed Chairman Ben Bernanke has avoided laying out specifically what would prompt him to grow that portfolio by restarting the bond-buying program. Other members of the policy-setting Federal Open Market Committee have differing views.

"If the growth numbers come in about where the consensus forecast is, and we continue to get inflation between 1% and 2%, I don't believe I would see a need for further stimulus," says Jeffrey Lacker, president of the Federal Reserve Bank of Richmond.

He is part of a vocal camp of Fed officials who are reluctant to expand the Fed's $2.3-trillion portfolio of securities and loans. The group—which includes the presidents of the Kansas City and Philadelphia Fed banks, Thomas Hoenig and Charles Plosser—doubts new purchases would help growth and fears they could cause inflation later. Mr. Lacker says it would take a real risk of broadly falling consumer prices, known as deflation, to justify more action.

Other Fed officials have much lower thresholds. One camp argues that with the 9.6% unemployment rate far from the Fed's long-run objective of 5% to 6% and the inflation rate at the low end of its desired range between 1.5% and 2%, there is already reason for the Fed to take new steps to spur recovery.

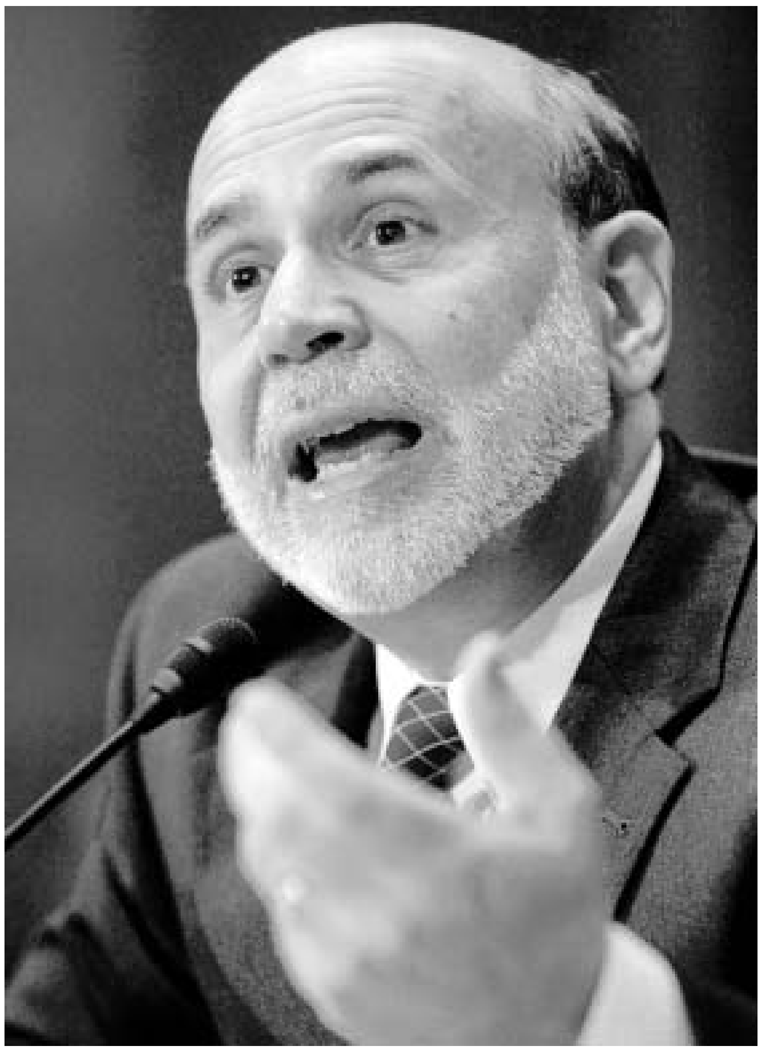
Among the Fed bank presidents, Janet Yellen of San Francisco and Eric Rosengren of Boston likely would support a decision to buy more bonds.

Many officials are between the "avoid acting" and "act now" positions. Some would restart the bond-buying program simply if the economy fails to improve soon. Unemployment has been stuck at or above 9.5% all year and Fed officials want to see it on a downward trajectory.

