



## Angry Medvedev fires mayor of Moscow from Shanghai

EUROPE NEWS 5

## BP's bond sale signals firmer footing after spill

BUSINESS & FINANCE 17

# THE WALL STREET JOURNAL.

VOL. XXVIII NO. 169

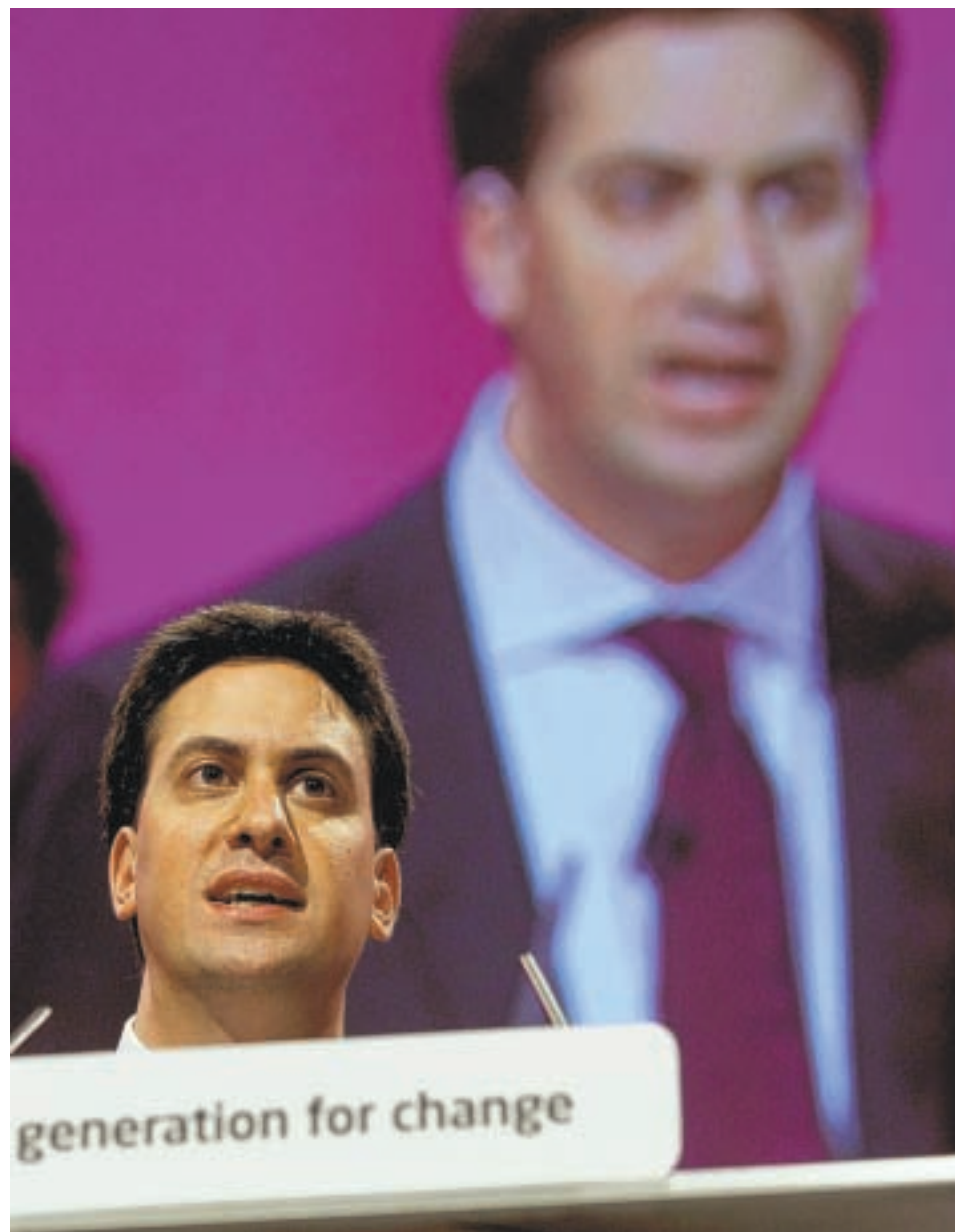
EUROPE

Wednesday, September 29, 2010

DOW JONES  
A NEWS CORPORATION COMPANY

europe.WSJ.com

### Miliband—Labour's new generation



Getty Images

Ed Miliband, the new leader of the U.K.'s opposition Labour Party, makes his major speech to party members at their annual conference in Manchester on Tuesday, declaring that he is part of a new generation and intends to move away from the Blair-Brown era. See **Agenda**, page 2

# Germans grow more upbeat on recovery

By AINSLEY THOMSON AND ANDREA THOMAS

German consumer sentiment jumped as economic expectations rose to a three-year high in September, helped by falling unemployment levels and moderate consumer prices.

Italian consumer confidence also improved, while French consumer spending surged in July and fell back only slightly in August, boosting hopes that increased domestic demand will protect the euro zone's economic recovery from any slowdown in export growth.

The data followed figures released on Monday that showed banks started to increase lending to businesses in August, and continued to increase their lending to households.

The European Central Bank's governing council welcomed the news, which suggests that the recovery is becoming less reliant on exports

and more dependent on developments within the currency area.

"I am confident that the positive underlying momentum is increasingly broader based and signals a self-sustaining recovery in the euro area," said Yves Mersch, Luxembourg's representative at the governing council, adding that this backdrop would allow the ECB to gradually normalize monetary policy and withdraw lending support.

The headline measure of German consumer confidence in a survey by market-research firm GfK rose to 4.9 points for October from 4.3 points for September. The economic-expectations index rose to 53.5 points in September from 46.6 points in August.

GfK said the improvement in confidence was due to falling unemployment and moderate inflation. The group said expectations for the overall economy and personal income had increased significantly,

while consumers' willingness to spend is at a good level.

"Today's reading confirms our view of a further broadening of the German recovery," said Carsten Brzeski, an economist with ING in Brussels.

Germans also believe that the domestic economy will continue to recover. Chancellor Angela Merkel sounded an almost-euphoric note in a speech to German industrialists on Tuesday. "The economic situation is remarkably positive," she said. "Economic growth seems to be, in fact, clearly higher than our forecast has been."

In Italy, state-funded think-tank ISAE's headline measure rose to its highest level since April. The measure rose to 107.2 in September from 104.1 in August.

- Ireland's challenge: save banks, soothe markets ..... 4
- EU to propose sanctions for spendthrift members ..... 6
- U.S. consumer confidence drops, house prices rise ..... 8

## U.S. hearing will seek reasons for Lockerbie bomber's release

By PAUL SONNE

The U.S. Senate Foreign Relations Committee will hold a long-awaited hearing Wednesday that aims to find out why Scotland last year gave a controversial "compassionate release" to cancer-stricken Lockerbie bomber Abdel Baset al-Megrahi.

But the session may only widen the gulf between U.S. politicians demanding a more detailed medical explanation of how Mr. Megrahi won his freedom and Scottish officials who are declining to provide one. A Senate staffer's fact-finding trip to Britain this month appears to have produced even more conflict between the U.S. and Scotland,

particularly surrounding the details of Mr. Megrahi's prognosis and the question of whether he began chemotherapy treatments before or after he was released by the Scots.

The Senate staffer met with George Burgess, who was Scotland's deputy director for Criminal Law and Licensing at the time of Mr. Megrahi's release. According to an aide to Sen. Robert Menendez, (D., N.J.), who is heading up the hearing, Mr. Burgess said the convicted bomber began chemotherapy before leaving Scotland and also said it was Peter Kay—Mr. Megrahi's general-practitioner doctor in the Scottish prison system—who issued the required three-month prognosis, which was

later sanctioned by Scottish Prison Service medical administrator Andrew Fraser. The hearing stands to address both those assertions on Wednesday, the aide said.

Scotland, however, says that isn't an accurate portrayal of what was said in the meeting. Mr. Burgess couldn't be reached to comment.

"It is a matter of public record that Megrahi was not on chemotherapy treatment in Scotland at any point," a spokeswoman for the Scottish government said in an email Tuesday. She added that "the responsibility to provide a reasonable estimate of prognosis was Dr. Fraser's—no one else's—and therefore the

Please turn to page 3

**The Quirk**

There's no budget, but California is all over the foreign-cow issue. Page 29

---

**World Watch**

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

---

**Editorial & Opinion**

The euro zone's instability pact. Page 13

## Tea party is a force to be reckoned with

The tea-party movement has become a potent force in U.S. politics and a sizable presence within the Republican Party, a new Wall Street Journal/NBC News poll shows.

The results show that the tea party has become firmly established and could emerge as a key factor in November's midterm elections.

In the survey, 71% of Republicans were positive on the tea party, describing themselves as supporters of the tea-party movement, saying they had a favorable image of the movement or hoped most tea-party candidates won election.

Democratic pollster Peter Hart, who directs the survey with Republican pollster Bill

McInturff, said the poll showed that tea-party supporters make up a third of all likely voters in the midterms. He said this showed that the movement "isn't a small little segment, but it is a huge part of what's driving 2010."

The findings show the tea-party movement has grown over the past two years from a loose confederation of activist groups into a solid brand within the GOP that upended a number of primaries in recent months.

- The tea party is driving the 'enthusiasm gap' ..... 7
- Vegas maverick is wild card in midterm elections ..... 8
- Full results of the WSJ/NBC News poll ..... WSJ.com

THE WALL STREET JOURNAL.  
 Bahrein BD 1.50 - Egypt \$1.75 (CIV)  
 Jordan JD 2 - Kuwait KD 1 - Oman OR 2  
 Qatar QR14 - Saudi Arabia SR 14  
 £1.50



## PAGE TWO

# Banishing those Blair-Brown blues will be a hard road for Miliband

## [ Agenda ]

By IAIN MARTIN



It is 16 years since Britain's Labour Party had a leader whose surname was neither Blair nor Brown. Now both of those big beasts who dominated the center-left jungle are gone. Labour has a Miliband in charge—although not the one expected.

The elder Miliband—David, the former foreign secretary and by far the bigger figure—was the favorite to win. In the event, his younger brother Ed defeated him narrowly at the weekend in a leadership election.

