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IMF cautions rich countries on debt levels

By BOB DAVIS

WASHINGTON—The International Monetary Fund delivered a mixed message Wednesday, warning that many wealthy countries are amassing risky debt burdens but playing down the likelihood of a Greek default.

“The current risk of default in Europe is overestimated,” IMF economist Paulo Mauro said.

In three papers prepared by IMF economists on fiscal issues and published Wednesday, the fund said that a number of countries are running perilously close to their “debt limit”—a point at which markets might react to the threat of default by boosting interest rates sky high on new borrowing. According to the IMF analysis of 23 wealthy countries, Greece, Iceland, Italy, Portugal and Japan are very close to that point, while Ireland, the U.S., Britain and Spain are moving into danger-

ous territory.

The IMF analysis doesn’t predict that hitting the debt limit necessarily implies a market reaction. Japan, for instance, borrows at very low interest rates despite very high debt loads.

“Why haven’t markets shut Japan out?” asked IMF economist Jonathan Ostry. Because, he said, much of the debt is held domestically, and Japanese households are big savers. “But people have commented that this can’t go on forever,” Mr. Ostry said. “The aging of the population will diminish the pool of savings.”

Despite warning of the perils of running up big debt, the IMF economists had a different message for markets concerning Greece, to which the IMF and the European Union loaned a total of about €111 billion (\$142 billion) this year. Greece and other advanced European countries are very unlikely to default, IMF economists said, disput-

ing market analysts who have warned that the IMF bailout merely delayed a day of reckoning.

In May, for instance, Citigroup analyst Willem Buiter wrote that a Greek debt restructuring was “unavoidable.” Either “there will be a Greek default,” Mr. Buiter wrote, “or the Greek sovereign debt will be restructured ‘voluntarily,’” by lengthening the maturities of the debt coming due over the next five years.

By IMF estimates, Greece’s debt would equal about 150% of GDP by 2013 despite stringent government cutbacks. Analysts have said the Greek populace wouldn’t have the stomach to continue austerity, and would insist on a default.

But Mr. Mauro and three IMF economists said that a number of countries over the past 30 years have cut spending on the scale of what is required of Greece without default.

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U.S. and Iran, dunking for diplomacy



European Pressphoto Agency

Derrick Rose, right, goes to the basket under pressure from Hamed Ehadadi during the a game between the U.S. and Iran at the World Basketball Championship in Istanbul, Wednesday. Despite the political situation the only demonstrations came from fans waving peace flags. The U.S. won 88-51.

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Only in Japan, real men go to a hotel with virtual girlfriends. Page 29

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

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Manufacturing expansion in U.S., China lifts market

By SARA MURRAY AND JAMES R. HAGERTY

Growth in manufacturing activity accelerated last month in both the U.S. and China, defying mounting signs of a global slowdown and cheering investors.

The Institute for Supply Management, which surveys U.S. purchasing managers, said Wednesday its manufacturing index rose to 56.3 in August from 55.5 the prior month. A parallel index in China clicked up to 51.7 from 51.2 in the same period, while indexes in Europe slid. Any reading over 50 indicates expansion.

The U.S. economy faces

stiff headwinds, including a slumping housing market and high joblessness. But the upbeat reports from U.S. and Chinese factories sent stocks surging Wednesday. The Dow Jones Industrial Average rose 254.75, or 2.54%, to 10269.47

“This is very good news,” for both the U.S. and the global recoveries, said Brian Bethune, an IHS Global Insight economist. While there are signs a slowdown is under way, he said, the factory numbers show the recovery has slowed, but hasn’t stalled.

Enthusiasm over the U.S. and Chinese factory reports pushed aside concerns over a downbeat U.S. employment report: Private-sector payrolls

were cut 10,000 last month, according to an estimate by Automatic Data Processing Inc. The payroll firm’s report with economic consulting firm Macroeconomic Advisers showed goods-producing companies cut 40,000 jobs, more than offsetting 30,000 jobs created by service companies.

Faster growth in the production, employment, inventories and imports components pushed the U.S. manufacturing index higher. Some of the strength likely came from improved performance in the auto industry, analysts said.

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PAGE TWO

Tony Blair—the money men's friend

[Agenda]

BY PATIENCE WHEATCROFT



Bankers rejoice. At last there is a politician prepared to defend the money men; a leading statesman, no less, ready to go so far as to say that “credit default swaps and derivatives are not in themselves a bad thing.” Tony Blair’s verdict on the causes of the financial crash will do little to enhance his reputation with former colleagues in the U.K.’s Labour Party. But Mr. Blair has now removed himself from party politics and become something of a money man himself.