Mr. Bernanke has laid out broad markers for his threshold to further Fed action but has been vague to avoid getting ahead of the brewing debate. The Fed would be "proactive in addressing significant further disinflation," he said in an August speech, suggesting the threat of an inflation slowdown could spur him to act. He added the Fed would act to avoid "a further significant weakening in the economic outlook," suggesting continued subpar growth could be another trigger.

Though they may not be ready to act, Fed officials next week could use their post-meeting statement to signal a willingness to restart bond-buying. They also are considering how to structure a program if needed. It could look different than the program the Fed announced in March 2009, when it set out to buy $1.7 trillion worth of Treasurys and mortgage debt—known by Fed insiders as the "shock and awe" strategy.

A new round could be smaller-scale at first and adjusted as the recovery unfolds, an approach advocated by St. Louis Fed President James Bullard.


Reuters

Ben Bernanke is mulling another round of bond-buying by the Federal Reserve.

Retail sales keep climbing

By Meena Thiruvengadam
And Jeff Bater

U.S. retail sales rose for a second consecutive month in August as shoppers flocked to back-to-school sales and took advantage of tax-free shopping promotions in more than a dozen states.

Separately, inventories at U.S. businesses surged during July, while sales posted the biggest gain in four months, the government said, giving a positive reading for the economy.

U.S. retail sales rose a better-than-expected 0.4% in August, the Commerce Department said Tuesday. Economists surveyed by Dow Jones Newswires had forecast sales would rise 0.3%.

The increase follows a revised 0.3% climb in July. The Commerce Department had initially estimated July sales rose by 0.4%. The July increase was the first for retail sales in three months.

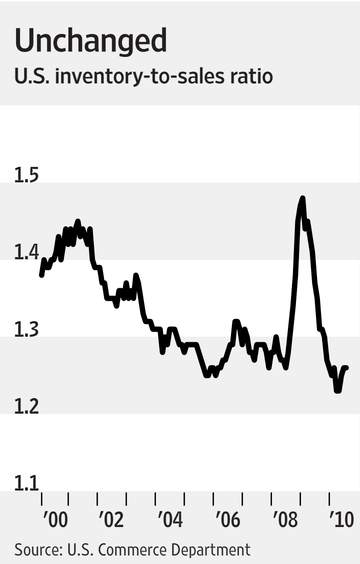
August's rise in retail sales was driven largely by purchases of clothing, gasoline and groceries. Sales of autos and parts slipped 0.7%. Excluding autos, all other retail sales rose 0.6%, after rising 0.1% in July.

Retail sales have suffered during the recession as consumers worried about a tough job market have been reluctant to open their wallets.

But the National Retail Federation had been expecting back-to-school spending would rise more than 10% this year to $55.12 billion.

Consumers this year focused spending on the bare necessities, pushing retailers to offer deep discounts and other deals to win over customers.

Apple gave away free iPod Touch devices to students and teachers



purchasing new computers, while Staples dropped prices on USB memory sticks and laptops. Clothing store Charlotte Russe dropped some T-shirt prices to just $1.99 and offered 50% off a second pair of jeans.

But despite retailers' best efforts to woo consumers, sales conditions remain tough.

The Federal Reserve's latest beige book, a survey of regional economic conditions, noted a weakening in consumer spending and a general slowdown in economic growth across the country.

Clothing-store sales rose 1.2% in August as general-merchandise sales grew 0.4%. Meanwhile, sales at sporting goods, hobby, book and music stores were up 0.9%.

Gas station sales climbed 1.9% in August. Food and beverage store sales rose 1.3%.

Furniture sales, however, slipped 0.5% while electronic and appliance store sales slid 1.1%.

Inventories increased 1.0% from the prior month to a seasonally adjusted $1.376 trillion, the Commerce Department said Tuesday. Economists surveyed by Dow Jones Newswires expected a 0.8% increase.

The gain was the biggest since July 2008 and suggested confidence by businesses in the economic recovery, which has been restrained because of a soft job market.

The data showed business sales in July rose by 0.7% to $1.090 trillion, the largest increase since 2.5% during March.

The inventory-to-sales ratio in July was 1.26, unchanged from June. The ratio indicates how well firms are matching supply with demand by measuring how long, in months, a firm could sell all current inventory.

