



Unilever agrees to buy makers of Alberto VO5 for \$3.7 billion

BUSINESS & FINANCE 19

North Korean leader makes heir-apparent son a general

WORLD NEWS 10

THE WALL STREET JOURNAL.

VOL. XXVIII NO. 168

EUROPE

Tuesday, September 28, 2010

DOW JONES
A NEWS CORPORATION COMPANY

europe.WSJ.com

Ireland, Portugal fuel regional woes

By BRIAN BLACKSTONE

FRANKFURT—Concerns about the economic and financial stability of Europe's periphery mounted Monday as one of Ireland's largest and most troubled banks was downgraded and political infighting raised doubts about Portugal's austerity plans.

Financial markets are on edge as these countries and others, such as Greece, that were battered by the downturn try to protect their banks

and cut budget deficits by curbing spending and raising taxes, amid a backdrop of economic stagnation and soaring joblessness.

Some economists call that an impossible task and say it is likely that one or more of these countries will eventually tap a €750 billion (\$1 trillion) rescue fund created by the European Union and International Monetary Fund, adding fresh uncertainty about the 16-nation currency bloc.

The euro retreated from five-month highs against the U.S. dollar Monday on the banking and deficit concerns.

But other reports Monday suggested that the region's recovery as a whole remains intact. Bank lending increased, as did money supply in the euro zone, an indication that the European Central Bank's massive lending programs initiated at the height of the financial crisis are leading to more lending on the part of commercial

banks, which should fuel business and household spending.

But that recovery masks deep divisions within the currency zone. Ireland's gross domestic product plunged nearly 5%, at an annualized rate, during the second quarter, raising doubts about whether Dublin can generate enough tax revenue to trim its budget deficit. On Monday, Moody's Investors Service downgraded the senior debt of **Anglo Irish Bank Corp.** by three notches to Baa3. Ire-

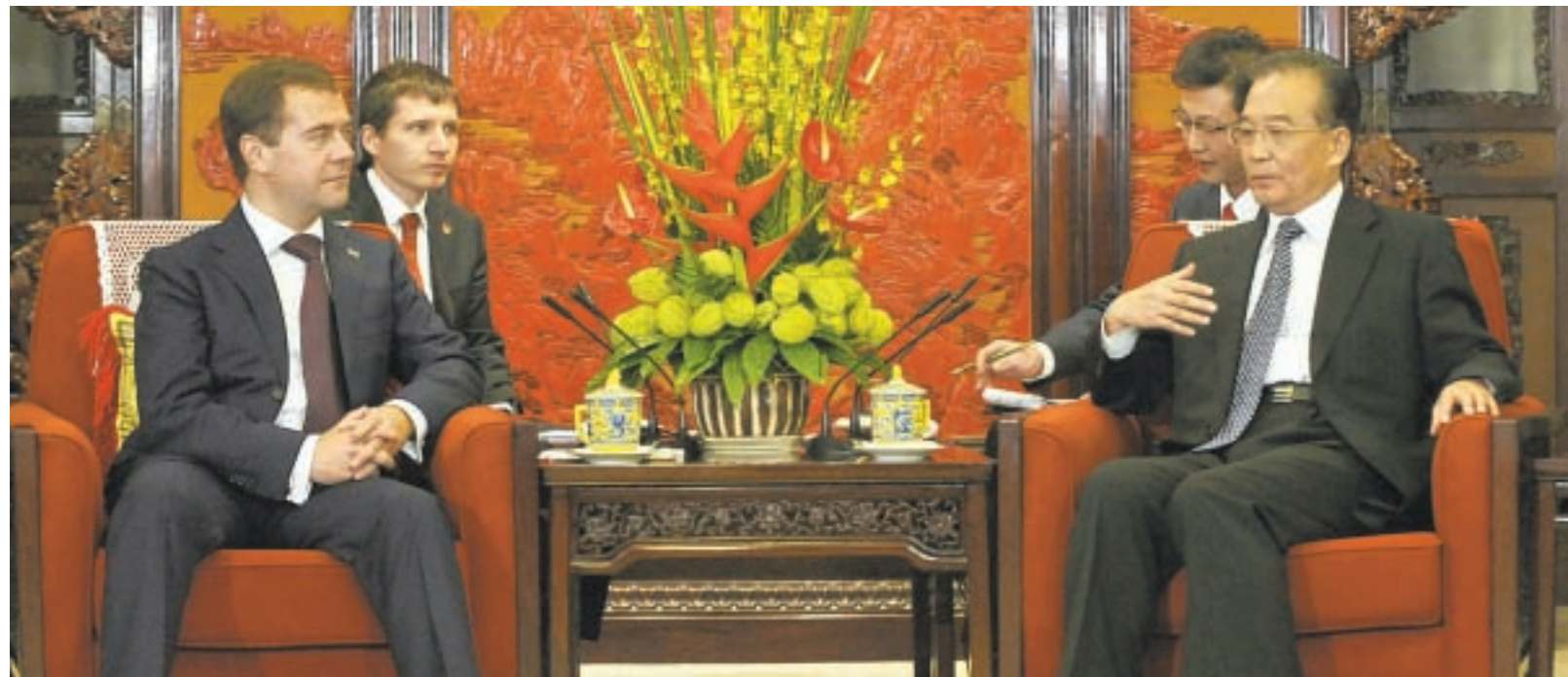
land's property collapse has crippled its banks, and the government has so far spent €33 billion—about one-fifth of its GDP—to rescue them.

ECB President Jean-Claude Trichet has repeatedly praised Dublin's efforts to repair its state finances, and ECB officials have hailed its spending cuts as a model for other high-debt countries such as Greece. German parliamentarian Sven Giegold, noting the contradiction of Ireland's "good pupil" behavior and the

fact that it "is the first country to see a double-dip" downturn, asked Mr. Trichet at a European parliament hearing on Monday "what lessons to draw."

Mr. Trichet replied that Ireland "has proved in the past that they were able to take up the difficult challenges they had to face up to."

"If the policy path is broadly right...and the market continues to charge you a funding cost that is clearly *Please turn to page 6*



Getty Images

Russian President Dmitry Medvedev meets Chinese Premier Wen Jiabao in the Great Hall of the People in Beijing on Monday during his three-day state visit to China.

China and Russia seal energy deals

China and Russia signed a string of deals to boost their new energy partnership, though the finalization of a gas-supply agreement remained out of reach.

The agreements covered Russian crude oil and gas supplies to China as well as cooperation in coal, renewable energy and nuclear power—illustrating the breadth of the partnership.

The agreements were signed Monday in Beijing during the second day of Russian President Dmitry Medvedev's visit to China.

Leaders attend pipeline ceremony..... 11

The Quirk



Reliving the gory days: Cinema's elderly zombies win the undying loyalty of their fans. Page 33

World Watch

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

Editorial & Opinion

The next nuclear arms race. Page 14

Fed considers new tactics to bolster slow U.S. recovery

By JON HILSENATH

Federal Reserve officials are considering new tactics if they resume purchases of long-term U.S. Treasury securities to bolster a disappointingly slow recovery.

Rather than announcing massive bond purchases with a finite end, as they did in 2009 to shock the U.S. financial system back to life, Fed officials are weighing a more open-ended, smaller-scale program that they could adjust as the recovery unfolds.

The Fed hasn't yet decided to step up its bond purchases, let alone agree on an approach. After its last meeting, the Fed's policy committee said it was "prepared" to take new steps if needed. A call on

whether to buy more bonds depends on incoming data about economic growth and inflation; if the economy picks up steam, officials might decide no action is needed.

In March 2009, the Fed said it would buy \$1.7 trillion worth of Treasury and mortgage-backed securities over a six to nine month period—known inside the Fed as the "shock and awe" approach. Most Fed officials believe that helped to drive down long-term interest rates and spurred the economy.

Under the alternative approach gaining favor inside the Fed, it would announce purchases of a much smaller amount for some brief period and leave open the question of whether it would do more,

a decision that would turn on how the economy is doing. The approach would give them more flexibility in the face of an uncertain recovery.

Most economists at the Fed and outside believe that the Fed's decision to embark on what's known as "quantitative easing"—buying bonds—after cutting its target for short-term interest rates to nearly zero helped prevent an even deeper recession.

A move to resume the purchases would be a big decision for the Fed, which just a few months ago was talking about how to reduce its portfolio. In deciding how to resume its large-scale purchases, if it decides to do so, the Fed is considering both *Please turn to page 8*

Investing in education.
Our idea of a winning formula.

The elements of innovation never change. That's why Intel invests nearly \$100 million annually in math, science, technology and engineering programs worldwide. Learn more at intel.com/inside.

Sponsors of Tomorrow.

Copyright © 2010 Intel Corporation. Intel and the Intel logo are registered trademarks of Intel Corporation in the United States and other countries.