He has lucrative consultancies with international finance houses. He has even established the beginning of his own potential finance house, setting up a business that has registered with the Financial Services Authority and looks set to offer advice that could go beyond the political consultancy services provided by former statesmen such as Henry Kissinger.

Mr. Blair’s defense of the finance markets comes in his autobiography, “A Journey,” which went on sale Wednesday. The tome isn’t particularly rich in penetrating analysis of world events or those who strode the political stage while he was the U.K.’s prime minister: “Gerhard Schroeder,” he tells us “was a really tough cookie.” It does, however, tell us more about the author and his time in No. 10 than that he fought a long and nasty battle with his chancellor.

Not that Mr. Blair plays down the feud. He writes that during his last two years as prime minister, “Gordon [Brown] was in a perpetual state of machination.” As a rush of recent books has made clear, the persistent rumors about the chancellor’s attempts to drive Mr. Blair from office were all true. And while the prime minister refused to be ousted,



Tony Blair appears on the BBC’s Andrew Marr show to promote his book.

intent on pursuing what he saw as a reform agenda, Mr. Brown was a permanent, glowering obstacle.

“He wanted to freeze progress until he took over,” writes Mr. Blair, although there were also many aspects of the so-called New Labour agenda, such as school reform and some changes to the National Health Service, which Mr. Brown did not merely wish to delay but to derail completely.

Of his schools program, Mr. Blair says that: “getting anything out of the Treasury required a machete constantly slicing through the thick foliage of their objections day by day.”

Any business person reading this account of how a chief executive (of the country) had to constantly do battle with a disaffected finance director will surely conclude that the chief executive had been unbelievably weak.

However, politics is not like business. It is not even like football. It seems that the former prime minister turned not to leading corporate chiefs for advice on how to cope with his obstructive chancellor but to Sir Alex Ferguson, the manager of Manchester United football club.

What would he do, inquired Mr. Blair, if he had a brilliant player [he continues to assert that Mr. Brown was a fine chancellor, despite a crippling deficit that

points to a different view] who was completely disruptive?

Sir Alex’s response was the predictable one from a strong manager: He would sack the player.

But then Mr. Blair asked whether he would still do that if the sacked player could remain in the dressing room fomenting trouble? Sir Alex wasn’t so sure. Only the electors, not his boss, could have removed Mr. Brown from Parliament.

Perhaps it is little wonder that Mr. Blair claims to enjoy his current life, with its mix of charitable activity and highly profitable commercial enterprise, more than his time in government.

While he admits to a few errors, the book is shot through with an almost messianic conviction that he knew what had to be done for the country, and the world, and made great strides toward achieving his aims. He certainly doesn’t engage in any breast-beating for the fact that the Labour administration, largely led by him with Mr. Brown taking over toward the end, has left the U.K. in a dire economic mess and, in the view of many, beset with huge social problems too.

His new employers in the financial world would applaud his take on the financial crisis. “The market did not fail. One part of

one sector did. The way subprime debt was securitized, spliced and diced and sold on with no real appreciation of the underlying risk or value was wrong,” he opines. And he concedes that governments, regulators, politicians and monetary policy all failed to understand what was happening. Nevertheless (cue more applause from those new employers), “Financial innovation isn’t bad per se.”

He is critical of the way that government has responded to the economic disaster. “The problem, I would say error, was in buying a package which combined deficit spending, heavy regulation, identifying banks as the malfeasants and jettisoning the reinvention of government in favour of the rehabilitation of government,” he writes. Now in the private sector, Mr. Blair is now a vehement advocate of the small state. Well, even politicians can change their views.

Mr. Blair proffers a staunch defense of the U.K.’s “special relationship” with the U.S. and says he finds the “insouciance” with which it is treated in some quarters as “a little shocking.” He argues that as other countries assume growing power in the world, it is vital that the U.S. and Europe should cooperate.

But Europe, he says needs reform. It should use the economic crisis as an opportunity to liberalize the single market and coordinate fiscal and monetary policy; it should have a genuine European defense policy and energy policy. He calls for coordination of efforts to police illegal immigration.

And finally he laments the state of European universities and calls for them to become “entrepreneurial institutions.”

The last, coming from a man who presided over a government that saw British students running up massive debts to obtain degrees that wouldn’t enhance their career prospects one jot, shows just how much a taste of the commercial world can open a politician’s eyes.