He was unveiled at the party's annual conference in Manchester, having only won with the help of the votes of the trades unions and their members. David now seems set to walk away from the front-line. He is expected to make a final decision about his future Wednesday, and doesn't seem to fancy serving under his younger sibling.

Sitting in the front row on Tuesday during his brother's first leaders' speech he looked uncomfortable, especially during Ed Miliband's denunciation of the decision to go to war in Iraq. Turning to the party's deputy leader Harriet Harman, David was filmed snapping: "Why are you clapping? You voted for it."

It looks as though from now on there will be only one Miliband in British politics.

The speech, despite a shaky start, was pretty confident for a first go. There was too much of the clichéd "new generation" talk—how many leaders before him have hailed themselves as representing a new generation? Yet it all seemed to cheer up his party, which hasn't been sure what to make of what it has done



Former Labour prime ministers Gordon Brown, left, and Tony Blair this month.

in discarding David.

Among some MPs and party members, those convinced that the party had chosen the wrong brother, the mood has been suicidal. David Miliband's pitch in the leadership contest had been that only he was mainstream and appealing to win back the voters and put his party back in power. Doesn't his defeat mean that Labour has turned its back on No. 10 for a generation?

Not necessarily. Labour has become again a European center-left party of the mainstream used to power. There have been long periods of its history in which it has preferred the comfort zone of opposition, but during the past 13 years since Tony Blair's landslide victory in 1997 it has become comfortable again with the idea that it is a natural party of government rather than a protest movement. Ed Miliband isn't in this to come second.

He starts his fight against David Cameron and the Conservative/Lib Dem coalition with an advantage. Labour lost the election, but the Tories did not win an overall majority.

Mr. Miliband has 258 seats, compared with the Conservatives' tally of 306. If Labour could win 30 or so seats, with the Conservatives' take falling by a

similar number, then it would be the largest party and able to do a deal with the Liberal Democrats to get back into power.

That's where it stops being simple for Labour. Ed Miliband shouldn't be written off, and his determination to shift the center-ground leftward rather than rushing for the center in the manner of Bill Clinton and Mr. Blair makes him an intriguing prospect. But he is up against Mr. Cameron, a formidable opponent with the advantages of incumbency.

And getting through a leader's speech is not enough; if Mr. Miliband is to avoid eventual defeat he will have to find ways of making "yes" the answer to the following three points:

1. Does he look like a potential prime minister? Mr. Miliband appears somewhat "geeky," in contrast to the much smoother Mr. Cameron. Voters tend to notice these things.

2. Can he win in the part of Britain he needs to? Labour is strong in its heartlands but lost the election in the south, alienating aspirational voters who had flocked to Mr. Blair. Mr. Miliband is of the left and fond of high taxation, which will pose quite a problem in appealing to key voters in those southern seats

who do not like it one bit.

Tough to see how the circle might be squared, although he'll have to do it to win.

3. Can he construct a credible postcrisis economic policy for his party?

Labour under Messrs. Blair and Brown hubristically hailed the end of "boom and bust," which in his speech Mr. Miliband accepted had been a mistake. He acknowledged the need for deficit reduction and said that his party needs to rebuild a reputation for fiscal rectitude and responsibility. Which is fine, but he hasn't come close to explaining how.

Labour's leader has been unfairly and prematurely written off in some quarters. The fluidity and upsets of recent years suggest he is not preordained to fail.

However, there are no obvious short cuts to a Miliband victory open. Labour has a long hard road ahead of it.

## Greeks selling gifts

The Greek government has announced plans to sell off some state assets. Under the terms of the EU-sponsored bailout, arranged during the sovereign-debt crisis, Greece agreed to this. Ministers want to avoid "fire sales" but one gets the impression that if it isn't nailed down, and even if it is, the Greeks will now sell it to help fill the hole.

Is it impolite to ask why this wasn't considered some years ago? Perhaps back then it was just easier to keep on letting over-manned state enterprises pile up their debts and load them on the taxpayer.

Investors might want to study the books carefully. Fancy a stake in Hellenic Railways? Sounds rather romantic but has a huge debt of €10.7 billion. The government pumps in around €1 billion a year to keep its wheels turning. What an inviting investment prospect.

What am I bid?

## What's News

■ **BP sold** a larger-than-expected \$3.5 billion of five- and 10-year bonds, a sign the energy giant is returning to more stable footing after the Gulf of Mexico disaster. The sale by BP Capital Markets was originally slated at \$2 billion to \$3 billion. 17

■ **German Finance Minister** Wolfgang Schäuble was admitted to the hospital for an expected four-week stay. 4

■ **Monsanto shares fell** amid concerns about new seed performance and uncertainty over the end of a near-blanket European ban on genetically modified crops. 17

■ **Michelin launched** a heavily discounted \$1.62 billion capital increase to finance the French tire maker's expansion. 24, 32

■ **Norwegian police said** a terror suspect confessed to planning an attack, with the target believed to be the Danish paper that published Muhammad cartoons. 6

## Inside



Getting fit without the pain—consult the physio first. 27



Major League Baseball makes its pitch at Europe. 28

## ONLINE TODAY

### Most read in Europe



1. Perhaps Gasoline's Finest Hour
2. Currency Union Teetering, 'Mr. Euro' Is Forced to Act
3. RIM Enters Tablet Scrum
4. Spanish Unions Call Strike
5. North Korea's Kim Elevates Son

### europe.WSJ.com

FREE daily access for every reader  
First time users please register at:  
[wsj.com/accesstoday](http://wsj.com/accesstoday)  
Once registered, redeem future daily codes at:  
[wsj.com/accessrenew](http://wsj.com/accessrenew)  
Today's code is: EUROPE-BJW-918

### The Source

[blogs.wsj.com/source](http://blogs.wsj.com/source)

'There is every reason to believe that the upshot of this round of currency debasement will be rampant inflation.'



### Continuing coverage



Get breaking news and analysis on European politics at [europe.wsj.com](http://europe.wsj.com)

### Question of the day

Vote and discuss: Do you think U.K. immigration rules hurt businesses?

Vote online at [wsj.com/polls](http://wsj.com/polls) and see more U.K. news at [wsj.com/uk](http://wsj.com/uk)

### Previous results

Q: Will Ed Miliband be a good leader for the U.K.'s Labour Party?

Yes

30%

No

70%

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](mailto:subs.wsje@dowjones.com).  
Website: [www.services.wsje.com](http://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 Telesampa 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 Basinevi.  
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

# Milan breaks out bold, bright looks

BY CHRISTINA BINKLEY

Milan

This fashion capital for years has been the plainer, more practical stepsister to Paris. But the styles shown here in the past week showed so much daring spirit that it's hard to imagine what Paris will do to follow.

The runways of Milan were awash in brilliant colors, bold, clashing patterns and canny designs that managed to attain that holy grail of fashion—clothes that are both wearable and fashionable.

The week of shows, which ended Monday and featured Gucci, Prada, Bottega Veneta, Giorgio Armani, and Dolce & Gabbana, received applause from American retailers. "I am actually very excited," said Ken Downing, Neiman Marcus fashion director, who proclaimed "orange coral" as the color of the season. "American women want color," he said.

"Almost all looks on the runways translate to the sales floor, which was not so a few seasons ago," said Kelly Golden, owner of Neapolitan, a store in suburban Chicago. She cited Bottega Veneta's chic vests, Fendi's fluid shapes and Jil Sander's sporty separates.

This was an important moment for the Italian fashion industry, which has been under siege from cheaper textile makers and manufacturers. The Italian fashion chamber, the Camera della Moda, slowed down the pace of the Milan shows in a largely successful attempt to make



Associated Press (Etro, Bottega Veneta); Getty Images (Jil Sander)



Etro (left) and Jil Sander (right) showed daring blends of colors and patterns. Bottega Veneta's vests won retailers' praise.

them more accessible to visitors.

Milan's strong showing is building excitement as fashion's spotlight moves on to Paris, where the runway shows start Wednesday. The Paris calendar is studded with platinum brands, including Balenciaga, Christian Dior, Jean Paul Gaultier, Lanvin and Valentino. Paris is also seen as the place where the world's

most creative up-and-comers will rise. This season, the hot new find is Hakaan Yildirim, who moved his show to Paris from London.

A key question for Paris is whether the focus on Yves Saint Laurent will continue. Milan designers' fascination with the designer in his 1970s Morocco-hippie phase continued from the New York shows

two weeks earlier.

As a result, many of the labels had a bit of the Age of Aquarius going on. Colorful, flowy caftans appeared in the collections of all sorts of designers, including Etro, Jil Sander, Pucci, and Brioni. Fringe was another important effect—done unforgettably (and in this case, un-wearably, since it was so revealing)

by Roberto Cavalli in an animalistic collection sewn largely from snake-skin, crocodile and suede.

Another trend that will be all over stores next spring is couture lace used for whole outfits. It's a look that Miuccia Prada pioneered for fall 2008. Domenico Dolce and Stefano Gabbana this season took their inspiration from the lace towels and tablecloths of their beloved Sicily, creating day dresses and suits of lace and then piling on diamond-like rhinestones for evening. Even Marni designer Consuelo Castiglioni used lace: hers was covered in flower-power lace blossoms that had a mod look.

Raf Simons's collection for Jil Sander was electric with colors—often piled upon one another in a shock to the senses. Mr. Simons's pairing of orange slacks with a pink blouse under a swiny blue coat could set a standard for the sort of daring color and pattern mixes that are looking like a hallmark of the spring 2011 season.

Miuccia Prada used wildly bold primary-color stripes and included striped fur boas that screamed "Look at me!" She sometimes mixed these strong stripes with prints of flowers, fruits or monkeys.

WSJ.com

ONLINE TODAY: See more photos from Milan's fashion week in the Heard on the Runway blog, at [blogs.wsj.com/Runway](http://blogs.wsj.com/Runway).

## Lockerbie bomber's release is focus of U.S. hearing

Continued from first page prognosis was his." The spokeswoman didn't say whether Dr. Kay agreed to the prognosis, or made it initially.