Bahrain BD 1.50 - Egypt \$1.75 (CV) Jordan JD 2 - Kuwait KD 1 - Oman OR 2 Qatar QR 4 - Saudi Arabia SR 14
 THE WALL STREET JOURNAL.
 3.9
 9 7792 19 98692 4

PAGE TWO

Who would sit at Trichet's table?

[Agenda]

BY PATIENCE WHEATCROFT



Step forward, please, those brave individuals who would sit on the advisory panel of "wise men and women" that the president of the European Central Bank wants to see monitoring the region's public finances. What a responsibility to take on, with, presumably, no promise of a cash bonus for success, only opprobrium in the event of failure.

It seems that Jean-Claude Trichet is still casting around for ideas that might prevent a repeat of the worst financial crisis in a century. Speaking on Monday to the European Parliament's Committee on Economic and Monetary Affairs, he suggested that the advisory panel might provide a useful "second opinion" for the euro countries.

A second opinion, however, is worth having only if it is given weight. There were plenty of voices warning of the problems that were being stacked up as debts, both personal and governmental, soared and banks found ever-more innovative ways of multiplying risks but regulators seemed deaf to them and politicians, enjoying the boom, simply did not want to hear.

Mr. Trichet asserts that there were failings in financial models that meant they didn't "necessarily capture all the relevant dimensions of systemic risk"; that there are "pockets" within financial systems, such as insurance and hedge funds, whose implications for financial stability weren't properly considered. But while there is clearly room for improvement in monitoring economies, enough of the hazards were known to have prompted action to address them, had the appetite only been there.

In some quarters, the appetite is still lacking. In Spain, trade unions have summoned a national



Labour party leader Ed Miliband at his party conference in Manchester Monday.

strike on Wednesday in protest over prime minister José Luis Rodríguez Zapatero's austerity package.

And in the U.K., the main opposition party has just elected a new leader, Ed Miliband, who is querying the scale and speed of the planned budget cuts and suggesting that there should be a new "living wage" limit set at more than 30% beyond the current minimum wage. Although he does not advocate legislating for that massive rise in labor costs yet, a wise stance since he is powerless to do so, his comments on the economy indicate an unwillingness to heed the scale of the problem and the need for drastic change.

Banks found ever-more innovative ways of multiplying risks but regulators seemed deaf.

Coming at a time when the International Monetary Fund has actually praised the drastic budget cuts being applied by the Conservative-led administration, the Miliband response seems even more foolhardy. He has indicated that he would look more to tax increases than tax cuts to repair the economy, ignoring the evidence that tax increases do not yield ever more income but,

beyond a certain level, they become counterproductive.

Every day brings increasing evidence that the U.K. is already at that level. Monday brought news that the building products company **Wolseley** will be moving its headquarters to Switzerland. There was no nonsense from the chief executive about moving the headquarters closer to the heart of its business activities, or Zurich offering a better supply of experts in plumbing products. Wolseley is moving because it wants to cut down its tax bill.

The U.K.'s "Foreign Controlled Companies" rules are deemed punitive by many businesses that make much of their profits overseas. They were the reason why advertising and marketing group **WPP** moved its headquarters to Ireland.

Wolseley said that the rules were "unhelpful" and by moving it will significantly cut its tax bill. But it is not just the corporate tax that the U.K. government will lose because of the company's move. With the head office will go some of the most highly remunerated people in the business, taking their incomes with them.

Ed Miliband, were he to get the chance, would hasten such people on their way. He wants to see a high-pay commission, that would help fulfill his aim of bringing greater equality in the country. While there are many people in the U.K. who might support the

view that top salaries have become unduly inflated, it should be the responsibility of owners of businesses, not government to determine the level of salaries.

Mr. Miliband, though, is an old-fashioned politician of the left, whose victory in the leadership ballot only came courtesy of the trades unions. That his narrow victory was won over his older brother David added an extra piquancy to the contest but it does not make his views any more palatable to the Blairite tendency in the Labour Party. Which is being interpreted as very good news for prime minister David Cameron, who now seems likely to have the benefit of a weak opposition while he concentrates on trying to right the economy.

Generous HSBC?

The messy changeover at HSBC isn't yet quite over, for it seems that John Thornton, the unsuccessful nonexecutive contender for the chairman's role, may now decide to seek advancement elsewhere. He would be a loss to the bank, bringing as he does have both vast experience of investment banking and an in-depth knowledge of, and relationships with, China. Another bank will surely be keen to take advantage of such qualifications.

It is said that Michael Geoghegan, the chief executive, wasn't comfortable with the idea of working with Mr. Thornton as chairman. In the event, with Douglas Flint named chairman, he decided that he would prefer to go anyhow. Which does raise a question over his payoff. Not the pension pot or the bonuses: those are his entitlement. Mr. Geoghegan is working, and being paid, until March 31. But why should there be a payment of £1.42 million to cover "notice provisions in his contract"? Why should they apply if the choice to go is his? And why is it necessary to pay a further £200,000 for a three-month consultancy? Mr. Geoghegan is giving that money to charity. Isn't it actually HSBC shareholders who are doing that?

What's News

■ **Nestlé said it will invest** about \$500 million over 10 years to produce more food and drink products with health benefits, a high-margin segment that has proved controversial with regulators and consumers. 19

■ **Belgium's successful debt** auction showed that investors still consider the country, which has been without a government for five months, a better bet than other euro-zone laggards. 4

■ **Ed Miliband**, new leader of the U.K. opposition Labour Party, will seek to recast the party's image, attacking the "establishment" thinking of recent Labour governments. 6

■ **The EU and the U.S.** are increasingly at odds over the future of regulations governing airline ownership. 4

■ **Wal-Mart offered to buy** South Africa's Massmart for \$4.6 billion, making a bid to expand in Africa ahead of its international rivals. 21

Inside



European firms that go offshore seek more data security. 31



Manchester City is learning fast from masters Chelsea. 32

ONLINE TODAY

Most read in Europe



1. 'Mr. Euro' Was Forced to Act
2. On the Secret Committee to Save the Euro, a Dangerous Divide
3. 'Social Network' Hits Harvard
4. Irwin Stelzer: Euroland Should Prepare for More Ups and Downs
5. Meeting Puts Pundits on Spot

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-JCH-917

Reader comment

europe.wsj.com/community

'The exit of Greece and others may be the end of the euro or it may be the salvation of the euro.'

Gigel Marinescu on 'Currency Union Teetering, 'Mr. Euro' Forced to Act'



Continuing coverage



Get continuing coverage and analysis of politics in the U.K. at wsj.com/uk

Question of the day

Vote and discuss: Will Ed Miliband be a good leader for U.K.'s Labour Party?

Vote at online at wsj.com/polls

Previous results

Q: What's the biggest issue facing Ireland?

Banking system	37%
Budget deficit	23%
Economic growth	16%
Political leadership	24%

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 Teletampa 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 Basınevi.

Registered as a newspaper at the Post Office.
Trademarks appearing herein are used under license from
Dow Jones & Co. ©2010 Dow Jones & Company. All
rights reserved. Editeur responsable: Patience Wheatcroft
M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200
Brussels, Belgium

NEWS

Segway's owner dies in U.K. accident

By Stephen Miller

The British owner of Segway Inc., manufacturer of the gyroscope-balanced "Personal Transporter," died Sunday after he drove his Segway off a cliff and into a river in Yorkshire, England.

Jimi Heselden, age 62, was riding a Segway designed for off-road use in an area popular with hikers. A passerby spotted him in the Wharfe River, but he was already dead. Police didn't give a cause of death, but said the death wasn't considered suspicious.

Mr. Heselden, who led a group that purchased Segway in 2009, became wealthy as chairman of Hesco Bastion Ltd. of Leeds, England, the manufacturer of wire cages used as the foundations of blast walls protecting soldiers in Iraq, Afghanistan, and other conflicts around the globe. He was listed as No. 395 on the Sunday Times Rich List, with a fortune estimated at about £166 million (\$263 million).

Originally a coal miner, Mr. Heselden dropped out of school to go into the pits at age 15. He lost his

job after a nationwide mining strike in 1984, and used unemployment compensation to found Hesco Bastion. The company at first produced fiberglass sprays, but then began making dirt-filled wire-mesh baskets, the first ones as a bulwark for a retaining wall at its own workshop in Leeds.

The first commercial versions were meant as structures to control seaside erosion. Water companies used them to shore up canals, and they were used during the recent Gulf oil spill to protect the shoreline.

In 1991, the British army came calling, and used Hesco's "Concertainers" as protective walls for troops during the Gulf War. During the Bosnian war they helped to shield the boulevard in Sarajevo known as "Sniper Alley."

In Afghanistan and Iraq they are used to protect U.S. and British troops from suicide bombers, bullets, and missiles.

Hesco claims it takes just 20 minutes for two men with a front-end loader to make a wall a meter high, a meter wide and 10 meters



Former coal miner Jimi Heselden, shown in a file photo, gave millions to charity.

long—a fraction of the effort that it would take with sandbags. Particularly useful to the military have been Concertainer cubes that come attached like an accordion that can be strung out for a third of a mile from a single 20-foot-long cargo container.