Inventories in June were revised upward, to an increase of 0.5% from the previous report's 0.3% increase. Sales that month also were revised, falling by 0.5% instead of the previously reported 0.6% drop.

Wholesalers make up about 30% of all business stockpiles. Factories account for about 38%. Retailers make up the rest. The surge in July inventories was broad-based. Wholesale inventories grew 1.3%. Manufacturing inventories increased by 1.0%.

Retailers' stocks of goods rose 0.7%. Much of that increase was in autos, which saw a 2.5% gain in stockpiling. Excluding cars, other retail inventories were flat. Inventories at clothing stores dipped 0.1%, while inventories at furniture stores fell 0.4%.

U.S. NEWS

U.S. defense chief Gates unveils cost-saving steps

By Nathan Hodge

WASHINGTON—Secretary of Defense Robert Gates is changing the rules for doing business with the Pentagon, amid growing concern about the U.S. government's fiscal outlook.

Mr. Gates announced new guidelines Tuesday afternoon that will accelerate a cost-saving drive launched earlier this summer. That initiative aims to eliminate $100 billion in wasteful spending over the next five years, with the savings intended to help the military invest in new equipment and preserve troop strength, even as military budgets flatten.

Among other things, the new purchasing guidelines mark a shift toward "fixed price incentive fee" contracts, which reward suppliers for beating negotiated cost targets but force them to absorb losses for overruns, and divide risk more evenly between the government and the contractor. The new rules also impose stricter cost ceilings on several big-ticket weapons programs, which must come in under budget or they won't be allowed to proceed.

The broad outlines of the cost-saving push are already public, but this new series of directives gives specific marching orders to the department's procurement bureaucracy.

Ashton Carter, the Pentagon's chief weapons buyer, planned to address several hundred of the department's senior managers Tuesday to explain the new guidance. The officials—who are flying in from around the country—are responsible for overseeing the roughly $400 billion the Defense Department spends annually on hardware and services.

"We're all accustomed to productivity growth in the commercial world where you get a better computer every year for the same money, or maybe even cheaper, and we're not seeing that kind of productivity growth in the defense economy, and we would like to see more of it," Mr. Carter said in an interview. "And one of the things we would like to do is incentivize it."

As an example, Mr. Carter singled out four high-profile programs worth a total of about $200 billion over several years that the department will subject to more rigorous cost controls: the SSBN-X, a Navy effort to develop a new ballistic-missile submarine; the Ground Combat Vehicle, the Army's program to replace the Bradley armored fighting vehicle; the Air Force's "long range strike" project, which would replace a next-generation bomber that was canceled last year; and a new presidential helicopter.

He said the Pentagon would impose an "affordability target" on each and wouldn't allow the programs to proceed to production if they aren't hitting those targets.