Mr. Megrahi is the only person convicted for the December 1988 bombing of Pan Am Flight 103 that killed 270 people, including 189 Americans, when it exploded over Lockerbie, Scotland. On Aug. 20, 2009, Scotland granted him a so-called compassionate release on the grounds that the Libyan convict, suffering from terminal prostate cancer, had about three months to live.

### Neither the Scottish government nor the U.K. government is sending representatives to testify.

More than 13 months later, Mr. Megrahi remains alive at home in Libya, raising questions about how Scottish authorities determined that the convicted bomber was roughly three months from death—a guideline prisoners must meet to qualify for compassionate release in Scotland. The questions were amplified last month when The Wall Street Journal reported that there was no evidence that any of the specialists who treated Mr. Megrahi's cancer signed off on the dire medical prognosis that led to his release.

The situation has frustrated U.S. politicians who believe Scotland needs to explain its actions in

greater detail. Led by Sen. Menendez, four U.S. senators issued a letter in August calling for the Scottish government to release Mr. Megrahi's full medical records. Scotland, which had sole decision-making power over Mr. Megrahi's release, independent of the U.K. government, has refused.

Mr. Megrahi's lawyer, Tony Kelly, said he didn't feel comfortable divulging details of his client's medical treatment. Despite the haggling between the U.S. and Scotland over when the chemotherapy began and which doctor made the prognosis, the issue of Mr. Megrahi's chemotherapy—which was on the table at the time of his release—has added weight to the Senate's call for the release of the medical documents.

Neither the Scottish government nor the U.K. government is sending representatives to testify at the hearing. Nor is BP PLC, which has at times been accused of influencing the decision to release Mr. Megrahi to advance its oil interests in Libya. The Senate committee has said it will explore "the possible influence of commercial interests" on Mr. Megrahi's release.

BP has said it lobbied to speed the passage of a Prisoner Transfer Agreement between the U.K. and Libya ratified in spring 2009. But the oil giant's involvement in the Megrahi case has largely proved to be a moot point. Though Mr. Megrahi applied to be transferred under that agreement last year, his application was rejected; instead, he went free thanks to a separate application under Scottish law's provision for compassionate release.

**Cartier**

**TORTUE DE CARTIER**

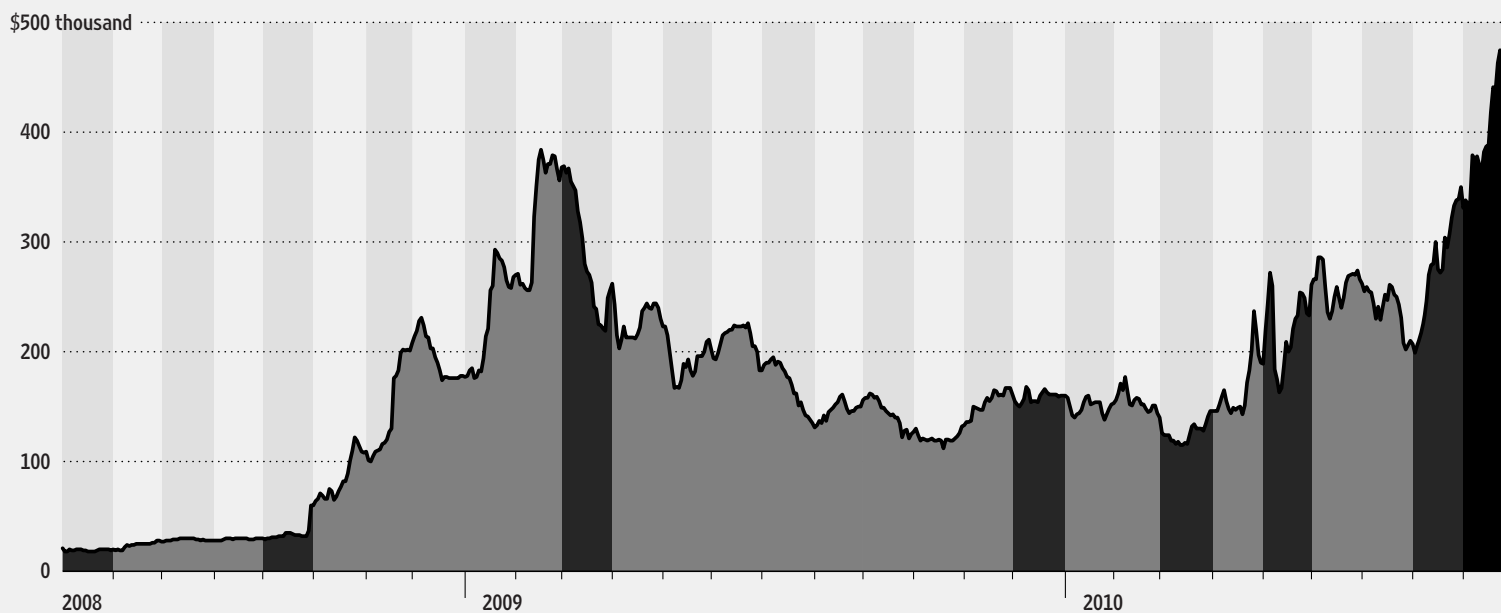
PERPETUAL CALENDAR AND DAYS WITH RETROGRADE HAND 9422 MC CALIBRE

18K WHITE GOLD CASE, OCTAGONAL CROWN SET WITH A FACETED SAPPHIRE, MANUFACTURE MECHANICAL MOVEMENT WITH AUTOMATIC WINDING CARTIER CALIBRE 9422 MC (33 JEWELS, 28,800 VIBRATIONS PER HOUR, DOUBLE-BARREL, APPROXIMATELY 52 HOURS POWER RESERVE), PERPETUAL CALENDAR WITH DISPLAY OF DAYS BY MEANS OF RETROGRADE HAND, COUNTER WITH MONTHS AND LEAP YEAR.



## EUROPE NEWS

## On the brink? | Annual cost to insure against an Irish government bond default for five years



**May 2008**  
Brian Lenihan becomes Ireland's finance minister.

**September**  
After Lehman's bankruptcy, Ireland quickly moves to guarantee all liabilities of its biggest financial institutions.

**March 2009**  
As the financial crisis reaches a climax, the cost of insuring Ireland's bonds against default hits a record.

**December**  
Mr. Lenihan delivers what many call the most severe austerity budget in a generation, making €4 billion of cuts.

**March 2010**  
Having moved swiftly to tackle its financial problems, Ireland sees its standing with investors grow. The cost of insuring Ireland's bonds falls.

**May**  
Debt crisis reaches a boiling point, with the EU and IMF bailing out Greece and creating an emergency fund. Ireland suffers collateral damage.

**August**  
Worries about Europe's debt problems temporarily fade, prompting investors to fret over the U.S. economic recovery instead.

**September**  
Concerns about Ireland's banking system, especially Anglo Irish Bank, return with a vengeance, sending credit-insurance costs to fresh highs.

Source: Markit

# Ireland's complex challenge: save banks, soothe markets

BY NEIL SHAH

Ireland's government faces a complex challenge this week: convincing investors that it can bear the cost of fixing state-owned **Anglo Irish Bank Corp.**—the nation's most troubled lender—without spooking markets by pushing creditors to pick up the tab.

Concerns about Ireland's banking system have thrust this small, fragile economy back into the center of Europe's fiscal crisis. Along the euro-zone's periphery, problems in Portugal also have intensified, with that country's president gathering political leaders to try to craft a deficit-reduction plan. At the same time, Greece is limping along, with limited access to public debt markets.

But Ireland's return to critical condition comes after winning plaudits earlier in the year for its fiscal discipline. Despite already harsh cuts, the country's sluggish economic growth, soaring unemployment and rising financial losses could prevent the government from reducing a budget deficit that has climbed to roughly 12% of gross domestic product. Ireland says its debt problems can be solved, but economists warn that it may yet require outside assistance from the European Union.

On Tuesday, financial markets were on high alert. One measure of confidence—the cost of insuring Ireland's sovereign bonds against default using derivatives called credit-default swaps—jumped to a record, according to data provider Markit, though trading volume was thin, and prices eased back from their new highs later in the day. To borrow from the capital markets for 10 years, Ireland must now pay an interest rate of nearly 7%, 4.7 percent-

age points more than Germany, the euro-zone benchmark, and the highest so-called risk premium for Ireland since the euro's creation in 1999.

The government in Dublin could reduce the cost of bailing out Anglo Irish by taking a tougher line with creditors, pressuring them to accept bigger-than-expected losses on their bond holdings. While such a move would likely prove politically popular, it could damage Ireland's reputation among global investors and, by extension, make things tougher for its other banks. Prices of Anglo Irish's bonds have plummeted, while **Bank of Ireland PLC** and **Allied Irish Banks PLC** have effectively been shut out of the capital markets for weeks, making it harder for them to refinance their debts.

## Ireland's return to critical condition comes after winning praise earlier in the year for its fiscal discipline.

This week, the government will announce the final cost of splitting Anglo Irish, its third-biggest lender, into two institutions in order to protect the bank's depositors. Analysts expect a final cost for Anglo Irish of around €30 billion (\$40.4 billion), though some warn the price tag could be higher. The government is also likely to offer holders of about €2.4 billion of riskier Anglo Irish bonds a token sum to accept major losses on their investments, but it is expected to stop short of forcing these creditors to accept losses, according to analysts.

Many observers don't expect Ireland to suffer a Greece-style funding

crisis. Ireland has already financed its budget needs through the first half of 2011, doesn't have major debts coming due soon, and holds about €20 billion of cash reserves. If Ireland's cost estimates for righting Anglo Irish prove smaller than expected, prices of Irish bonds could rally as sentiment recovers.

A spokesman for Ireland's finance department said Tuesday that the final cost of fixing Ireland's banking system will be "considerably less" than the initial cost to taxpayers. Ireland has already "achieved a notable return" on its investment in Bank of Ireland, for example, and has earned nearly €1 billion from fees charged to banks for a key crisis-era government guarantee. The government's "bad bank" program, which takes souring loans off banks' balance sheets, is also expected to produce a profit of at least €1 billion over time.

Investors, however, are fretting about Ireland's deficit, which some economists expect to rise past 25% of its GDP once bank rescues are included—far above the European Union's 3% limit.