As a fortification concept, Concertainers are a revival of Renaissance gabions, wicker baskets filled with earth and stacked to form walls. Mr. Heselden protected his invention with international patents; his U.S. patent, granted in 2008, calls it a gabion.

Mr. Heselden, one of Britain's top philanthropists, gave about £23 million to the Leeds Community Foundation in recent years. In a rare interview with the Yorkshire Post this month, he said, "Life turned out pretty well for me, but I still work in the same area where I grew up and every day I see people who for whatever reason are down on their luck."

Heralded as revolutionary when it was unveiled by inventor Dean Kamen in 2001, the Segway has failed to garner the sales its original backers imagined. Mr. Heselden had previously owned part of an independent U.K. Segway distributorship, and his purchase of the Manchester, N.H.-based company in 2009 was accompanied by a terse announcement, with nothing about his plans for the Segway.

"It's a bit like the Victor Kiam thing," Mr. Heselden's spokesman told the New Hampshire Union-Leader, referring to the businessman who liked the Remington shaver so much he "bought the company."

—Email remembrances@wsj.com

3 subsidiaries
5 expansion plans
2 strategic options
One Credit Suisse
to guide you

People are not like numbers. They have opinions, goals, passions, and ambitions. That's why we strive to see beyond the financial targets and understand what success means to our clients. We can then deliver what really matters. And ensure our client's voice is never just another opinion. Credit Suisse, working to help its clients thrive since 1856.

credit-suisse.com



EUROPE NEWS

EU envoy backs looser airline rules

By DANIEL MICHAELS

European Union Transport Commissioner Siim Kallas concluded his first official visit to Washington facing an unusual diplomatic situation: The EU and the U.S. are increasingly at odds over the future of regulations governing airline ownership, and it is the EU that is pushing to loosen rules while a key congressman is pushing to tighten them.

Mr. Kallas, in office since February, met recently with top U.S. transportation officials as world aviation regulators prepared for a major United Nations meeting in Montreal starting Tuesday. A central issue at the triennial general assembly of the U.N.'s International Civil Aviation Organization is European Union efforts to reduce greenhouse emissions from airplanes by including them in its cap-and-trade system.

Many developing countries oppose the plan, but the U.S. is open to compromise, so Mr. Kallas worked to win Washington's support, said EU and U.S. officials. The ICAO assembly runs through next week, and participants expect tough negotiations. Other topics being addressed include improving aviation safety and coordinating reactions to volcanic eruptions.

Mr. Kallas met with Secretary of Homeland Security Janet Napolitano, Secretary of Transportation Ray LaHood and the chairman of the House Committee on Transportation and Infrastructure, James Oberstar (D., Minn.), among others. Talks covered trans-Atlantic cooperation in areas including aviation security, safety and the commercial operations of airlines.

On Monday, Mr. Kallas said a new open-skies agreement among the U.S. and the 27-nation bloc remains "far from completed."

The U.S. and EU have linked increasingly closely on aviation policy over the past decade as the EU assumed greater responsibility for aviation across its 27 member countries. Starting in the 1990s, the EU followed the U.S. model of airline deregulation, boosting competition and easing consolidation.

EU officials have since become vocal advocates for removing decades-old limits preventing foreigners from owning or controlling most countries' airlines. American owner-



EU Transport Commissioner Siim Kallas, seen at a July news conference in Brussels, said a new EU-U.S. open-skies agreement remains 'far from completed.'

ship rules are among the strictest, limiting foreigners to 25% of voting stock.

"We will continue to push for...dismantling the investment restrictions that still make the aviation sector the global anomaly," Mr. Kallas told a Washington audience last week.

But Rep. Oberstar, who voted for domestic airline deregulation in 1978, has become an outspoken critic of the trend, saying it has hurt consumers. U.S. deregulation was the first crack in decades of tight airline regulation, prompting a gradual global trend to relax rules.

To address the issue, the 17-term representative included provisions to tighten airline oversight in draft legislation funding the Federal Aviation Administration. Arguments over the proposals were one reason the FAA bill failed to pass in July, leaving domestic aviation policy and international agreements dangling.

A spokesman for Mr. Oberstar, who could lose his powerful chairmanship if Republicans win control of the House in November's midterm elections, said the congressman will

renew a push to pass the bill before the end of the year.

One of Mr. Oberstar's most contentious proposals is to roll back alliances that have allowed U.S. carriers to link marketing operations closely with foreign rivals. EU officials support the alliances—Star, SkyTeam and oneworld—as a way to let airlines adapt to market conditions without merging.

Mr. Oberstar said in a recent interview that he opposes the alliances because their members "just get together and cut up the international marketplace."

In his view, problems began with U.S. airline deregulation, which he said released only a brief wave of competition, followed by years of consolidation.

"What is happening in aviation is the diametric opposite of what we expected in 1978," Mr. Oberstar said. "We've seen a concentration of economic power domestically and internationally."

In a sign of that trend, **Southwest Airlines** Co. on Monday said it plans to buy no-frills rival **AirTran Holdings** Inc. A spokesman for Mr.

Oberstar said he is examining the deal's implications, but he generally opposes consolidation.

Mr. Oberstar's position collides with recent decisions by the Obama administration, including treaty deals that relax international aviation. The U.S. Department of Transportation in July approved a waiver for airlines in the oneworld alliance, including **AMR Corp.**'s American Airlines and **British Airways PLC**, to cooperate across the Atlantic Ocean in ways normally forbidden as collusion. In August, the Department of Justice approved the merger of **UAL Corp.**'s United Airlines and **Continental Airlines Inc.**, a deal Mr. Oberstar has publicly opposed.

Despite those setbacks, Mr. Oberstar has succeeded in blocking EU efforts to link more closely with the U.S. airlines. In 2005, as the two sides were negotiating to substantially relax restrictions on each other's carriers, the U.S. Department of Transportation proposed granting foreign investors in U.S. carriers more power over commercial decisions. Mr. Oberstar threatened instead to tighten legal restrictions,

Milestones in the sky

Key events in airline regulation and deregulation

- **1946:** U.S.-U.K. aviation treaty forbids foreign control of airlines.
- **1978:** Domestic aviation deregulated in U.S.
- **1992:** The Netherlands and U.S. relax restrictions on airlines in first 'open skies' treaty, setting global precedent.
- **1997:** Star Alliance founded, the first major global airline linkup.
- **2004:** Air France buys KLM, in first big crossborder airline merger.
- **2007:** U.S. and the EU agree on an open-skies treaty, partially deregulating trans-Atlantic aviation.
- **2010:** Second phase of U.S.-EU treaty broadens deregulation but leaves ownership limits in place.

Source: WSJ research

forcing the department to yank its proposals.

The U.S.-EU aviation treaty that emerged in 2007 left most restrictions in place. A follow-up treaty signed in July again skirted the issue due to Mr. Oberstar's opposition, irking European officials.

Critics of Mr. Oberstar, which include many U.S. airline executives, say his real priority is protecting labor unions that support him. He dismisses the charge.

Advocates of deregulation say governments should stop treating airlines differently from other critical industries, aside from safety oversight. They note the U.S. allows significant foreign investments in banking, telecommunications and defense.

Mr. Oberstar disagrees. "Airlines are not like department stores or cracker manufacturers," he said. "These are the crown jewels of transportation." Airspace, he said, "should be managed in the best public interest, and that does not mean consolidation of economic power."

—Josh Mitchell
contributed to this article.

Belgian debt auction eases investor worries

By JOHN W. MILLER

BRUSSELS—A stalemate between Belgium's two feuding language groups that has left the country without a government for five months, has unnerved Europe's government-bond markets—but a successful debt auction on Monday showed investors still consider the divided country a better bet than other heavily indebted euro-zone nations like Ireland, Greece and Spain.

The gaps between the yields on Belgium's 10-year bonds and Germany's, which is commonly used as a baseline, are more than double what they were a year ago.

"There have been several spikes this year, and this one was partly due to the political scenario," says Jean Deboutte, head of investor relations for the Belgian Debt Agency. "You need a government to make

more spending cuts and further reduce the deficit."

Investors remain wary. Belgium's government debt is roughly 100% of gross domestic product, trailing only Greece at 115% and Italy at 116% in the European Union.

"It is a massive number," says Janet Henry, chief European economist for HSBC in London.

And then there is the messy political situation.

After the previous government collapsed in April, an election in June delivered a big win for the New Flemish Alliance, a party advocating more autonomy for Dutch-speaking Flanders. But it can't reach terms with other parties to form a government.

Still, on Monday, the authorities sold \$1.03 billion of bonds maturing in 2016, \$1.26 billion due in 2020, and \$794.6 million due in 2041.

The sale went smoothly, with

bidders outnumbering buyers by more than two to one.