What’s News

■ **The prime minister** of Slovakia, the newest member of the euro zone, said overly indebted countries should be forced into bankruptcy, not bailed out, in a sign of the tensions rolling the European currency bloc in the wake of the Greek crisis. 4

■ **Apple CEO Steve Jobs** unveiled a device that can deliver 99-cent rentals of TV shows over the Internet and also announced a revamp of the company’s lineup of iPod media players. 17

■ **U.S. car sales fell sharply** in August from the year-earlier month, when results had been boosted by a rebate program. Auto sales also fell in France, Italy and Spain. 20

■ **Rising tensions** in the Mideast cast a shadow over the start of the first direct Israeli-Palestinian peace talks in nearly two years. 9

■ **The U.K.’s Blair released** a memoir in which he defends the invasion of Iraq. 6

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NEWS

Dutch free Yemeni terror suspects

By JOHN W. MILLER

Dutch prosecutors Wednesday afternoon released without charge two Yemeni men arrested Monday on suspicion of planning a possible terrorist attack.

"Investigations in the U.S. and the Netherlands have shown there is no evidence implicating these men in a crime," the Dutch Ministry of Justice said in a statement.

Key to dismissing possible charges against Ahmed Mohamed Nasser al-Soofi and Hezam al-Murisi, the ministry said, were tests

for traces of explosives that turned up negative and a conclusion that the luggage, which had originally triggered suspicion, was inoffensive.

Consequently, the ministry said, "there is no reason for the men to be held any longer or to be considered suspects."

The two men, who didn't know each other and were held in separate cells, were arrested Monday morning after their United Airlines flight from Chicago landed in Amsterdam.

Wouter Hendrickx, a lawyer for Mr. Soofi, told the Associated Press

his client had said "I have no connections to terrorist activities whatsoever." He was merely going to visit relatives in Yemen, Mr. Hendrickx added.

The two men's behavior initially seemed suspicious. Mr. Soofi walked through security carrying \$7,000 in cash. His checked luggage included a cellphone taped to a bottle, a knife and a box cutter.

Additionally, both men, while in Chicago, changed their flight to go directly to Amsterdam instead of stopping in Washington. Mr. Soofi's luggage had traveled to Washington

without him, another red flag. Finally, they are both Yemenis and Yemen is suspected by the U.S. of being a training center for Islamic terrorists.

The information, the Dutch ministry said, "was so serious that we couldn't take any chances." There was considerable suspicion that the men had been making a dry run for a future attack, said Dutch officials.

Under Dutch law, suspects can be held for up to six days without charge. Dutch authorities said they had spent Tuesday and Wednesday questioning the two men, examining

evidence, including the plane, and interviewing friends and relatives.

In the end, it was a misunderstanding, Dutch officials said. There were no traces of explosives anywhere in the luggage or on the men.

In Chicago, there had been a scheduling problem and it was the airline's fault that Mr. Soofi's luggage went unaccompanied. Authorities concluded that the men's actions were coincidental, not coordinated.

U.S. authorities have also said they had no reason to charge the two men.



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EUROPE NEWS



Associated Press

Julian Assange is facing a renewed investigation in Sweden.

Probe of WikiLeaks founder is reopened

BY JEANNE WHALEN
AND IAN EDMONDSON

A senior Swedish prosecutor reopened a rape investigation involving WikiLeaks founder Julian Assange, whose efforts to use Sweden as a haven for the document-leaking organization are increasingly complicated by his personal travails there.

Sweden's director of public prosecution, Marianne Ny, said she was reopening an investigation previously closed by a lower-ranking prosecutor because "there is reason to believe that a crime has been committed." She said in a statement that "considering information available at present, my judgment is that the classification of the crime is rape." She added that a separate allegation that Mr. Assange molested a woman will be extended to include possible "sexual coercion and sexual molestation."

Mr. Assange has denied the allegations and called them an attempt to smear him after WikiLeaks in July released 76,000 classified U.S. military documents about the war in Afghanistan. Leif Silbersky, a lawyer representing Mr. Assange, said Wednesday he wasn't aware of Ms. Ny's decision and declined to comment until he had assessed the information.

The prosecutor's move is the latest episode in an unusual saga that has unfolded over the past two weeks. The case focuses on Mr. Assange's alleged sexual involvement

with two Swedish women around the time of a speech he gave in Stockholm in mid-August.

On Aug. 21, the prosecutor's office in Stockholm confirmed it had issued an arrest warrant for Mr. Assange and was investigating rape and molestation allegations against him, but hours later the chief prosecutor in Stockholm dropped the rape investigation and the warrant, citing a lack of evidence. It continued investigating the molestation allegation.

Mr. Assange seeks to strengthen WikiLeaks' foothold in Sweden, which provides strong protections to whistleblowers and the media.

Claes Borgstrom, a lawyer representing the two women involved, appealed the Stockholm prosecutor's decision, asking that the rape investigation be reopened and the molestation investigation expanded. That prompted Ms. Ny, a higher-ranking prosecutor, to re-examine the case.