Last week, the government reported that the economy contracted nearly 5%, at an annualized rate, in the second quarter, fueling fears that government tax revenues will shrink and bank-bailout costs will grow, making it difficult for the government to stick with its deficit-reduction plan.

But Irish officials don't want to rattle the market with any fast money-saving moves: If they are seen as forcing Anglo Irish's creditors to take losses, investors could shun Irish banks altogether, giving the Irish government an even bigger funding burden. The Irish government has already pumped at least €33 billion into its banking sys-

tem—equivalent to around 20% of its GDP.

"It's a fine balancing act," says Simon Adamson, a banking analyst at research firm CreditSights. "The other Irish banks are going to be affected by whatever happens with Anglo Irish. The government has to tread carefully."

On Monday, ratings company Moody's Investors Service downgraded its ratings on Anglo Irish's bonds. Rival Standard & Poor's has estimated that the final cost of rescuing Anglo Irish could exceed €35 billion. Late Wednesday night, a key government guarantee expires, which means holders of some Anglo Irish bonds will no longer be protected by the government.

Irish finance minister Brian Lenihan has repeatedly said the government will honor its obligations to holders of Anglo Irish's "senior" bonds. Such investors are paid before holders of riskier "subordinated" bonds and equity in a liquidation.

Anglo Irish's subordinated bonds now trade at around one-fifth of their original value—suggesting investors expect to lose most of their cash. "A buyback is on the agenda," says Michael Cummins, director at fixed-income firm **Glas Securities** in Dublin. "What is uncertain is, on what terms."

Meantime, in order to pay the country's bank-related debts, Irish finance chief Mr. Lenihan may need to announce more than the €3 billion of additional austerity measures in his 2011 budget, due in December. That, in turn, could spur resentment among the Irish—who have already suffered through multiple austerity measures—and drain even more cash from the economy.

—Quentin Fottrell  
contributed to this article.

## Germany's Schäuble admitted to hospital

BY PATRICK MCGROARTY  
AND MARCUS WALKER

BERLIN—German Finance Minister Wolfgang Schäuble was admitted to the hospital Tuesday for an expected four-week stay, a blow to Germany's government that is likely to raise questions about his ability to oversee the finances of Europe's biggest economy.

Mr. Schäuble, a key ally of Chancellor Angela Merkel, has been wheelchair-bound since he was shot in an assassination attempt 20 years ago. He has had health problems for much of the year, missing important meetings during Europe's sovereign-debt crisis.

A finance ministry spokesman said Mr. Schäuble, who will be treated for problems stemming from an earlier operation, will continue to conduct government business from his hospital bed.

Ms. Merkel has so far shown no sign of replacing the 68-year-old minister despite his health problems. However, German media raised questions this spring about whether the minister is able to press the country's case in tough international negotiations within the European Union and the Group of 20 leading economies.

The veteran conservative politician, who is Germany's longest-serving federal lawmaker, is widely seen as the most powerful member of the cabinet after the chancellor. The chancellor has given him the task of pushing through unpopular spending cuts to reduce Germany's budget deficit, often amid resistance from members of Ms. Merkel's center-right coalition.

Mr. Schäuble will miss several high-level meetings, including talks among euro-zone finance ministers in Brussels this week, the annual meeting of the World Bank and International Monetary Fund in October, and potentially an international finance ministers' meeting Oct. 22-23 in South Korea.

A routine operation in February related to his paralysis left Mr. Schäuble with a wound that failed to heal, forcing him to spend weeks in the hospital recovering while Europe's governments argued over how to deal with Greece's debt crisis.



AFP/Getty Images

Minister Schäuble in Berlin Tuesday.



EUROPE NEWS

# Medvedev discharges Moscow mayor

By GREGORY L. WHITE

MOSCOW—Russian President Dmitry Medvedev on Tuesday fired Moscow Mayor Yuri Luzhkov after the veteran city boss defied a weeks-long Kremlin campaign to persuade him to resign.

Mr. Luzhkov, a Soviet-era bureaucrat who had run the Russian capital for the past 18 years, was one of the most powerful independent players still on the Russian political scene.

But officials and analysts said he violated a cardinal Kremlin rule this month, publicly questioning the authority of Mr. Medvedev and seeming to appeal for support to Prime Minister Vladimir Putin, the president's patron and predecessor.

"Anyone who tries to act outside the power vertical will suffer ostracism from all within it," said a Kremlin official, using the Russian expression for the top-to-bottom system of administrative control put in place under Mr. Putin.

Over the past two weeks, the Kremlin sought to encourage Mr. Luzhkov to resign, an outcome that

would have helped both sides save face since he was also a leading member of the ruling United Russia party. But Mr. Luzhkov defied a drumbeat of Kremlin leaks and muckraking reports on state TV denouncing his leadership. On Monday, he returned from a weeklong vacation insisting he wouldn't quit.

Facing a direct challenge to his authority, Mr. Medvedev, in China on an official visit, responded with a decree early Tuesday removing him for having "lost the confidence of the president"—the first time Mr. Medvedev ever used that harsh designation.

The depth of Mr. Luzhkov's apparent miscalculation became clearer later in the day, when Mr. Putin backed up the president.

"It was completely obvious that the mayor of Moscow and the president had a bad relationship and the mayor is the president's subordinate, not the other way around," Mr. Putin told reporters.

Mr. Putin, who is widely viewed as the more powerful partner in Russia's ruling tandem, said he had discussed Mr. Luzhkov's removal



President Medvedev, left, with Mayor Luzhkov at Moscow's City Day in 2008.

with the president.

Officials and analysts said the drawn-out and public battle with a subordinate made the Kremlin look clumsy.

Over the past two years, Mr. Medvedev has eased out several heavyweight regional leaders who came to power in the early 1990s.

But none has so openly defied the Kremlin's efforts to remove him. Until the Kremlin made them political appointees in 2004, regional leaders and the mayors of Moscow and St. Petersburg were elected, and many became national figures, such as Mr. Luzhkov.

Mr. Luzhkov was at City Hall

Tuesday but didn't make any public comment. But in a letter formally quitting United Russia, he remained defiant, blasting the party for failing to defend him against "the torrent of lies and slander" in the state media.

Some analysts and politicians suggested his firing could lead to a wave of corruption investigations in Moscow.

Mr. Luzhkov and his wife, who became a billionaire in the construction business during his years in office, have for years been dogged by corruption allegations. They have always denied them and have never been formally charged.

According to official declarations, Mr. Luzhkov earned 7.95 million rubles (about \$260,000) last year, while his wife reported 31 billion rubles in income.

Kremlin officials said a successor is likely to be named in the next few weeks. Officials and analysts said they expect it to be a senior bureaucrat close to Messrs. Putin and Medvedev. In the interim, Mr. Luzhkov's top deputy, Vladimir Resin, is filling in.



© 2010 SunGard. All rights reserved. Trademark information: SunGard, the SunGard logo and the products and services of SunGard named herein are trademarks or registered trademarks of SunGard Data Systems Inc. or its subsidiaries in the U.S. and other countries.

**LOOK FOR US** wherever information systems must stay up and running, no matter what. We provide five million square feet of secure data center and operations space, business continuity management software and consulting services that help 10,000 organizations have uninterrupted access to the systems and information they need to run their business. [sungard.com/missioncritical](http://sungard.com/missioncritical)

**WHEREVER THE MISSION IS CRITICAL**

**SUNGARD®**

Availability Services • Financial Systems • Higher Education • Public Sector



## EUROPE NEWS



Bloomberg News

EU Monetary Affairs Commissioner Olli Rehn plans to issue a plan Wednesday for states to be punished for big spending.

## EU to propose sanctions for spendthrift members

BY CHARLES FORELLE  
AND MATTHEW DALTON

BRUSSELS—Europe is resolved to punish its fiscal sinners, the big-spending countries that sparked a sovereign-debt crisis this year and nearly pulled the euro zone apart.

Proposals that will begin to emerge Wednesday aim to impose fines and other penalties on these wayward nations. But months of negotiation among the 27 European Union members remain over how to set up the system of self-punishment and any fines are likely several years away.

Complicating matters, the effort is proceeding on two parallel tracks. The European Commission, the bloc's executive arm, will present detailed proposals Wednesday, but a task force of national officials is progressing more slowly, people familiar with the matter say. It is set to make a report to European leaders at the end of October, and finance ministers will discuss the issue at a meeting in Brussels this week.

Legislation proposed by the commission would need the sign-off of the EU's member states.

The push for sanctions is a bid to put more teeth on the EU's budget pact, a set of limits on national debt and deficits meant primarily to keep euro-zone members from running up big debts and saddling the whole currency area with higher interest rates and inflation. The rules were disregarded for years, with the sovereign-debt crisis as a disastrous consequence.

This is the second time in a decade that the EU is trying to get tough on budget rules. In 2003, the commission moved to condemn France and Germany for breaching the limits—a signal that even the bloc's biggest economies could be called to task. But under pressure from the two countries, the EU's finance ministers overturned the decision. In hindsight, that episode is viewed as an embarrassing and costly mistake.

Now, the atmosphere has changed. The reaction half a decade ago to beefing up rules “was very different” than it is today, Belgian Finance Minister Didier Reynders said Tuesday.

The commission will try again Wednesday, this time proposing to remove as much political interference as possible. A repeat budget offender could be fined as much as 0.2% of gross domestic product, according to people briefed on the plans, with penalties being dispensed almost automatically. Sanctions would apply only to euro-zone countries.

Under its proposal, the commission would also monitor so-called macroeconomic imbalances—yardsticks such as labor-force productivity that suggest a country is losing economic ground in relation to its peers. Governments that don't enact policies to fix these problems could ultimately be fined up to 0.1% of GDP, the commission will propose.

It also will suggest pushing countries more rapidly to reduce their debt as a percentage of GDP; any nation over the 60% threshold

would have to reduce its excess by 5% a year.

The task force of national officials, which met Monday, formed “clear directions,” according to one official, but it is still haggling over details. Task-force members generally agree on surveillance of macroeconomic imbalances, the need to reduce debt more quickly and the notion of sanctions.