And Belgium's 10-year yield spreads of 0.863 percentage point—up from 0.389 point a year ago—are still much lower than those of Italy, at 1.6 percentage points; Spain, 1.855 points; Portugal, 4.116 points; Ireland, 4.555 points; and of Greece, at 8.874 points.

"We've had political chaos before, it's nothing new," said Philippe Ledent, an economist with ING in Brussels.

Despite its high government debt, Belgium has some economic strengths. Belgians are sitting on almost \$1 trillion in savings.

The net assets of Belgian households are equivalent to 180% of GDP, the highest in the euro zone, according to a study by ING. Around a third of household assets are in cash.

The Belgian budget deficit, pro-

jected at 4.5% of GDP this year, is one of the lowest in the European Union.

Greece's is forecast at 8.1% in 2010, Ireland's at 12% and Spain's at 9.3%.

"Even a caretaker governments can manage the deficit," says Gilles Moeck, an economist for Deutsche Bank in London.

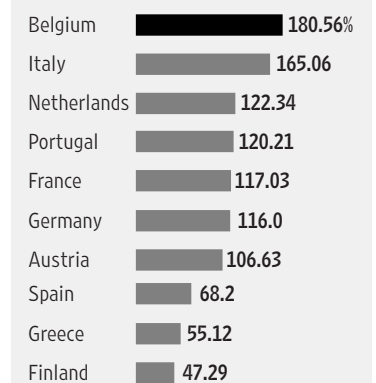
Meanwhile, in a survey published by the French-language newspaper *Le Soir* this weekend, only 12% of Belgians said they wanted to see the country split apart.

"The NVA won the election because they advocated more regional autonomy, not separation," said a Dutch-speaking senior politician. "There's no constituency for breaking up the country."

Talks have been less contentious, and the two parties will meet again Tuesday as part of a fourth round of negotiations.

Big savers

Worries about Belgium's debt are minimal thanks to Belgians' high household saving rate. Household saving rate as a percentage of GDP.



Note: Figures are for 2008, most recent available
Source: ING

YES, WE DO NETWORKING.

(FEEL FREE TO CHECK OUR REFERENCES)



BMW Group



Businesses big and small are demanding more from their enterprise networks than ever before. But delivering more takes a new approach to networking. Fortunately, that's what we do. HP has teamed up with these leading companies (and many more) to develop simplified solutions that are more flexible, dependable and affordable. What can we do together?

Network your world at hp.com/networking/change

LET'S DO AMAZING



EUROPE NEWS

Labour leader to distance himself from Brown, Blair

By LAURENCE NORMAN

MANCHESTER, England—The new leader of the U.K. opposition Labour party, Ed Miliband, will seek to recast the party's image Tuesday, attacking the "establishment" thinking of the recent Labour governments of Tony Blair and Gordon Brown and acknowledging the public's anger with the party's economic management.

In his keynote speech to Labour's annual conference Tuesday afternoon—the first since May's national election that ended the party's 13 years in power—Mr. Miliband is expected to stick to the message of change that narrowly won him the leadership contest.

Mr. Miliband is expected to promise a new approach "to once again make Labour a force that takes on established thinking," according to excerpts provided by his office. He is due to say Labour must become a force that "speaks for the majority and shapes the center ground of politics."

The 40-year-old, who edged out older brother David Miliband for Labour's top job, is expected to say the new generation now leading the party has "different" attitudes, ideas and ways of doing politics.

The speech, which aides said will be the most open and personal of his career, will likely be seen as a repudiation of swaths of the pro-market centrist New Labour agenda of former Prime Minister Tony Blair in particular.

However, Mr. Miliband will also explicitly distance himself from his political mentor, Gordon Brown. He will call for a new, humbler approach from Labour and attack—although not apologize for—Mr. Brown's prerogative claims that his policies had abolished the era of boom-and-bust economics.

"The hard truth for everybody in this hall is that a party that started



Ed Miliband, left, the new leader of the Labour Party, with brother David.

out by taking on old thinking became the prisoner of its own certainties," he is expected to say. "And when you saw jobs disappear and economic security undermined, I understand your anger at a Labour government that claimed it could end boom and bust."

Mr. Miliband's speech will also criticize Labour for backing university tuition fees, doing too little to contain skyrocketing personal-debt levels, and for failing to stand up "to the old ways in the City which said deregulation was the answer."

His expected remarks could ruffle some in the party who supported

David Miliband in the leadership race. Some senior party figures bristled at the younger Mr. Miliband's call for the party to change, noting that it was he who wrote Labour's pre-election manifesto and was a longtime adviser to Mr. Brown.

However, many of the people around the new leader say only by making a clean break from the Brown-Blair era can Labour convince the public to start listening to them again.

Mr. Miliband's speech comes to the backdrop of a debate within Labour over how best to pare down the U.K.'s hefty budget deficit.

On Monday, former Chancellor of the Exchequer Alistair Darling urged his party not to pull away from his pre-election plan to halve the deficit over four years.

"People know there's a deficit; they know it needs to come down. And if you deny that, frankly people won't listen to you, they will walk away and it will have a disastrous consequence," Mr. Darling said.

Still, Ed Balls, the former education secretary who finished third in Labour's leadership campaign, is urging the party to slow its deficit-reduction ambitions.

Writing in the *Guardian*, Mr. Balls said "the only way to secure genuine, lasting support from the voters is to set out a distinctive argument and give them a real choice," he wrote.

So far, Ed Miliband has said Mr. Darling's four-year plan is a "starting point" but could be improved.

Prime Minister David Cameron's Conservative-Liberal Democrat coalition government is aiming for a £113 billion (\$179 billion) fiscal consolidation over the next five years—about £40 billion more than Labour had targeted. The government's plan Monday won backing from the International Monetary Fund, which said it "greatly reduced the risk of a costly loss of confidence in fiscal sustainability."

Meanwhile, in a speech at the conference that won him a prolonged ovation, David Miliband urged the party to unite around his brother, who he said would be a "great new leader."

The elder Mr. Miliband also confirmed he is still deciding whether to remain in frontline politics.

Some party figures who supported Ed Miliband in the leadership race would like him to offer his brother the high-profile shadow Treasury role. Others are pushing for Mr. Balls or his wife, Yvette Cooper, to get that role.

Ireland, Portugal fuel concern across region

Continued from first page
unsustainable, why not use the facilities available?" Goldman Sachs economist Erik Nielsen said in a note to clients.

Greece is already operating under a separate EU-IMF bailout package that largely finances it into 2012. But even that rescue has failed to quell doubts in financial markets about Athens' ability to repay its debts. Yields on 10-year Greek government bonds are above 11%, and on Monday Standard & Poor's global head of sovereign ratings, David Beers, said a restructuring of Greek debt is "one of the options that we have to consider."

To avoid such scenarios in the future, Mr. Trichet called for beefed-up surveillance of European budgets, including an advisory panel of "wise men and woman at the EU level who would provide a second opinion."

Financial markets have also set their sights on Portugal, driving the yield spread between Portuguese and German 10-year bonds up Monday even as Portugal's finance minister, Fernando Teixeira dos Santos, called deficit reduction an "immediate priority" of the government.

ECB President Jean-Claude Trichet has called for surveillance of European budgets to be beefed up.

Organization for Economic Cooperation and Development Secretary-General Angel Gurría, threw his support behind Lisbon. "I am confident Portugal will weather this crisis," he said at a news conference presenting the OECD's latest economic report on Portugal. But financial markets are questioning Lisbon's ability to deliver on its deficit pledge.

Portugal's biggest opposition party, the Social Democratic Party, last week said it won't approve the budget if the government insists on further tax increases. Portuguese Prime Minister Jose Socrates said Friday that if the budget weren't approved, the government wouldn't be able to function.

Ireland and Portugal together only make up 3.6% of euro-zone GDP. Together with Greece, they represent 6%. Of the three, only Portugal expanded last quarter.

Much of the rest of the currency bloc appears on solid footing. The region grew at nearly a 4% rate last quarter, though many economists expect a significant weakening this quarter and next.

But the region is expected to skirt a renewed contraction, ECB officials say, a forecast supported by the bank's latest money-supply and lending figures. The ECB's broadest measure of money supply increased 1.1% from a year ago, a much bigger rise than economists had expected. Private-sector lending rose 1.2%, thanks to a 2.9% rise in lending to households that offset a slight drop in business loans.

—Irene Chapple and Bernd Radowitz contributed to this article.

IMF endorses U.K. austerity plan

By PAUL HANNON

LONDON—The U.K. government's austerity measures are credible and essential to a sustainable economic recovery, the International Monetary Fund said Monday.

In a ringing endorsement of the new government's five-year budget plan, the IMF said while the measures may crimp economic growth in the near term, the cost would be outweighed by longer-term benefits.

"The consolidation plan and implementation of early measures to tackle the deficit...greatly reduces the risk of a costly loss of confidence in fiscal sustainability and will help rebalance the economy," IMF economists said following their annual visit to the U.K.

The government welcomed the IMF's assessment.