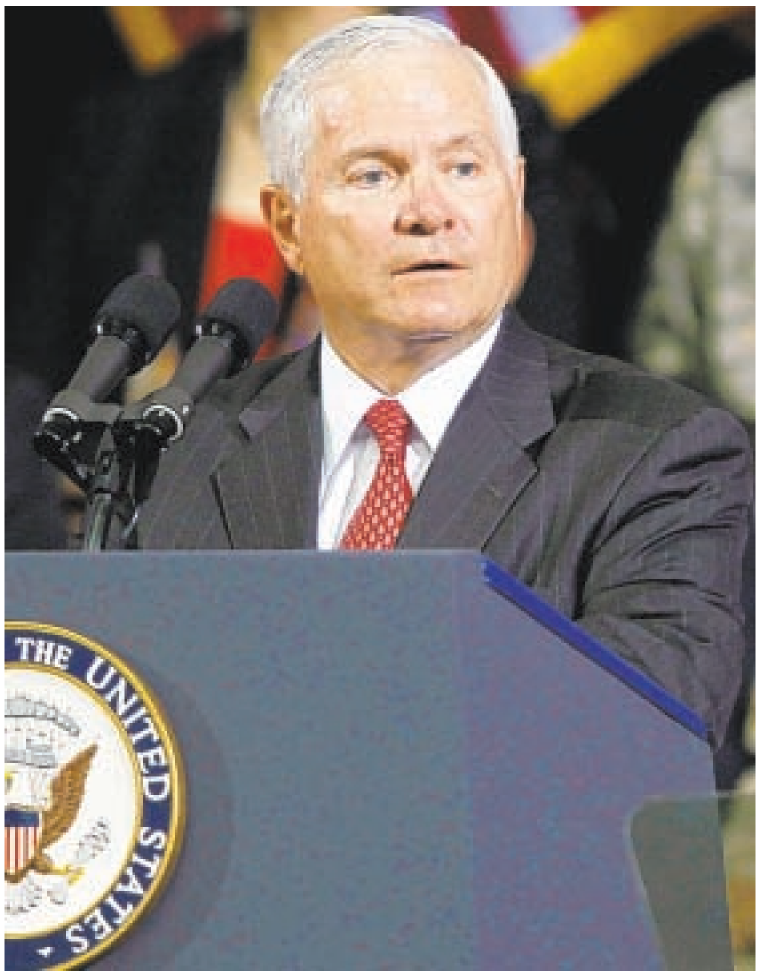
Mr. Carter also hinted at more outright cancellations. Last year, Mr. Gates scrapped a number of major procurement programs, including an ambitious Army modernization plan and a next-generation Navy destroyer. "We will undoubtedly do more of that" on programs that aren't needed or that are performing poorly, Mr. Carter said.

In unveiling the new guidelines, Mr. Gates and Mr. Carter appear intent on reassuring the defense industry, which has been anxious that the ongoing efficiency drive will cut into profitability. Some of the measures, for instance, will reduce paperwork and overhead. "We've discussed these initiatives with senior leaders of industry," said Mr. Carter. "They understand that...making a smooth transition to the era we're in is good for them, as well as for the government—and good for market perception of them and their attractiveness as an investment."

In recent months, defense companies have begun making their own plans for this new reality, with some companies moving to restructure in anticipation of flat or declining U.S. defense budgets.

Most recently, defense giant **BAE Systems** PLC announced plans to put parts of its North American commercial manufacturing business up for sale. Last week, **Boeing** Co. said it would restructure its Military Aircraft segment and cut jobs in its Defense, Space & Security sector. Also last week, **Lockheed Martin** Corp. said more than 600 executives had taken up a company buyout offer, part of a cost-saving drive.

The Pentagon's efficiency drive also faces political resistance, with lawmakers promising hearings this month on the belt-tightening initiative, in part over concerns about preserving constituent contracting jobs.



Reuters

U.S. Defense Secretary Gates announced plans Tuesday to accelerate cost cuts.

Centrist Democrats seek to keep tax cuts

By Martin Vaughan

WASHINGTON—A group of centrist House Democrats will call for a short-term extension of tax cuts for upper-income Americans, adding to growing pressure on Democratic leaders on the issue.

The group includes House "Blue Dog" and freshmen Democrats who are feeling the heat from voters worried that letting the tax cuts expire could worsen the recession. They are gathering signatures on a letter to be sent to House Speaker Nancy Pelosi, of California, and Majority Leader Steny Hoyer, of Maryland, as early as this week.

"While those in the highest income brackets comprise only 2% to 3% of American taxpayers, economists estimate that they are responsible for 25% of national consumer spending," according to a draft of the letter reviewed by Dow Jones Newswires. "As 70% of our economy is driven by consumer spending, this is not the time to jeopardize further growth," the letter states.

The effort is being spearheaded by Blue Dogs Jim Matheson of Utah and Glenn Nye of Virginia, as well as Reps. Melissa Bean of Illinois and Gary Peters of Michigan.

House leaders have said their priority is to extend the middle-class tax cuts, which Democrats define as those affecting taxpayers with income of less than $250,000. President Barack Obama and White House aides in recent days have amplified calls to let tax rates for upper-income people rise to where they were before the 2001 tax-cut law.

Getty Images

Democrat Melissa Bean of Illinois

The centrist House Democrats join a growing faction that is splitting with Mr. Obama on the question. Former White House budget director Peter Orszag last week said Democrats should consider a temporary extension of the tax cuts for wealthy Americans.