Several bridges remain to be built. Most pressing is how the sanctions would be applied. German Finance Minister Wolfgang Schäuble, in a letter to colleagues, backed the commission and urged “quasi-automatic” sanctions. That view is echoed by the Dutch, who want a “more rules-based system,” a Dutch official says. France is among several countries wary of automatic sanctions.

European officials say the need for more coherence in the euro zone's economy is strong, because the 16 countries share a single monetary policy.

On the fiscal side, the danger is apparent: Greece's chronic overspending and consequent soaring debt caused a crisis of confidence among investors, who wondered if Greece would ever be able to pay back its borrowings.

The cost of stemming the Greek panic was a loan package of €110 billion (\$149 billion); the price for quelling the panic's spread was an additional €750 billion in pledges, along with massive bond-buying by the European Central Bank.

—Stephen Fidler and Andrea Thomas contributed to this article.

## Greece pledges asset privatization won't be a fire sale

BY NICK SKREKAS

ATHENS—Greece has promised to pursue an ambitious program of privatizing everything from gambling to infrastructure to raise €3 billion (\$4 billion) for state coffers over the next three years, but the effort won't include fire sales, said the official in charge of selling state assets.

The country has agreed not only to impose austerity measures and fiscal restructuring, but also to a transformational program to attract private capital into state-owned assets under the terms of the €110 billion bailout provided by the International Monetary Fund and the European Union to stave off bankruptcy.

“We will meet the €3 billion targets by 2013 but there won't be any front-loading even if we may raise some revenues this year,” George Christodoulakis, special secretary for asset privatization at the Finance Ministry, said in an interview.

The privatization program is also about “restructuring the local economy, and not just money,” he added.

“We are encouraging viable private investment but want to secure the public interest in modern ways so there won't be any fire sales,” Mr. Christodoulakis said.

A top priority for the government is Hellenic Railways, which has amassed €10.7 billion in debt and costs local taxpayers €1 billion a year to keep afloat.

The government plans to pass a privatization law in the next few weeks.

It is expected to slash the number of jobs at the railway to 3,700 employees from the current 6,000, cut unprofitable activities and routes and put in place a framework for exploiting real-estate assets valued at several billion euros.

“We already have some serious international interest for the railways and we expect to deliver the revamped operator next year which will be marginally profitable,” Mr. Christodoulakis said. “While its substantial debts will have to be serviced by the Greek state, we hope its real-estate portfolio will offset some of those costs.”

Unions are determined to resist such efforts. “We are on an accelerated path of strikes and industrial action because there has been no dialogue and because the government is trying to impose an industrial Dark Age upon us,” said Nikolaos Ki-

outsoukis, president of the Panhellenic Federation of Railway Workers.

He added: “We cannot accept our numbers being thinned to 3,700 workers; the transfers of personnel, the reduction in wages and the cuts to pension entitlements are completely unacceptable.”

Mr. Christodoulakis said he believes a rational agreement with unions can be reached because the country is at a turning point “and we can't keep going like this, as mismanagement would prevent fast resolution of the current problems.”

Second on the priority list for Greece is the exploitation of its real-estate assets. Prime Minister George Papandreou said in a speech last week that the value could be more than €200 billion. The country's national debt tops €300 billion.

“There are very numerous and large pieces of land that are commercially interesting and what we intend to do is to sell or offer concessions for many years to make exploitation viable,” Mr. Christodoulakis said.

“We are working very hard to present a robust and compelling investment case to the international markets.”

While Greece doesn't intend to “unbalance the equilibrium” in the telecommunications market—Mr. Christodoulakis said the state won't sell down its 20% stake of Hellenic Telecommunications Organization to add to Deutsche Telekom AG's 30% stake—it will liberalize the betting market. The country hopes to raise €500 million from newly issued licenses for new games and an additional €200 million in royalties by the end of 2011.

The special secretary underlined that the state intends to sell very quickly its 49% holding of Monte Parnes casino, outside Athens, possibly as soon as by the end of the year. It also wants to reduce its 90% holding in the Hellenic Postal Service but that is likely to take longer.

Mr. Christodoulakis said healthy progress was being made on the privatization of local gas monopoly DEPA, of which the state controls 65%. However, he underlined that there would be a separation between the network of pipelines and the gas-trading business.

“Our privatization advisers will be announced soon but the state will have a pronounced interest in the monopoly of the gas pipelines,” he said.

## Norway terror plot targeted Danish paper, say police

BY ERIK DURHAN

STOCKHOLM — A 37-year-old Iraqi Kurd terror suspect has confessed that he was planning an attack, with the target believed to be the Danish newspaper that published controversial cartoons depicting the prophet Muhammad in 2005, Norwegian police said Tuesday.

The suspect was one of three men arrested in July in the Oslo area and in the German city of Duisburg when the Norwegian Security Service acted against a suspected

terrorist cell operating in Norway.

“I can confirm that the suspect has confessed to planning a terrorist act,” said Trond Hugubakken from the Norwegian Security Service.

Shawan Sadek Saeed Bujak, who was arrested in Germany, didn't say if the attack would be aimed at the headquarters of the daily newspaper Jyllands-Posten in Aarhus, or its newsdesk in Copenhagen, said Siv Alsen, also from the Norwegian Security Service. But Ms. Alsen confirmed that the planned target was the newspaper. “We have known

this for some time, but as the media got hold of the story today we can confirm that Jyllands-Posten was the target,” she said.

The newspaper drew international attention when it published cartoons depicting the Prophet Muhammad, one showing him with a bomb as his turban. Islamic law forbids any depiction of the prophet.

Mr. Bujak had previously stated that he didn't know the two other men arrested, David Jakobsen, 31, and Mikael Davud, 39, but Mr. Hugubakken said Mr. Bujak had now

briefly discussed their respective roles, without going into detail. All three men have permanent residence permits to stay in Norway.

Mr. Bujak's lawyer said his client had denied belonging to a terrorist cell and having any contact with al Qaeda. But the Associated Press reported that his lawyer confirmed that his client had admitted to being involved in the plot.

U.S. and Norwegian officials believe the alleged plot was linked to the same Pakistan-based al Qaeda planners behind thwarted schemes

to blow up New York's subway and a British shopping mall, according to the AP.

The lawyer of suspected ring-leader, Mr. Davud, said Tuesday that his client had planned a bomb attack against the Chinese embassy in Oslo and that the other two weren't aware of the target, the AP said. The lawyer for the third suspect in the case, Mr. Jakobsen, a 31-year-old Uzbek national, has previously said he intends to plead innocent to any terrorism charges, the news agency reported.

U.S. NEWS

# Tea-party movement gains force

By PETER WALLSTEN  
AND DANNY YADRON

The tea party has emerged as a potent force in American politics and center of gravity within the Republican Party, with a large majority of Republicans now showing affinity for the insurgent movement and many independents viewing it favorably, a new Wall Street Journal/NBC News poll has found.

In the survey, 71% of Republicans showed an affinity for the tea-party movement, describing themselves as supporters, or saying they had a favorable image of the movement or hoped most tea-party candidates won elections.

If the Republicans win control of the House or Senate this fall, the survey shows "enormous amounts about how limited the interest is going to be in those new majorities to try to seek negotiation with the president or the Democratic leadership," said Republican pollster Bill McInturff, who directs the survey with Democratic pollster Peter Hart.

Mr. Hart said the poll showed that tea-party supporters made up one-third of all likely voters in the midterms. He said this showed that the movement "isn't a small little segment, but it is a huge part of what's driving 2010."

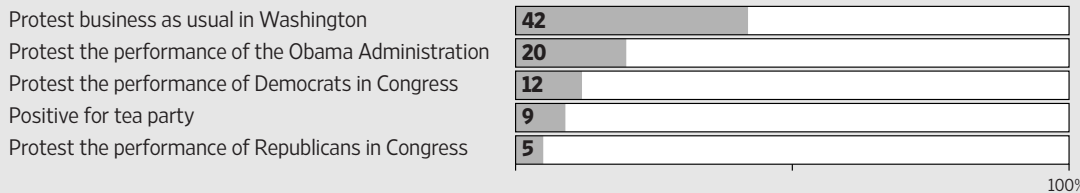
The survey also found growing energy among some core Democratic voters, such as African-Americans and Hispanics—a tightening that is common as an election draws closer, according to pollsters.

The GOP now holds a three-

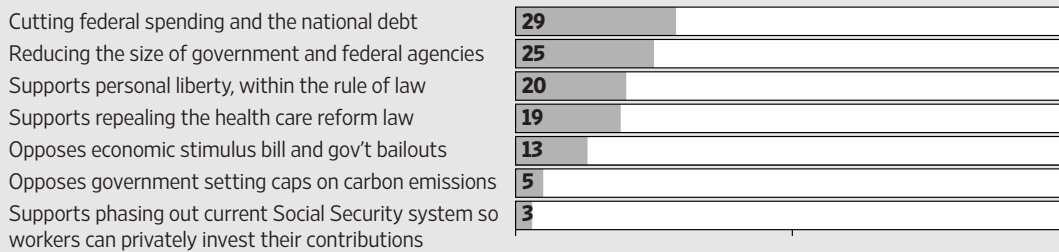
## Findings from the latest WSJ/NBC News Poll

### The tea party\*

#### How would you describe your support for the tea-party movement?



#### Which of these positions and issues that the tea-party movement supports are the main reasons you support the tea party?



\*Questions asked of tea-party supporters only

Source: WSJ/NBC News telephone polls; margin or error for Sept. 2010 full sample: +/-3.1 pct. pts.

point edge, of 46% to 43%, when likely voters are asked which party they would prefer to control Congress. That is down from a nine-point Republican lead a month ago.

Still, Republicans retain major advantages, including a fired-up base. Two-thirds of GOP voters say they are intensely interested in the election, compared with about half of Democrats, suggesting that Republican voters are more likely to

turn out at the polls. The tea-party movement is a major driver of the "enthusiasm gap," with three-quarters of its supporters saying they are intensely interested in the election.

Mr. Obama's ratings remain low, with 46% of Americans approving of his job performance. Half of Americans have a negative view of House Speaker Nancy Pelosi, compared with 22% taking a positive view.