"They argue that the early action the government has taken has increased the credibility of the consolidation and is consistent with a sustainable recovery," a spokesman for the U.K. Treasury said.

The IMF's endorsement of the

new government's program comes a day ahead of the first major speech by the opposition Labour Party's new leader, Ed Miliband. Labour's position has been that premature moves to cut the budget deficit could push the economy back into recession.

The government will detail the spending cuts needed to meet its new deficit reduction targets on Oct. 20. Those cuts should place more emphasis on cutting public-sector pay and ensure that welfare payments go to those who most need them, the IMF said.

"This would mitigate the growth effects of adjustment...and help shield the vulnerable," the IMF said. It also urged the government to raise the age at which Britons start to receive pension payments, and cut public-sector pensions so they match their private-sector equivalents.

The IMF also said that the banking system is healthier than it was a year ago, but that further action is needed.

"Capital buffers should be

strengthened...notably by restraining dividend payouts and remuneration budgets," the IMF said.

The IMF said it expects the U.K. economy to grow by 2% next year, and 2.5% over the medium term—that is lower than the U.K. Office for Budget Responsibility's forecast for 2.3% growth in 2011.

The IMF said the measures may crimp growth in the near-term, but would have longer-term benefits.

The Bank of England's current policy of keeping its key interest rate at a record low of 0.5%, and bond purchases under its quantitative-easing program at £200 billion (about \$317 billion) is "appropriate," the IMF said. The BOE would have to be "nimble" in responding to changes in the economic outlook, it added.

"If the recovery were to weaken

and increase disinflationary pressure, asset purchases should resume," the IMF said. "Conversely, the central bank must stand ready to start a gradual tightening if output recovers apace and inflation continues to surprise on the upside."

It said it expects the inflation rate will remain above target next year, but fall back to target in 2012. The IMF's overall assessment of prospects for the country's economy was positive.

"The U.K. economy is on the mend," the IMF economists said. "Economic recovery is under way, unemployment has stabilized, and financial sector health has improved."

Still, the IMF warned that the U.K.'s recovery may yet falter "given the continued fragility of confidence, still-strained balance sheets among households and banks, signs of renewed housing-market weakness, and the possibility that headwinds from fiscal consolidation could turn out to be more powerful than expected."

EUROPE NEWS

Spanish unions prepare to strike

By JONATHAN HOUSE
AND DANIEL DE LA PUENTE

Spanish unions called a national strike for Wednesday, the first in eight years, to challenge Prime Minister José Luis Rodríguez Zapatero's austerity push and labor-market overhaul.

The unions, however, seem to have scant prospect of rolling back changes widely seen as necessary to combat a deep fiscal and economic crisis.

Nevertheless, against the backdrop of a flare-up in the sovereign-debt crisis, nervous investors will be watching for any signs of a popular backlash that could derail the austerity push in Spain, the euro zone's fourth-largest economy. Furthermore, the challenge comes from a key constituency for Mr. Zapatero's Socialist party, which could make the government more sensitive to its demands.

"Obviously, investors will keep on eye on the strike," said Tullia Bucco, economist at UniCredit in Milan. "It will be a gauge of how effectively the government can enforce reforms."

Unions, however, have had difficulties shoring up support for their blocking efforts as the result of widespread pessimism regarding Spain's economic outlook and, in many peoples' eyes, their own damaged credibility.

Until the recent overhaul push, they had maintained warm relations with the government and maintained a low profile, despite spiraling unemployment. A June 8 public-sector strike was supported by just 12% of workers, according to government data.

Waiting in a long line outside a local employment office, several job seekers were critical of the unions. "They only care about themselves, they don't defend the interests of all these people here," said Isabel Martinez, 35, who recently lost her job in a furniture store. "I won't participate in the strike—I want to work," she said.

Andrés Bebia Fernández, 35, an out-of-work insurance salesman, said he will participate in the demonstrations Wednesday, but he said unions have been "too friendly"

with the government.

At the same time, Mr. Zapatero's government, under the threat of rocketing borrowing costs, is locked into its plans to cut the country's budget deficit by nearly half to 6% of gross domestic product in 2011, and by half again in 2013, to bring it into line with the 3%-of-GDP limit for euro-zone countries. Likewise, any deviation from plans to overhaul archaic labor laws in a country with a 20% unemployment rate—twice the EU average—could also spook investors.

The government's austerity drive has shown signs of paying off, which

has shielded Spain somewhat from the renewed market turmoil that has sent risk premiums for Portugal and Ireland soaring. Spanish data Monday showed that the central government budget deficit narrowed 42% in the eight months to August, thanks to a 14% rise in tax revenue and 4.6% fall in spending.

In recent days, Mr. Zapatero has repeatedly said the strike won't be able to push back any of his reforms. "Obviously, the government has adopted a series of measures that are, in our opinion, essential to meet the challenges posed to Spain by the financial crisis," Mr. Zapatero

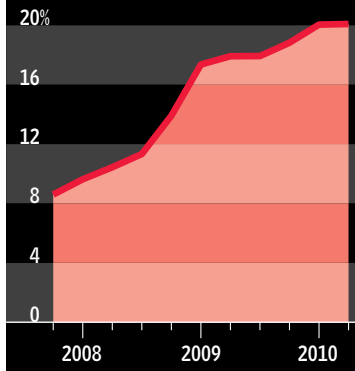
said in an interview last week with The Wall Street Journal.

Union leaders, nonetheless, are undaunted and forecast Wednesday's strike will force the government to change course, as happened in 2002 when a general strike forced the government of Jose Maria Aznar to repeal aspects of its labor-market overhaul. "We don't even consider the possibility that the strike will fail," Ignacio Toxo, head of union Comisiones Obreras, said at a recent meeting with journalists.

—Ana Garcia
contributed to this article.

Spanish unrest

Wednesday's strike comes against the backdrop of a 20% unemployment rate



Source: Spain's National Statistics Institute



The world's leading indexes, all on the same platform.

From left to right
Alex Matturri, S&P; Mike Petronella, Dow Jones;
Henry Fernandez, MSCI Barra; John Jacobs, NASDAQ;
Kiyoshi Hasegawa, Nikkei

Paris drops out of Chirac case; state stays in

Associated Press

PARIS—The city of Paris pulled out of a longstanding corruption case against former French President Jacques Chirac on Monday, after he and his conservative political party agreed to pay €2.2 million (about \$3 million) in losses sustained by the city because of a party-financing scandal while he was mayor.

Mr. Chirac, 77 years old, is facing trial on charges of embezzlement and breach of trust stemming from the scandal dating back to his 1977-1995 tenure as Paris mayor. The case marks the first time that a former leader of modern France has been forced to stand trial.

The deal doesn't close the case, but it will remove the last plaintiff other than the state, and could take some of the courtroom pressure off Mr. Chirac when he goes to trial in late 2010 or early 2011.

Only CME Group enables market participants to gain global equity exposure across the entire capitalization spectrum from a single electronic trading platform. From small-cap to large-cap, U.S. to international, CME Group offers a portfolio of futures and options products based on benchmark indexes from the world's leading providers – Dow Jones, MSCI Barra, NASDAQ, Nikkei and S&P. With unparalleled liquidity, transparency and speed, and the security of central counterparty clearing, CME Group guarantees the soundness of every trade. That's why CME Group is where the world comes to manage risk. Learn more at cmegroup.com/equities.



CME Group is a trademark of CME Group Inc. The Globe logo, CME, Chicago Mercantile Exchange, E-mini and Globex are trademarks of Chicago Mercantile Exchange Inc. CBOT and Chicago Board of Trade are trademarks of the Board of Trade of the City of Chicago. NYMEX, New York Mercantile Exchange and ClearPort are trademarks of New York Mercantile Exchange Inc. COMEX is a trademark of Commodity Exchange Inc. All other trademarks are the property of their respective owners. Copyright © 2010 CME Group. All rights reserved.

U.S. NEWS

'Genius' awards given to 23

BY LAUREN ETTER

CHICAGO—A honey-bee breeder, a jellyfish scholar, a stone carver and an Emmy-winning screenwriter are among 23 people being awarded \$500,000 "genius" grants Tuesday by the John D. and Catherine T. MacArthur Foundation here.

"It just blew me away," said Marla Spivak, a 55-year-old professor of apiculture at the University of Minnesota. "I thought they might have the wrong person."

She won the grant for breeding honey bees that can restore health to beehives stricken with pests or pathogens, which in recent years have devastated U.S. bee colonies. She plans to use the grant to launch new bee-related projects, including an urban-beekeeping effort she has struggled to fund for years.

The award winners can use the "no strings attached" grants for whatever they wish. This year's picks were the usual eclectic mix of artists, scientists and economists whom the foundation recognizes each year. While most aren't well known outside their fields, this year's crop includes David Simon, the Baltimore author and screenwriter responsible for such popular television series as HBO dramas "The Wire" and "Treme."