The House centrists' letter calls only for a "short-term" extension of the upper-income tax cuts, without stating precisely how long it should be. It said the cost of that short-term extension should be offset with spending cuts to comply with House pay-as-you-go budget rules.

Mr. Matheson is already on record calling for an extension of all the tax cuts. Mr. Nye, a freshman, is in a battle to hang on to his seat.

L.A. charter schools fight for space

BY TAMARA AUDI

LOS ANGELES—The scruffy rooftop basketball court of the Larchmont School, a small charter school packed into one floor of an 83-year-old building, offers a breathtaking view of the city's priciest new gem: the $578 million Robert F. Kennedy Community Schools.

"It's beautiful, isn't it?" said Larchmont's executive director Brian Johnson, gazing at the gleaming green rectangular structure surrounded by pristine athletic fields and rows of stately palm trees.

The new public-school complex has drawn criticism for its cost at a time when Los Angeles city schools have laid off thousands of teachers to help plug its $640 million budget gap.

But advocates for charter schools say the six-school campus is not just an ill-timed expense: They see it as a symbol of their frustrating quest to secure classroom space for charter-school students in Los Angeles.

"When charter schools see projects of this kind being finished for certain kids, they see there is a system of haves and have-nots that is really being created," said Jed Wallace, president of the California Charter Schools Association, of the complex, which opened its doors on Monday to 4,200 students from kindergarten through 12th grade.

Charter schools are independent but can be part of public-school districts. In Los Angeles, parents frustrated with the failing city schools have embraced charters, which can offer smaller class sizes and more parental control.

Teachers' unions complain that charter schools, which are typically nonunion, don't have to play by the same rules as traditional public schools, which must accept every student living in the district.

Charter schools have long complained of being shut out of space and resources in the Los Angeles school district, even as their popularity has increased.

Last year, a parent group and others pushed for a charter group, Alliance for College Ready Public Schools, to run the new $230 million Los Angeles Central High School Number 9, which opened last year.

David McNew for The Wall Street Journal (2)

Transferring students tour Robert F. Kennedy Community Schools (above). The new campus sits on the site of the old Ambassador Hotel (right).

City-schools chief Ramon Cortines objected, and the school stayed a traditional public school

In May, the charter-schools association, which represents 600 such schools across California, sued the Los Angeles Unified School District, the nation's second-largest, for failing to provide classroom space to charters as required by Proposition 39. That state ballot measure passed in 2000 makes it easier to pass public-school bonds and requires public schools to share space with charter schools.

Last week, pending the outcome of the lawsuit, the group asked a Los Angeles Superior Court judge for a summary judgment that could force the district to find classrooms for every charter school that applies for it.

Los Angeles school officials say they work hard to find charter-school space in a crowded system where 50,000 students out of 678,000 attend school on a year-round calendar because of lack of space.

"We believe charter schools are our valuable partners," said Jose Cole-Gutierrez, director of charter schools for Los Angeles Unified School District. Mr. Cole-Gutierrez said that this year, for example, the district awarded most of Devonshire Elementary School to a charter school.

Parker Hudnut, executive director of the Innovation and Charter School division of the city schools, said the district made offers of space to 75% of charter schools who requested it for the 2010 school year.

But charter-school advocates say that out of 81 charter schools that applied for space this year, only 45 received offers, and none was compliant under Prop 39, which says charter students are entitled to facilities "reasonably equivalent" to those at public schools.

School officials say one reason for the discrepancy is that Prop 39 is not completely clear-cut on a district's obligation to charters.

Officials also point to Measure Q—a $7 billion bond initiative passed by Los Angeles County voters in 2008 that sets aside $450 million specifically for charter-school facilities. Charter-school advocates say it is too little, too late. The bonds, which are tied to property value, won't likely be sold until 2015.

Larchmont's Mr. Johnson says he doesn't begrudge the district for building the Kennedy school, with its soaring library ceilings and state-of-the-art performance studios. He just wishes it might have found more space to accommodate his students. Larchmont applied for space for 260 students, and received an offer for three classrooms in a local elementary school. "That just wouldn't work," he said.