The findings show how the tea-

party movement has grown over the past two years from a loose confederation of activist groups into a marquee brand within the GOP that upended a number of primaries in recent months, including the defeats of incumbent Republican Sens. Robert Bennett in Utah and Lisa Murkowski in Alaska.

■ Vegas maverick is a wild card in November's elections..... 8

# Offshore bill fails key vote in the Senate

By JANET HOOK

WASHINGTON—The U.S. Senate failed Tuesday to advance legislation designed to deter corporations from moving jobs overseas, an effort derided by Republicans as political theater.

The Senate voted 53-45, but that was shy of the 60 votes needed to end a GOP-led filibuster and advance the bill to the floor of the Senate for full debate.

Democrats, aware of polls showing that outsourcing is a concern among voters, staged the roll call to reinforce their election-eve drive to portray Republicans as obstacles to job-creating initiatives.

"There is a clear difference between who we are fighting for and who they are fighting for," said Sen. Debbie Stabenow (D., Mich.).

Republicans derided the vote as a transparent political ploy that was not a serious attempt at policy making.

"With just three days left in the Democrats' two-year experiment in expanded government, they want to make a good last impression with a bill that they know has no chance of passing," said the Senate Republican leader, Mitch McConnell of Kentucky.

A new NBC News/Wall Street Journal poll found that outsourcing is the top factor cited by Americans as the cause of the country's continuing economic distress.

# For many young adults, marriage can wait awhile

By CONOR DOUGHERTY

For the first time in at least a century, the proportion of U.S. adults between ages 25 and 34 who have never been married last year exceeded those who are married, marking a reversal that follows years of decline in marriage rates, according to data released Tuesday by the U.S. Census Bureau.

Marriage rates among young adults have been dropping for decades, a decline that accelerated during the 2007-09 recession that was the longest and deepest since the Great Depression.

With stagnant paychecks and a 9.6% unemployment rate, many young adults are delaying marriage until they are better set financially, or they are forgoing matrimony altogether.

In 2009, the proportion of adults 25 to 34 who had never been married was 46.3%, compared with 44.9% for those who were married, the first time in recent history that never-married young adults outnumbered their married peers, according to an analysis of Census data by Mark Mather, a demographer at the Population Reference Bureau, a nonprofit research organization in Washington.

The precipitous drop in marriage rates has pushed the proportion of married adults to 52% in 2009, the lowest in more than 100 years of statistics.

The marriage drop cuts across races and gender, but is more pro-

nounced among those with less education.

Between 2000 and 2010, the share of 25-34-year-olds who are married dropped 10 percentage points to 44% among adults who didn't go to college, according to Mr. Mather's analysis.

Marriage among 25-34-year-olds with a bachelor's degree or greater fell just four percentage points, to 52%.

## The precipitous drop in marriage rates has pushed the proportion of married adults to 52% in 2009, the lowest in more than 100 years of statistics.

"The marriage gap used to be reversed: Prior to the 1990s, marriage rates among those with a high school diploma or less were higher than those with a four-year college education. The college-educated were more likely to postpone marriage compared with those in less-educated groups," wrote Mr. Mather in a report released on Tuesday. "Marriage rates today look very different, with higher proportions of young, highly educated adults entering formal unions, and a sharp drop among those with less education," he said.

There are myriad social and eco-

nomie trends behind the marriage drop, starting with a rise in divorce rates around the 1970s.

The growth of women in the work force and their rising educational attainment has made a generation of women less dependent on marriage.

Young women are graduating college at higher rates than men, and in most U.S. cities young childless women now earn more than males of the same age.

Between 2006 and 2008, 32.7% of women between 25 and 34 had a bachelor's degree or higher, compared with 25.8% of men, according to the Census.

And in 2008, single, childless women between ages 22 and 30 were earning more than their male counterparts in most U.S. cities, with incomes that were 8% greater on average, according to an analysis of Census data by Reach Advisors, a consumer-research firm in Slingerlands, N.Y.

Of course, a slowdown in marriage rates doesn't mean the end of relationships.

As marriage rates have fallen, the number of adults living together has jumped, according to Mr. Mather's analysis.

Men and women who don't get married are living together as an alternative to matrimony, or as a first step toward marriage down the line. While marriage has fallen among younger people, the probability of getting married at some point still is at about 90%.

## CLASSICAL DEWITT AUDACITY



EVERY DEWITT IS BUILT BY A DEDICATED MASTER HOROLOGIST AND EACH INCLUDES AN AUDACIOUS TWIST ON THE CLASSICAL WATCHMAKERS ART.

WWW.DEWITT.CH



## U.S. NEWS

# Vegas maverick is a campaign wild card

By MICHAEL PHILLIPS

LAS VEGAS—Scott Ashjian is one of those Vegas characters.

He wears a platinum Rolex and slicks his hair back, Mad Men-style. He got his start in car washes, went into asphalt and now has a company that floods the Internet with flattering information about people worried they look bad in Google searches. He keeps a Playboy-themed pinball machine in his office and drives a \$160,000 black Mercedes.

And he just might be the man who determines the outcome of the highest-profile Senate race in the country.

So volatile is the electorate, and so strong the anti-establishment anger, that Mr. Ashjian—a political unknown who barely bothers to campaign—may well tip the scales in favor of beleaguered Senate Majority Leader Harry Reid, a Democrat, in his race with Republican challenger Sharron Angle.

Why? Ms. Angle, a former state assemblywoman, may be the standard-bearer for the tea-party faithful, but Mr. Ashjian alone will have the words “tea party” next to his name on the ballot. While others were staging angry rallies, Mr. Ashjian registered as the Senate candidate of the Tea Party of Nevada, which he formed with his podiatrist, his bankruptcy lawyer and a few other friends.

The Vegas-style theatrics highlight a serious quandary of the dif-



Scott Ashjian, U.S. Senate candidate of the Tea Party of Nevada, in his Las Vegas office last week.

fuse tea-party movement: Who's to say just who is—and is not—an authentic tea partier?

Republican operatives and other self-identified tea partiers have filed two lawsuits attempting to force Mr. Ashjian and his organization from the ballot. Mr. Ashjian wrote to Ms. Angle demanding that she cease claiming to be the “tea-party candi-

date” and otherwise infringing on “my rights as the only authorized ‘Tea Party Candidate of Nevada.’”

“Anybody can more or less say they're part of the tea-party movement,” says the plaintiff in one lawsuit, Tim Fasano, a tea partier in Nevada running for Senate for the Independent American Party.

Mr. Ashjian's candidacy has

heartened Democrats and panicked Republicans, who fear he will siphon conservative votes from Ms. Angle. The latest CNN/Time poll of likely voters has Mr. Reid and Ms. Angle in a statistical tie, 41% to 42%, with Mr. Ashjian drawing 5%.

The two lawsuits claim he should be disqualified for alleged technical violations. But behind the details is

the feeling Mr. Ashjian hasn't tea-partied enough to be a tea partier.

“The guy is a huckster, he's a slimeball,” says former Nevada GOP Executive Director Chuck Muth, co-plaintiff in one suit.

Mr. Ashjian, 46 years old, says he attended a few tea-party protests. “Do I show up at every barbecue? The Tea Party of Nevada is a revolt against big government,” he says.

So far, the courts have sided with Mr. Ashjian, and both cases are now on the docket of the state Supreme Court.

Neither major campaign is eager to talk about Mr. Ashjian. The Reid camp knows it gains by quietly letting Mr. Ashjian nibble at Ms. Angle's conservative support. Ms. Angle appears content to let surrogates try to fend off Mr. Ashjian.

Mr. Ashjian says his concerns are tea-party staples: lower taxes; smaller government; and business-friendly regulation. Yet his is an odd campaign. He doesn't give speeches or hold rallies. Mr. Ashjian says he has raised about \$5,000 from donors and paid for the rest himself.

He is, he admits, counting on angry Nevadans to check the box next to the man identified as the Tea Party candidate.

Behind his desk, Mr. Ashjian keeps a statue of a kingfisher about to lunge at a frog. “That's Sharron Angle,” Mr. Ashjian says of the frog. “That's Harry Reid,” he says of the bird. Lurking beneath a lily pad is an alligator, ready to devour both. “That's Scott Ashjian,” he says.

## Home prices inch up but outlook darkens

By SARA MURRAY

Home prices rose for the fourth-straight month in July, but at a slower pace than in previous months, and they could start falling again as the expiration of government home-buying incentives has put a brake on sales.

Separately, an index of consumer confidence dropped sharply as muted economic growth and slow job creation weighed on households.

The S&P/Case-Shiller 20-city home price index rose 0.6% in July from the prior month and was up 3.2% from a year earlier. That marks the sixth time in a row prices rose, compared with the same month in 2009, an important distinction in an industry where sales vary sharply according to the time of year.

But the S&P/Case-Shiller report showed uneven progress across the U.S., as well as signs of weakening: Ten of the 20 markets surveyed reported price drops from a year ago, double the number reporting declines a month earlier.

The index is based on a three-month moving average, and analysts noted May and June saw larger price increases than July.

“We do think house prices have a bit further to fall,” said Zach Pandl, a Nomura Securities economist. And with home prices likely to weigh on the rate of recovery next year, “it just emphasizes how big of a house-price boom and bust this has been,” he said.

A number of factors are weighing on the housing sector. High un-

employment has consumers worried, making them hesitant to wade into the home market, particularly now that home-buyer tax credits have expired. Such scenarios often lead to a standoff with sellers, who are reluctant to drop prices. Meanwhile, distressed properties continue to make their way onto the market, pulling down prices.

Housing has rebounded faster in some cities than in others. In San Francisco, prices were up 11.2%, and in San Diego they were up 9.3%, compared with a year earlier. Other markets were still lagging. In Las Vegas, prices were down 4.9%, and in Charlotte, N.C., they were down 3.5% from a year earlier.

In a separate report Tuesday, the Conference Board said its gauge of consumer confidence fell to 48.5 in September from 53.2 a month earlier, as more people said business conditions would worsen in the next six months. They had similarly negative feelings about the job market.

Expectations of tempered growth have also spread in the business community. A survey of chief executives released Tuesday by the Business Roundtable, an association of U.S. CEOs, showed they expected the economy to grow 1.9% this year, down from their 2.7% estimate in the previous quarter.