The MacArthur Foundation said it gave a grant to Mr. Simon, 50, because of his ability to "craft richly textured narratives that probe urban America's most complex and poorly understood realities."

Other award winners include Amir Abo-Shaer, a physics teacher at Dos Pueblos Engineering Academy in Goleta, Calif., who is using robotics as a teaching aid; Jessie Little Doe Baird of Mashpee, Mass., who is working to revive the nearly extinct Native American language of Wampanoag; Carlos D. Bustamante,



Grant winner Marla Spivak checks on a bee colony Monday in St. Paul, Minn.

a population geneticist at Stanford University School of Medicine; and Carol Padden, a sign-language linguist at the University of California, San Diego.

The grants, which are paid in quarterly installments over a five-year period, are designed to give people the freedom to delve deeper into their creative pursuits and reward "exceptional people who are likely to make great things happen," the foundation says. While often referred to as "genius" grants, the foundation says it avoids that designation because it too narrowly defines award winners.

"Creativity is at the heart" of the 29-year-old fellowship program, said Robert Gallucci, president of the MacArthur Foundation. "The most vexing problems are not going to be addressed without creativity."

John Dabiri, a 30-year-old associate professor of aeronautics and bioengineering at the California Institute of Technology, won a grant for his pioneering work on jellyfish. Mr. Dabiri determined that swimming jellyfish leave vortex rings in their

wake that help them move through the water more efficiently. He is finding practical uses for this phenomenon, from diagnosing heart failure to the creation of more-efficient windmills.

In an interview, Mr. Dabiri said he hadn't decided how to use the MacArthur money, but hoped to use some of it to keep studying jellyfish and other ocean fauna. "Our oceans are full of unknowns," he said.

Nicholas Benson, a stone carver and calligrapher who is also a third-generation owner of a stone-carving shop in Newport, R.I., won the award for his "meticulously executed inscriptional works" that "are noted for their uncompromising craftsmanship and beauty in form and line," the foundation said.

Mr. Benson, 46, still does most of his work with a mallet and chisel, even though much stone carving today is done by machine. He is currently working on the new Dr. Martin Luther King Jr. National Memorial in Washington, D.C.

Mr. Benson said winning the grant was a "great affirmation" of

his work. "I toil away at this very, very odd little business, and I get great kudos from my clientele," he said. "But there are times when I wonder if anybody really gets what I'm up to here."

Another winner was violinist Sebastian Ruth, 35, founder of Community MusicWorks, a Providence, R.I., music academy that works with disadvantaged inner-city youngsters, teaching them how to play string instruments. The foundation said Mr. Ruth "and his fellow quartet members have taken up residence within the inner-city community they serve, in keeping with their vision of music as a nurturing neighborhood necessity similar to a library, a church or a health clinic."

This year's MacArthur Fellows found out last week that they won the award and were sworn to secrecy. Before that, they had no idea they were even under consideration. The foundation's unconventional selection process involves a group of anonymous "nominators" in a variety of fields who secretly suggest candidates. A panel of anonymous judges then narrows a pool of hundreds to about 20.

The MacArthur Foundation was created in 1970 by Chicago businessman John D. MacArthur and his second wife, Catherine, and today pursues many philanthropic endeavors in addition to the "genius" grants. That program was launched after a board member proposed rewarding people "genuinely interested in research and exploration of the unknown to advance knowledge...without the annoyances and distractions imposed by grant applications, reviewing committees, and pressure to publish."

Since the first group of fellows was named in 1981, there have been 828 recipients, including this year's group.

Fed weighs new tactics for recovery

Continued from first page

the potential benefits of pushing down already-low long-term interest rates and the potential risks, particularly to its credibility in financial markets about its ability and willingness to reverse course if the economy rebounds or inflation accelerates.

Fed officials have done little to dissuade investors from the idea that they might do more. Fed Chairman Ben Bernanke last week reiterated his dissatisfaction with the recovery, saying the economy has failed to grow "with sufficient vigor to significantly reduce the high level of unemployment."

Markets anticipate the Fed will pull the trigger, barring some surprise turn. Goldman Sachs estimates the Fed will end up purchasing at least another \$1 trillion in securities, and estimates that would push long-term interest rates down by another 0.25 percentage point.

A leading public proponent of a baby-step approach, James Bullard, a 20-year Fed veteran who has been president of the St. Louis Federal Reserve Bank since 2008, says he has made progress convincing colleagues to seriously consider that approach. "The shock-and-awe approach is rarely the optimal way to conduct monetary policy," he says.

In the heat of the crisis it made sense to jar frozen markets back to life with a big attention-grabbing program, he says. Announcing another big program with a finite end-date now, he says, would lock the Fed into a policy that might not be appropriate several months from now. Moreover, a large commitment could destabilize markets by unhinging the dollar or creating fears of a big inflation uptick, he said.

Under a small-scale approach, Mr. Bullard says, the Fed might announce some target for bond buying. It would then make a judgment at each meeting whether continued action was needed, he says, based on whether "we're making progress toward our mandate of maximum sustainable employment and inflation at our implicit inflation target."

There are many open questions. One is size. Mr. Bullard says the idea of doing more than \$1 trillion of purchases a year "gives me pause" because that is how much net debt the Treasury will issue this year, meaning the Fed would be financing it all. There is also a question of whether the Fed might tie further action to movements in the unemployment rate or other metrics.

Mr. Bullard is among 12 regional Fed bank presidents with a vote on monetary policy, along with the four current Fed governors in Washington. He has been arguing for this approach for several months, but only began to get traction as the economy slowed this summer.

The Fed is not of one mind on the issue, though. Some officials are reluctant to resume bond buying to, as they put it, "fine tune" the economy. Others are more inclined to be bold to resuscitate the recovery.

A small-scale approach could be a path to compromise among officials. "Given the disagreement about the need for additional easing within the FOMC, retaining some flexibility might be critical to the adoption" of more quantitative easing, Goldman Sachs analysts said recently.

Teaching life skills through chess

BY STEPHANIE BANCHERO

ST. LOUIS—At a school for troubled kids on this city's tough North Side, life's lessons are learned on a chessboard.

In Room 103, Marqwon, 16 years old, kicked out of his regular school for bringing in a nail-studded piece of wood, tapped his forefinger in the air as he mapped out his next six moves.

Across the board, 15-year-old Joann, sent here after throwing a punch at a classmate, was losing the match and wasn't happy about it.

"You're just embarrassing me," she said, toppling her king with a smack. "You know it's over."

Her action coaxed chess instructor Bill Thompson to the table. "Let's not give up," he said. "Let's think of a way to get out of this."

Chess has been a part of after-school programs for at least 40 years, but mainly in the suburbs. In the last decade, it has exploded in popularity in urban areas as research has shown that students who play chess do better on achievement exams, especially math. But few schools offer chess as an academic subject—and fewer still require it, especially for students already labeled as troublemakers.

Innovative Concept Academy was opened last year by St. Louis Juvenile Court Judge Jimmie Edwards. Tired of watching teenagers get kicked out of school, land in his courtroom and

then drop out, Mr. Edwards created his own school to nurture students back to academic, emotional and mental health. The city's school district pays for the building and teachers, while money from not-for-profit groups provides the rest of the funding. The Academy, housed in a three-story former middle school, caters to sixth through 12th graders who have either been suspended or expelled for fighting, bringing weapons to class, getting caught with drugs or other illegal or disruptive behavior.

Students attend class from 9 a.m. until 5:45 p.m. and have access to counselors, psychologists and mentors. Aside from the academics, the school offers courses in ballroom dance, creative writing and golf.

The twice-weekly chess classes are mandatory for most of the school's 97 students and are an integral part of Mr. Edwards's strategy to curb bad behavior and teach alternatives to violence. He knows that chess won't solve all the behavior problems but says it offers lessons about self-control and critical thinking.

"Most of my kids are impulsive, reactionary, and they lash out without thinking through the consequences," said Mr. Edwards, who walks the school's halls almost daily. "Chess teaches them patience and teaches them that there are consequences to bad decisions."

The chess program at the Acad-



Brandi, right, played chess Thursday at a St. Louis school for students with behavioral problems. The school requires them to take chess classes.

emy is paid for by the Chess Club and Scholastic Center of St. Louis, which opened in 2008 and already has 700 members. The club wants to make St. Louis the chess capital of the U.S. and has hosted the national chess, national women's chess and junior chess championships.

About a million students play chess in local clubs and after-school programs, officials of the United States Chess Federation estimate. Chuck Lovingood, who oversees scholastic chess programs for the non-profit group, said chess teaches students problem solving, focus and how

to build—then execute—a plan. "Chess is not a game of instant gratification, and that is an important life skill for all children to learn," he said.

In one chess class, many life lessons were on display. When the instructor suggested Joann find a way out of her predicament—Marqwon had her Queen trapped in one corner of the board—she plotted a strategy to escape, then knock off his knight. Joann, who had never played chess until this school year, eventually lost. But she captured seven of Marqwon's pieces and made him chase her around the board.