Instead, Mr. Johnson had to find space in an aging school building owned by the Presbyterian Church. He said he would have rather used the $174,000 he's spending on rent, utilities and maintenance on school supplies or educational programs.

Officials said the Kennedy project's cost skyrocketed after a legal battle with Donald Trump, who wanted to build a skyscraper on the site, and preservationists. The campus sits on the former site of the Ambassador Hotel, where Mr. Kennedy was assassinated in 1968.

"This school is so beautiful I don't want to touch it," said Gloria Martinez, a 17-year-old performing-arts student starting her senior year at the Kennedy school. At Los Angeles' Belmont High School, which opened in 1923, she had to build sets and sew costumes in hallways. Now, Ms. Martinez will have rooms with have new sewing machines and a professional-quality dance space. "I love this school," she said. "I can't wait to start."

Corporations' cash boosts Republicans

BY BRODY MULLINS

Conservative and business groups, fueled by newly legal large donations from corporations, are mounting an effort to elect Republican candidates that could rival political spending by labor unions and liberal organizations for the first time in years.

Groups set up as so-called 527 organizations—which spend money themselves rather than give it to candidates or parties—raised $50 million to support Republican candidates this election cycle through June 30, according to data compiled by the nonpartisan Center for Responsive Politics. Similar groups that predominantly back Democrats raised $53 million. That is a change from two years ago, when spending by 527 organizations backing Democrats ran nearly triple that of groups supporting Republicans.

In all, about a dozen major conservative and business organizations whose leaders The Wall Street Journal interviewed plan to spend about $300 million on the 2010 campaign, which would match major labor unions' and liberal organizations' plans as described by those groups' leaders.

In the last midterm election, 2006, groups that predominantly support Republicans spent less than two-thirds what labor unions and liberal groups did, figures from the nonpartisan Campaign Finance Institute show.

"We're moving up in weight classes," U.S. Chamber of Commerce political director Bill Miller said of his group, speaking during a late-August trip to Columbus, Ohio, to endorse Republican candidates.

By buying television spots that favor Republican candidates, the groups hope to help the GOP make up for fund-raising shortfalls by its party organizations and candidates.

Campaign-finance reports show that Democratic candidates in the closest races for Congress enjoy, on average, a two-to-one advantage in money in the bank. To counter that, the pro-Republican groups plan to spend $100 million beginning this week on 60 to 70 close House races, according to people familiar with their plans.

The stepped-up political spending plans are partly a result of a January ruling by the Supreme Court.

In terms of total spending of all kinds on all congressional races, which was reported at $3.6 billion in 2008, the outside groups' effort may seem like a small factor.

But it looms larger when viewed in the context of fund-raising gaps in the closest House and Senate races. In these, Democratic candidates and the Democratic Party have about $80 million more in the bank than their Republican counterparts, according to fund-raising data.

Leaders of more than a dozen pro-Republican groups hold weekly strategy sessions. Because the first was held at Karl Rove's home on Weaver Terrace in Washington, participants are known by insiders as the Weaver Terrace group. They divide up House and Senate races to avoid duplication, as labor unions and liberal groups have long done.

Mr. Rove and another Republican strategist who attends, Ed Gillespie, helped launch two of the newest and biggest pro-Republican organizations, American Crossroads and Crossroads GPS. Together, they plan to spend $52 million this fall.

The two groups have spent $1.5 million buying TV ads to help Nevada Republican Sharron Angle challenge Senate Majority Leader Harry Reid, who leads her in campaign fund-raising, $19.2 million to $3.5 million.

Crossroads GPS also spent $1 million in California, where Democratic Sen. Barbara Boxer faces Republican challenger Carly Fiorina.

In all, conservative and business groups paid for $9.5 million in pro-Republican television ads in August, three times the amount spent by labor unions and liberal groups.

Asked about the pro-GOP efforts, a spokesman for the Democratic Senatorial Campaign Committee said, "Our campaigns have the resources they need to wage competitive races."

The stepped-up spending plans are partly a result of a January Supreme Court ruling that let corporations and unions use their own money to pay for campaign ads. Before the ruling, the main way companies got involved was through their political-action committees, funded by contributions from employees. Donations from PACs go directly to candidates and parties.

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