Two-thirds of CEOs said sales would increase in the next six months, down from 79% who said so the prior quarter. Thirty-one percent said they planned to increase employment, down from 39% in the second quarter.

### Digital Harmony

— Technologies for comfortable and eco living

Cutting-edge IT & Electronics Comprehensive Exhibition

**CEATEC**  
JAPAN

Official Website & Pre-registration [www.ceatec.com](http://www.ceatec.com)

**CEATEC JAPAN 2010 10.5<sup>Tue</sup> ▶ 10.9<sup>Sat</sup> Makuhari Messe, Tokyo**

■ Special Invitational Day Oct.5 10:00am–17:00pm

■ Public Day Oct.6-9 10:00am–17:00pm

**NEW! CEATEC Suite**

Enhancing Your Business Potential and Opportunities!  
Oct.6-8 10:00am - 18:00pm

Sponsorship: CEATEC JAPAN Organizing Committee  
CIA Communications and Information network Association of Japan  
JEITA Japan Electronics and Information Technology Industries Association  
CSAJ Computer Software Association of Japan

Yokoso!  
JAPAN  
Visit Japan 2010

JAPAN  
MICE  
WELCOME & ECONOMIC COOPERATION

CoFesta  
2010



WORLD NEWS

## Punishing mudslides hit Mexico

By NICHOLAS CASEY

Punishing mudslides struck Mexico's southern state of Oaxaca on Tuesday, burying hundreds of homes, as rescue workers struggled to reach survivors in the rubble and mud.

The largest of the landslides struck the town of Santa Maria Tlahuitoltepec, after days of torrential rains caused a hillside to collapse, sending waves of earth into the area early Tuesday as residents slept.

State Gov. Ulises Ruiz told Mexican television that more than 300 homes were buried in the landslide and anywhere between 500 and 1,000 people were feared to have lost their lives. "It's raining and we're told that an area about 200 meters wide" was involved in the collapse, he said.

A second mudslide in the area struck the town of Villa Hidalgo, killing at least one person, authorities said. Elsewhere in the state, at least four rivers broke their banks, causing widespread flooding and forcing residents to flee their homes.

On Tuesday, the government dispatched rescue teams from the military along with local and state security forces to assist in the rescue effort in Santa Maria Tlahuitoltepec. But reaching the remote site—which lies at a valley surrounded by winding roads—proved difficult as emergency teams encountered roads that were damaged by the recent storms. Televised images showed bulldozers slowly clearing away mounds of mud and brush that blocked the roadway while rescue crews used shovels and hoes.

## Israel diverts Gaza-bound activist boat

By JOSHUA MITNICK

TEL AVIV, Israel—Nine Jewish activists who sought to sail to the Gaza Strip to protest a naval blockade were intercepted Tuesday by Israel's navy, which forced their boat to the southern Israeli port of Ashdod.

Israeli soldiers commandeered the catamaran Irene, flying under a British Union Jack, in international water just beyond the territorial waters off Gaza, according to the army.

The enforcement of the blockade ended without violence, according to the army and a spokesperson for the activists.

The incident comes nearly four months after nine Turkish nationals were killed in a clash between Israeli naval commandos and pro-Palestinian activists in a much larger flotilla. The international uproar increased Israel's diplomatic isolation and eventually forced Israel to ease its land blockade of Gaza.

The passengers on the Irene included five Israelis—among them a former air force pilot and an 82-year-old Holocaust survivor—and Lillian Rosengarten, 75 years old, of Cold Spring, New York. Israel's army said soldiers boarded the Irene after two navy warnings were ignored.

# Egyptian gets 15 years in retrial

A Wall Street Journal Roundup

CAIRO—An Egyptian court handed a prominent businessman and politician charged with conspiring to kill his pop-star lover a sentence of just 15 years after an earlier trial had sentenced him to death, capping for now a murder trial that has transfixed much of the Arab world for more than two years.

The new sentence of Hisham Talaat Moustafa, a parliamentarian from Egypt's ruling party, in the murder of a Lebanese singer is likely to spark new accusations of political meddling ahead of parliamentary polls this year. Mr. Moustafa, the builder behind the luxury suburbs for the rich that now ring impoverished Cairo, was close to the powerful son of Egypt's president and has come to symbolize the close bond between businessmen and politicians in recent years.

The judge convicted Mr. Moustafa for conspiracy to murder 30-year-old Suzanne Tamim and gave him 15 years in prison. The timing of the verdict came as a surprise because there had been no indication the retrial was ending and the defense had yet to give its closing arguments.

The real-estate tycoon was sentenced to death in May 2009 after being convicted of paying a retired Egyptian police officer \$2 million to kill Ms. Tamim while she was in Dubai in July 2008. The court in March overturned the conviction on procedural grounds and ordered a retrial.

The sentence for the man actually convicted of killing Ms. Tamim, Mohsen el-Sukkari, was also reduced to life in prison, which is 25 years under the Egyptian penal code.

Prison years under the Egyptian system last just nine months, meaning that Mr. Moustafa could be released in just a few years, counting



The murder retrial of Hisham Talaat Moustafa, center left in 2009, captivated the Arab world. Its verdict raised questions.

time served and good behavior. The sentences can still be appealed by the defendants, the prosecutor or Ms. Tamim's family.

The initial allegations shocked Egyptians unused to seeing powerful politicians—often perceived as untouchable—taken to court. The new lighter sentences raised questions about Mr. Moustafa's influence.

"This is the result of the marriage between the regime and the wealthy," said Abdullah el-Sinnawi, the editor of the opposition Al-Arabi newspaper. "The regime wants to

protect its people."

The allegations first came to light after Mr. Sukkari was arrested in Egypt following the murder. Mr. Mostafa was stripped of his parliamentary immunity and forced to resign as head of the Talaat Mostafa Group, one of Egypt's largest land-development companies.

While the retrial upheld both murder convictions from the May 2009 trial, Judge Adel Abdel Salaam Gomaa opted for reduced sentences without explaining his reasoning publicly.

Tuesday's edition of the indepen-

dent Egyptian daily Al-Shorouq carried a front-page article full of details of Mr. Mostafa's jet-set affair with Ms. Tamim, before their affair soured.

The newspaper, citing anonymous courtroom sources, reported that Mr. Mostafa, a married father of three, lavished Ms. Tamim with expensive gifts and supplied her with a \$200,000-a-month allowance, channeled through a Swiss bank account. Ms. Tamim's family in Lebanon filed their own lawsuit against Mr. Mostafa last year, but dropped the suit in May.

# Taliban reject Karzai's new peace council

By YAROSLAV TROFIMOV

KABUL—Afghan President Hamid Karzai on Tuesday appointed the members of a new council that aims to negotiate a peace settlement with Taliban insurgents.

The Taliban, who earlier Tuesday assassinated the deputy governor of a key province, immediately rebuffed Mr. Karzai's latest overtures.

Mr. Karzai, who cried during Tuesday's speech as he recounted Afghanistan's woes, has made the pursuit of a peace deal his key priority. This outreach had been met with hostility by many leaders of Afghanistan's ethnic minorities, who fear Mr. Karzai, a Pashtun, is willing to make too many concessions to the mostly Pashtun insurgents.

In response to those concerns, the new council's 68 members include some of the fiercest opponents of accommodating the Taliban, such as ethnic Hazara strongman Mohammed Mohaqeq and Uzbek leader Norullah Saadat, in addition to former Taliban officials and some of the country's most influential warlords and clerics.

Mr. Karzai's spokesman, Waheed Omar, said the new council will be the sole agency negotiating with the Taliban, and the government won't undertake any back-channel talks. Over the past two years, Mr. Karzai's representatives and the United Nations repeatedly attempted to en-

gage the Taliban, but these preliminary secret discussions bore little fruit.

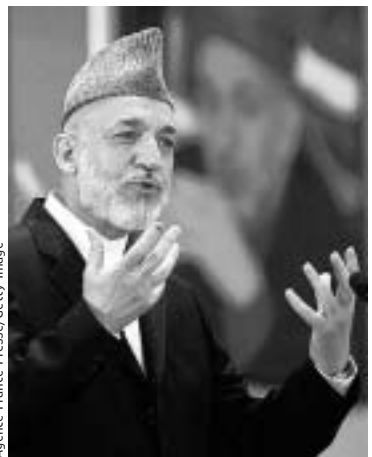
The most promising contacts, involving the Taliban's second-in-command, Mullah Abdul Ghani Baradar, ended abruptly after Mr. Baradar was arrested by Pakistani intelligence in February. He remains in Pakistani custody.

In Tuesday's speech, a visibly distraught Mr. Karzai appealed to the Taliban to end the widening war. "If they consider themselves from this land, if they see themselves as Muslim and Afghan, they should accept the constitution and come to us," Mr. Karzai said.

The Afghan president's rambling address, broadcast live on television, lamented the suffering, illiteracy and poverty caused by 30 years of war. Mr. Karzai started crying as he explained that he wants his young son Mirwais to grow up as an Afghan in Kabul and become a doctor—and not to have to emigrate.

American officials have endorsed Mr. Karzai's peace quest, saying a similar approach to Sunni insurgents in Iraq helped to drastically diminish the level of violence there. U.S. Army Gen. David Petraeus, the commander of U.S.-led coalition troops here, told reporters on Monday that "very high-level Taliban leaders" have already reached out to Mr. Karzai's administration.

The Taliban, however, rejected on



President Hamid Karzai cried while recounting Afghan woes on Tuesday.

Tuesday Gen. Petraeus's statement as "baseless," saying the insurgent movement won't take part in any negotiations as long as U.S.-led foreign forces remain in the country.

"It is the propaganda of the Americans to cover their failure in Afghanistan, and to show their people that they are successful in the war," the Taliban spokesman, Zabihullah Mujahed, said in a phone interview Tuesday. "The Islamic Emirate of Afghanistan has not had any contact with the Afghan government or the foreigners for peace talks."

On Tuesday morning, a bomb hidden in a parked motorbike exploded near a convoy carrying the

deputy governor of the eastern Ghazni province, Kazem Allahyar, Afghan officials said. The bomb killed Mr. Allahyar, his son, two nephews, and two bodyguards. Mr. Muhajed, the Taliban spokesman, claimed responsibility.