U.S. NEWS

Election likely to empower a fresh set of GOP figures

[Capital Journal]

BY GERALD F. SEIB



Of the many striking statistics about the 2010 election, here's one of the most interesting:

November's election is likely to bring a dozen or so new Republican governors to power around the country, likely more.

In a year of turmoil, that would be one of the most substantial changes of all. It would introduce a batch of fresh Republican faces—some succeeding Republican governors who are retiring, others taking over governor's offices now held by Democrats—into positions where they can influence both politics and policy for years.

Republican pollster Bill McInturff, who co-directs the Wall Street Journal/NBC News poll along with Democrat Peter Hart, says the prospect of GOP newcomers, following the stunning gubernatorial victories last year of Chris Christie in New Jersey and Bob McDonnell of Virginia, will amount to "re-seeding a new generation of leadership."

Republicans are expected to take over a majority of the U.S.'s governor seats. Currently, 26 are held by Democrats and 24 by Republicans.

That's particularly significant for a party that, despite its bright prospects this year, still has many members hungry for new national leadership. Already, Messrs. McDonnell and Christie are considered national GOP stars.

Along the way, Republicans are expected to take over a majority of the nation's governor seats. Currently, 26 are held by Democrats, 24 by Republicans.

Indeed, some Republicans think they could end up owning 30 or more governors' seats when the dust settles. Nathan Daschle, executive director of the Democratic Governors Association, disputes such predictions, though, saying his troops will have a "very good year" despite a tough environment. He contends that Republican candidates are making mistakes by trying to nationalize governor races, rather than treat them as local contests driven by local concerns.

In any case, the precise national impact depends in part on the outcome of some key races still up in the air—on whether, for example, Democrat Jerry Brown can prevail in a California governor's race where he's sure to be outspent by Republican nominee and former eBay Chief Executive Meg Whitman, and whether Ohio Democratic Gov. Ted Strickland can hang on against former Republican Rep. John

Kasich in a race that's a referendum on which party can better create jobs. (The Democrats' Mr. Brown and the Republicans' Mr. Kasich are leading in polls.)

Still, even Democrats will hardly be shocked if they lose governors' seats. Much as an incumbent president's party usually loses seats in Congress in the first midterm after his election, so too does it almost always lose governors' seats.

And the loss of political power atop some big states would put Democrats at a disadvantage in the big congressional redistricting that will unfold after this year's national census, and in the run-up to President Barack Obama's re-election bid in 2012.

It also would empower a new crop of conservative Republican chief executives who could cause trouble for the Obama administration as it tries to implement some of its policies, particularly the roll-out of the big health-care overhaul Congress passed this year. Already some Republicans at the state level are mounting legal challenges to portions of the new health law, and more GOP chief executives would make more challenges likely.

On the other hand, governors from both parties tend to quickly become more pragmatic and less ideological than are their partisan counterparts in Washington. Governors who take power in this year's elections will almost all face state budgets still in dire straits because of the long economic slump, and governors in such a predicament tend to appreciate help from Washington. Thus, Mr. Obama, much like President Bill Clinton in the 1990s, might find a new crop of Republican governors more flexible in dealing with him than are their Republican counterparts in Congress.

In any case, there's little doubt that the president will see more Republican red in state capitals as he looks out across the land after November. Here's a rundown that shows why:

There are 37 governors' seats up for grabs this year. Of those, 24 are open seats, where no incumbent is running for re-election—12 currently held by a Democrat, 12 by a Republican.

Republicans probably will hold onto at least half a dozen of their 12 open seats. That's one set of fresh faces.

In addition, Republicans seem likely to capture three open seats currently held by Democrats, in Kansas, Wyoming and Tennessee. They have a good shot at three more, in Michigan, Oklahoma and Pennsylvania, and a decent shot at open Democratic seats in Wisconsin, Oregon and New Mexico.

On top of that, some incumbent Democratic governors running for re-election are fighting to hang on, including Pat Quinn in Illinois, Chet Culver in Iowa and Deval Patrick in Massachusetts.

However as all these races sort out, the GOP is in for a makeover outside Washington, regardless of what happens inside the Beltway.

Democrats face skeptics across the rural Midwest

BY DOUGLAS BELKIN

WILLISTON, N.D.—Cliff Wehrman has a new Dodge pickup and the remnants of a tan from a Mexican beach vacation. Sluggish economy? Not around here.

In the windswept northwestern corner of North Dakota, an oil boom has pushed the local economy into overdrive. People are pouring in for jobs, with home builders pulling double shifts.

Fat wallets should bode well for incumbents. But Mr. Wehrman, who supported Democratic Rep. Earl Pomeroy in 2008, says he wants the lawmaker gone.

"I'm disgusted with the entire party," said Mr. Wehrman, a 58-year-old local who helps oil companies lease property for drilling. He is unhappy about government bailouts and the stimulus, saying, "Who do they think is going to pay for all this?"

His anger against incumbent Democrats echoes across the rural Midwest. According to a Wall Street Journal/NBC News poll last month 55% of Midwesterners disapprove of the job President Barack Obama is doing, six percentage points higher than the rest of the U.S. And 66% of rural Americans believe the country is on the wrong track, five points more than U.S. voters as a whole.

Democratic House incumbents in several sparsely populated Midwestern districts are fighting those headwinds. Among them: Stephanie Herseth Sandlin in South Dakota; Joe Donnelly and Baron Hill in Indiana; Debbie Halvorson in Illinois; Leonard Boswell in Iowa; John Boccieri in Ohio and Ike Skelton in Missouri.

But nowhere is the drag on the party as conspicuous as in North Dakota. Incumbents here expected more vocal support, given the booming local economy: The state's 3.7% unemployment rate is the lowest in the U.S. and it has a budget surplus nearing \$1 billion.

In 2006, Mr. Pomeroy won re-election by 31 points. In 2008, he won by 24 points. This year, he trails his GOP opponent, Rick Berg, by three points, according to a recent Rasmussen poll. Four months ago, nearly half of state voters had not heard of Mr. Berg, a former Republican Speaker of the state House of Representatives. The Pomeroy campaign said its internal polls showed Mr. Pomeroy up by two points.

On a recent morning in the back of Service Drug Pharmacy on Main Street, Mr. Wehrman sat at a table with eight other men sipping black coffee. The topic: Mr. Pomeroy's party-line votes for health-care legislation, the stimulus package and the bank and auto bailouts.

"Irresponsible and reckless," said Bruce Kaiser, a retired candy wholesaler.

Mr. Wehrman said the federal government needed to be more like North Dakota—independent, frugal and conservative. "No one ever gave me a bailout," he said.

Mr. Pomeroy defended his votes on the bailouts and stimulus. "When you have an emergency you deal with it," he said. "I felt the national economy was in a state of emergency."

State government is dominated by Republicans. Here, Sen. John Mc-



A student pours Kool-Aid into a pipe in a poster of Democratic Rep. Earl Pomeroy in Fargo as part of a protest against policies he allegedly backs.

Cain, the GOP presidential nominee in 2008, gained more votes than Mr. Obama. But for two decades, voters have sent a troika of Democrats—two senators and a sole U.S. representative—to Washington to bring home federal projects.

North Dakotans, who like to define themselves as rugged individualists, received \$1.68 per capita from the federal Treasury for every dollar they paid in—largely through road and agriculture subsidies—according to a 2007 report by the Tax Foundation, a nonpartisan research group based in Washington.

By that measure, North Dakota was the sixth most dependent state in the U.S. "There's a huge contradiction" between voter anger over big government and those numbers, said University of North Dakota economist David Flynn.

In Williston, jobs are so plentiful these days that employers engage in bidding wars for workers. Few here go without health insurance, said Mayor E. Ward Koeser.

Fueling the town's wealth is oil from the Bakken Shale deposit, which runs along the western edge of North Dakota. The deposit was discovered in 1951 but wasn't economically feasible to extract until 2006.

Mr. Berg criticizes Mr. Pomeroy for being a puppet of House Speaker Nancy Pelosi and Mr. Obama. Mr. Berg has pledged that, if elected, he would cut taxes, support a balanced-budget amendment and oppose amnesty for illegal immigrants.

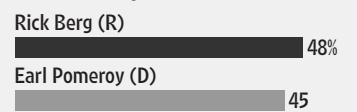
In an interview, Mr. Berg said he would have voted against the stimulus bill, the bank and auto bailouts and the health-care law.

North Dakotans "understand you can't spend more than you make,"

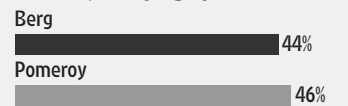
Unclear advantage

Preferences in North Dakota's upcoming U.S. House of Representatives race

Rasmussen poll



Pomeroy campaign poll



Sources: Rasmussen poll of 500 likely voters conducted Sept. 20-21, margin of error: +/- 4.5 percentage points; Poll commissioned by Pomeroy campaign of 501 likely voters, conducted Sept. 10-12, margin of error: +/- 4.5 percentage points

he said. Asked about the federal money that Washington pumps into the state, Mr. Berg said those were wise investments in infrastructure and food supply that served the national interest.

Mr. Pomeroy said if he was re-elected he would continue to fight for states' rights to determine their own regulations on energy extraction, and pointed out that he voted against the cap-and-trade energy policy.

He also defended his vote for the stimulus and the government bailouts, saying that federal funds have for years gone to North Dakota, particularly in times of natural disasters such as floods and droughts.

"North Dakota has had its own share of disasters. In those times of emergency we've looked toward the federal Treasury," he said.

F.P. JOURNE
Invenit et Fecit

Entirely invented and manufactured in-house

NEW WEBSITE

FPJOURNE.COM

WORLD NEWS

U.S. investigates Karzai's brother

Federal prosecutors in New York have opened a criminal probe of one of Afghan President Hamid Karzai's brothers, raising the stakes in Washington's sometimes-contentious dealings with the Karzai government.

By *Matthew Rosenberg,*
Devlin Barrett
and *Adam Entous*

U.S. officials said Mahmood Karzai has become a focus in a corruption probe handled by federal prosecutors in the Southern District of New York, an office that has a history of charging, extraditing and trying suspects in far-flung parts of the world, including Afghanistan.

Any move to indict Mahmood Karzai, who is a U.S. citizen, carries huge risks for American officials, whose anticorruption efforts have often provoked sharp backlashes from President Karzai.

Prosecutors are trying to determine whether they have enough evidence to bring charges of tax evasion, racketeering or extortion, said U.S. officials.

In an interview, Mahmood Karzai denied any wrongdoing. His business interests and wealth were acquired legitimately and his sole interest is "rebuilding Afghanistan," he said.

"How many people do you think they have on me? Four, five, 10, 20?" Mr. Karzai asked. "They won't find anything. I'm just a businessman."

If U.S. prosecutors decide to bring charges against Mr. Karzai, they are unlikely to move until early next year, after a review of Afghan strategy by the Obama administration, officials say. The decision about whether to proceed with a U.S.-based prosecution rests with the Justice Department.

A spokeswoman for the federal prosecutor's office in New York declined to comment. The U.S. embassy in Kabul said it couldn't comment on "ongoing legal matters."

A spokesman for President Karzai couldn't immediately be reached; in the past, he has said he comments only on matters concerning the president, not family members.

Mahmood Karzai, who is the president's eldest brother, currently owns four properties in the U.S. and splits his time between his home in suburban Baltimore and rented houses in Dubai and Kabul.

He has amassed a net worth of roughly \$12 million, according to financial documents he provided *The Wall Street Journal*. Before 2001, his main business was a restaurant in Cambridge, Mass.

Among other interests, he owns 20% of a sprawling American-style housing development in the desert on the outskirts of Kandahar.

Mahmood Karzai's status as a U.S. citizen would make him easier to prosecute than other Afghans, should prosecutors go forward. He is subject to U.S. tax law, and some of the transactions any prosecution might focus on could involve U.S. government loans, which he sometimes has used to build his businesses.

U.S. officials haven't alleged any criminal misbehavior on Mahmood Karzai's part. Their interest in him has been rising lately following nearly 18 months of anticorruption inquiries by U.S. and Afghan investigators.

Officials wouldn't say where they think Mahmood Karzai might fit into a web of illicit business dealings, involving various Afghans, that U.S. officials say they have mapped



Mahmood Karzai, below, whom U.S. prosecutors in New York are investigating, helped develop the sprawling Aynomina housing community, above, on the edge of the city of Kandahar, Afghanistan.

through thousands of hours of wiretaps, information from informants and tens of thousands of pages of documents seized in raids on Afghan businesses.

He isn't the only person who has come to prosecutors' attention, officials say. Others include Afghan bank executives and alleged opium traffickers.

The investigation brings into sharp relief a central tension U.S. officials face: how to balance their relationship with President Karzai's government against what they say is the need to combat deep-rooted corruption undermining that administration.

U.S. officials say corruption, insider dealing and nepotism have made the Karzai administration weak and unpopular, helping fuel the Taliban insurgency. For the U.S., turning a blind eye to this risks undercutting a strategy built around the idea of restoring the Afghan government's credibility.

Yet a full-bore crackdown on allegedly corrupt officials and their relatives is no longer considered a realistic option for the U.S.

The arrest of one of President Karzai's aides this summer by U.S.-backed Afghan anti-corruption investigators provoked a feud between Washington and the Afghan leader, who has since worked to undercut the independence of special Afghan investigative units built over the past year under U.S. and European tutelage.

U.S. officials in recent weeks have begun shifting toward a less public fight against high-level corruption. They say the new plan is to quietly pressure President Karzai to clean up his administration rather than forcing public confrontations.

Mahmood Karzai helped raise millions to aid his brother's re-election last year. In recent interviews he said he wants to start his own political party, maybe even run for president himself when his brother's term ends in 2014.

His platform would be promoting free enterprise, he said over the summer. "I am going to free these people"—the Afghans—"from the world of ideologies, and government control and religion. I'm talking about the free market and free people."

Mahmood Karzai's years in the U.S. gave him access to people like Jack Kemp, the late Republican congressman and vice presidential candidate, who Mr. Karzai said helped him obtain \$5.5 million in U.S. government loans to finance a pair of housing developments.

Mr. Kemp "knew I wanted to



build Afghanistan. He supported what we are trying to do here," Mr. Karzai said in an interview earlier this summer. He said the loans have been repaid.

Mahmood Karzai was also among a group of businessmen through whom the U.S. Agency for International Development provided several million dollars to set up the Afghan Chamber of Commerce.

The housing development outside Kandahar in which Mr. Karzai has a one-fifth interest was started in part with a \$3.5 million loan from U.S. Overseas Private Investment Corp., which Mr. Karzai said has been repaid.

Called Aynomina, meaning "a place to live," it aims to offer a slice of suburbia near the southern city where the Taliban rose to power.

Houses sell for between \$20,000 and \$400,000. The streets are lined by imported eucalyptus trees. There are towering water fountains, small shopping strips and restaurants.

It was dogged by controversy from its start in 2004. Mahmood Karzai's group got the 10,000-acre property virtually free from Kandahar city officials, who turned it over although it was technically owned by the Afghan military. The military still claims the land.

Mr. Karzai said the project will bring the city millions in payments from the developers and tenants. "If we didn't have this contract, this land will be taken by people with guns," he said.

—*Siobhan Gorman*
and *Julian E. Barnes*
contributed to this article.

Korea's Kim elevates son, setting stage for handover

By *EVAN RAMSTAD*

SEOUL—North Korean leader Kim Jong Il appointed his third son as a four-star general, North Korea's official media reported early Tuesday, in the first time that Kim Jong Eun has been publicly named in the country and the biggest sign yet the family is attempting another father-to-son power transfer.

Kim Jong Il also appointed his sister, Kim Kyoung Hui, as a four-star general, in what is perhaps the first time a woman has held such a job in North Korea.

The moves occurred just hours before the start of the biggest meeting of North Korea's ruling Workers' Party in 30 years, an event that many outside analysts believed would signal a leadership change.

North Korea's state-run news service, Korea Central News Agency, announced the moves at about 2 a.m. local time.

The moves showed that Mr. Kim, who suffered a stroke-like illness in August 2008, is even farther along in making succession plans than most analysts anticipated.

The younger Mr. Kim hasn't been shown or discussed in North Korea's media. Little is known about him outside the country. He was born in 1983 or 1984 and attended a private school in Switzerland for one or two years as a teenager.

But early last year, a few months after his father was stricken ill, Kim Jong Eun emerged as the focal point of speculation in South Korean and Japanese media as the likely successor to his father. Analysts widely believed that the elder Mr. Kim had deemed his two older sons unsuited for the role.

Mr. Kim's sister has played an active role in North Korea's economic policies as head of the country's light industries. Her elevation is a sign that she may be thrust into leadership should Mr. Kim die before the younger son is ready to take over. Her husband, Jang Song Taek, for several years has been Mr. Kim's closest associate.

The titles reinforce the importance of North Korea's military in carrying out a succession. Mr. Kim himself never served as a general in the military, though his power rests in his job as chairman of the National Defense Commission, a panel of approximately 10 men that is considered the country's most powerful organization.

The appointments go beyond what even the most aggressive analysts expected. Open Radio for North Korea, a Seoul-based short-wave and Web service, made the most explicit predictions for Tuesday's meeting. It said the younger Kim would be appointed to three posts—standing member equal to his father in the party's Politburo; secretary in the party's Secretariat, which runs North Korea day-to-day; and member of the party's Central Military Commission, which is different from the more powerful National Defense Commission.

All those posts exist within the party, which is nominally equal to the military in North Korea but has been considered a lesser power in the country for many years.