Afghan government officials are routinely targeted by the insurgents, who have mounted hundreds of assassination attempts against public servants across the violence-racked southern and eastern provinces of the country in recent months.

At the same time, the U.S.-led coalition has increased the tempo of Special Operations raids on Taliban commanders throughout the country, killing or arresting hundreds of insurgent leaders. In recent days, the coalition reported several strikes that resulted in dozens of insurgent deaths each.

Arsalan Rahmani, an Afghan senator who served as a deputy minister in the pre-2001 Taliban government and is now on the new peace commission, said Tuesday that he was "optimistic" about the negotiations' chances because of such military pressure applied on the Taliban.

The insurgents, he explained, might be more willing to talk "because their houses, bases and villages are being bombed, and they themselves are being killed."

—Habib Khan Totakhil and Arif Afzalzada contributed to this article.



## WORLD NEWS

# Pyongyang elevates Kim son

BY EVAN RAMSTAD

SEOUL—Now that North Korean leader Kim Jong Il has taken the first steps in setting up his preferred succession, the question is whether he can carry it off.

Generational handoffs are difficult enough in business. In modern politics, only a handful of monarchies attempt them. North Korea is the only communist country that has tried—and Tuesday's moves by Mr. Kim to make his 27-year-old son, Kim Jong Eun, and 64-year-old sister, Kim Kyong Hui, four-star generals in the North Korean army show this authoritarian regime's first family is going to try again.

Mr. Kim faces more challenges carving a path for his son than his father, North Korean founder Kim Il Sung, did with North Korea's first hand-down of power 16 years ago.

Kim Jong Il appears to have left much less time to lay groundwork than his father did. North Korea is in worse shape economically now than it was during the current leader's rise to power. On top of that, some reports suggest the Mr. Kim's son is facing criticism within the North Korean military because of his age.

"Handing off power is one of the more challenging things that governments do," said Jennifer Lind, political scientist at Dartmouth College. "Making an unprecedented transfer of power from the second generation to a third, in a Stalinist setting, is really a difficult endeavor."

Tuesday's announcement of the appointments by the official Korea Central News Agency came early in the morning, just hours ahead of the largest meeting of the ruling Workers' Party of Korea in three decades.

By naming Kim Jong Eun a general in North Korea's military—a body that is viewed in North Korea as stronger than the party—Kim Jong Il put his third son on an even firmer path toward leadership than analysts had expected.

But beyond the announcement, Mr. Kim's regime offered no clues how it will make the succession



North Korea's Kim Jong Il, center, named son Kim Jong Eun, right, in a school photo, to a top military post Tuesday, positioning him to maintain the family's control of the country that started with dictator Kim Il Sung.

scheme work. The much-hyped party meeting began later Tuesday in the capital of Pyongyang, but the only news that emerged was that Mr. Kim had been reappointed as its general secretary, one of several top posts he holds in the party.

There were no signs that Kim Jong Eun made an appearance at the meeting or received any duties from the party. The meeting will continue Wednesday. Analysts who believed the meeting might produce Kim Jong Eun's first public appearance instead started to speculate that would happen on Oct. 10, when a big military parade is scheduled to commemorate the party's anniversary.

Kim Jong Il appeared to begin focusing on succession after he suffered a stroke-like illness in August 2008. But some analysts trace his interest back to 2001, when North Korean newspapers published essays with statements suggesting Kim Il Sung's revolutionary cause should be carried out by a grandson if it wasn't completed by his son.

Those essays disappeared in 2004 following the death of Kim Jong Eun's mother, Ko Young Hui, who was Kim Jong Il's third wife. The succession idea was mentioned only a few times in North Korea until early last year, after Mr. Kim's ill-

ness. Then, state-run newspapers began making references to a "bright future" that hinged on succession of the Kim family. Mr. Kim reinforced that message with a trip to China last month that retraced some of the places his father learned communist ideology.

"The message of that trip was that political legitimacy runs through the blood of the heroic Kim family," said Sung-yoon Lee, an international politics professor and Korea specialist at Tufts University in Boston.

Analysts also note that North Korean TV created a children's show earlier this year called "Good Heart of the Third Child" that emphasized the virtues of a family's third son, a challenge to the Confucian-rooted orthodoxy in North Korea that the first son is the most revered.

But that is likely just the beginning of a propaganda campaign to build up the image of Kim Jong Eun, who had never been mentioned by state media before Tuesday's announcement of his appointment as a general. Even that statement didn't mention that he is Kim Jong Il's son.

Still, some analysts said the military appointments showed that the North Korean leader at least recognized his frailty and the danger it

holds for his family's grip on power.

"One of the reasons people were so alarmed when Kim Jong Il had his stroke in 2008 is we didn't see that there had been any groundwork laid for succession at that point and it was anybody's guess what would happen if he died," Ms. Lind said. "It looks as though the regime itself was equally jarred by that event."

As a result, Ms. Lind said, policy makers in many countries will take anything that makes North Korea more stable, including a smooth succession, as good news. "It's kind of a sick thing to say," she added. "It's one of the most horrible regimes on the planet and people will say 'It's a good thing it's going to sustain itself.' That's because the chaos associated with the collapse of this regime would also be horrible."

Kim Jong Il's father, Kim Il Sung, founded the country as a communist dictatorship in 1948 and began preparing the country's first father-to-son by appointing Kim Jong Il to party posts starting in the late 1960s. Kim Il Sung introduced Kim Jong Il for the first time publicly in 1980, at a meeting of party representatives that was the last such gathering before the one Tuesday. Kim Jong Il took power in 1994, after the death of his father.

## Iranian blogger sentenced to prison

BY CHRISTOPHER RHODES

A controversial Iranian blogger credited with helping launch the vibrant Farsi-language blogosphere has received a prison sentence of more than 19 years, according to an Iranian news website close to the regime.

Hossein Derakhshan, a 35-year-old Canadian citizen nicknamed the "Blogfather" for having one of the first blogs in Farsi and for promoting blogging among Iranians, was sentenced to 19½ years in prison on charges of "cooperation with hostile states, propagating against the regime...insulting sanctities," among other charges, the website, mashreghnews.ir, reported Tuesday.

Mr. Derakhshan has been imprisoned in Tehran already for nearly two years. The sentence, which includes a fine of nearly \$45,000, may be the most severe yet for a blogger or journalist in Iran, according to human-rights groups. Mr. Derakhshan has the right to appeal the sentence.

"This sentence shows that the government is holding up Hossein as a symbol of what they're calling a conspiracy of hostile governments against Iran," said Ramin Jahanbegloo, a professor of political science at the University of Toronto who himself was imprisoned in 2006 in Tehran.

Mr. Derakhshan traveled to Israel twice in recent years, touting the visits on his blog as efforts to improve relations between the two countries.

The government used the trips to Israel, an illegal act for Iranians, to argue that he is a spy working for the overthrow of the Iranian regime, said Mr. Jahanbegloo.

Iranian prosecutors denounced street protests after the contested 2009 presidential election as orchestrations of foreign governments.

"The Iranian judiciary continues to convict hundreds of journalists, bloggers, students and human-rights activists to lengthy and unjustified prison sentences," said Hadi Ghaemi, executive director of the International Campaign for Human Rights in Iran. "Derakhshan's sentence is the latest assault on freedom of speech in Iran."

The case of Mr. Derakhshan, who was arrested months before the turmoil around the 2009 election, is complicated. He contributed to the launch of the Farsi-language blogosphere, which later became an important tool of the opposition after reform-minded newspapers were shut down a decade ago.

But several years ago, he began abandoning his opposition views to back Iranian President Mahmoud Ahmadinejad on several issues on his blog, including the right to a nuclear weapon.

Worse, in the eyes of his critics, he helped the Iranian government by identifying antigovernment bloggers and providing information about them.

"If he was just pro-government, that's okay because that's just a difference of opinion," said Arash Abadpour, a 31-year-old computer programmer in Toronto.

# China's rich split on philanthropy

BY LAURIE BURKITT

BEIJING—The visit of Bill Gates and Warren Buffett to China this week has triggered an unprecedented public discussion about philanthropy among the country's new class of ultrarich.

Since the pair announced plans for the trip in mid-August—and expressed their desire to meet with the country's tycoons over dinner Wednesday to discuss charitable giving—Chinese media have been abuzz with debate about the role of the wealthy in China. At least one tycoon has announced grand plans for posthumous donations, but others have raised concerns that Messrs. Gates and Buffett want China to adopt a form of philanthropy more suited to the highly developed nations of the West.

The China stop is part of a global campaign by the two U.S. billionaires to persuade their wealthy brethren to pledge their fortunes to good deeds. Last month Mr. Buffett delivered a progress report for the U.S.: 40 of its richest people, he said, had joined the two tycoons'



Bill Gates and Warren Buffett tour a car plant in Huizhou Tuesday.

"Giving Pledge" by committing at least half of their wealth to charity. The one Chinese known to have embraced the idea is Chen Guangbiao, the 42-year-old chief executive of a recycling company, who this month committed to giving an estimated 700 million yuan, or roughly \$105

million, after he dies.

But doubts raised by some wealthy Chinese include whether such mega-gifts make sense in a society with a limited infrastructure for philanthropy and whether creating large new institutions, as Mr. Gates and his wife did with the Bill

& Melinda Gates Foundation, would be wise in a country already entangled in red tape.

"Waiting until death to benefit society doesn't sound like the best solution," said Zhang Xin, co-founder and chief executive of Soho China, a major property developer in Beijing. "But creating a big foundation with its own bureaucracy may not be what China needs."

Ms. Zhang, who plans to attend Wednesday's dinner, launched a charity in 2005 with her husband, Soho co-founder Pan Shiyi, that focuses on educational programs. She declined to disclose how much they have contributed.

Chinese media reported this month that some Chinese tycoons had declined invitations to attend Wednesday's dinner, wary of flashing their fortunes. Mr. Gates and Mr. Buffett have sought to allay concerns over their intentions. In a letter to Xinhua, China's state-run news agency, they wrote that their purpose is simply to discuss how some of the nation's most influential people can contribute to the development of a philanthropic culture.