The investigation comes as Mr. Assange seeks to strengthen WikiLeaks' foothold in Sweden, which provides strong protections to whistleblowers and the media. WikiLeaks keeps some of its servers in Sweden

The Assange case

Swedish prosecutors are investigating rape accusations

■ **Aug. 14** Julian Assange gives a speech in Stockholm about WikiLeaks, organized by the Swedish Christian Social Democrats.

■ **Aug. 20** Two women visit Swedish police to report their concerns about their relations with Mr. Assange. The police inform the prosecutor's office in Stockholm, which decides to open a rape and molestation investigation and issues an arrest warrant.

■ **Aug. 21** The prosecutor's office in Stockholm publicly confirms that it is investigating Mr. Assange and seeking his arrest, after a report in a Swedish tabloid about the case. Mr. Assange denies the allegations. Hours later, the prosecutor's office drops the arrest warrant and the rape investigation, citing a lack of evidence. It continues investigating the molestation allegation.

■ **Aug. 27** A lawyer representing the two women says he has asked a higher-ranking Swedish prosecutor to reopen the rape investigation.

■ **Sept. 1** Sweden's director of public prosecution reopens the rape investigation and expands the molestation investigation to include possible 'sexual coercion and sexual molestation.' Mr. Assange's lawyer says his client is innocent, and sharply criticizes Sweden's handling of the case.

Source: WSJ research

Slovak premier slams bailouts for countries

BY LEOS ROUSEK

BRATISLAVA, Slovakia—The prime minister of Slovakia, the newest member of the euro zone, said overly indebted countries should be forced into bankruptcy, not bailed out, in a sign of the tensions roiling the European currency bloc in the wake of the Greek crisis.

Iveta Radicova, who heads the right-leaning coalition government here, also said the so-called stability fund set up this year in case other European countries need financial rescue, is likely to cause more problems than it will solve.

Governments need "a value system based on responsibility" to ensure "the further existence of the euro," Ms. Radicova said in an interview Wednesday with The Wall Street Journal.

Slovakia has refused to contribute to the €110 billion (\$139.4 billion) bailout of Greece, the only member of the 16-nation euro zone to do so, and only grudgingly approved the creation of the €750 billion European Financial Stability Facility.

Slovakia's stance has caused consternation among European Union officials in Brussels, at the European Central Bank and in other European capitals, where a willingness to rescue troubled euro-zone states is viewed as critical to financial stability.

Olli Rehn, the top European Commission official in charge of economic and monetary affairs, issued an unusually blunt statement last month, saying: "I can only regret this breach of solidarity within the euro area."

Ms. Radicova, elected in June after promising to cut her country's budget deficit, rejects such criticism. She and other Slovak officials say countries using the euro have a duty to police their own finances and not become a burden to others by taking on too much debt.

Slovakia, a country of 5 million people, is the poorest country using the euro. Center-right Slovak politicians see no reason their country's taxpayers should have to rescue richer, and more profligate, nations.

Some analysts say it is in part because Slovakia is less developed and less integrated with the rest of

the euro zone that its politicians adopt a tough line on bailouts. German and French leaders, whose countries' banks have lent heavily to Greece and other troubled southern European economies, have felt pressured to act to protect their own national financial systems. Slovak banks don't have large international loan portfolios.

Lars Christensen, chief economist at Danskebank in Copenhagen, said Ms. Radicova "gives voice" to concerns shared by less outspoken leaders in Scandinavia, the Netherlands and elsewhere "who have long been frustrated with irresponsible fiscal policy in some EU countries."

Ms. Radicova on Wednesday said the EU needs to overhaul its institutions, including its statistics agency and market-oversight bodies, so it can prevent crises like the one that enveloped Greece. She said European authorities and bond-rating agencies who failed to properly monitor the situation in Greece, and banks that didn't follow appropriate rules for risk management, share responsibility for the Greek situation.

Ms. Radicova and other officials say countries using the euro have a duty to police their own finances and not become a burden to others by taking on too much debt.

"We would like to see really crucial changes in the behavior of these responsible institutions to have once more trust that this moral hazard will not repeat," Ms. Radicova said.

She said the euro zone needs to create "an orderly bankruptcy process" for nations that default on debts, so that Europe's frugal states won't again have to foot the bill for rescuing spendthrift neighbors.

Slovakia's government has pledged to cut spending and raise the sales tax on some goods and services to shrink the government budget deficit to less than 3% of gross domestic product by 2013. Slovakia's deficit this year is expected to be about 8% of GDP.

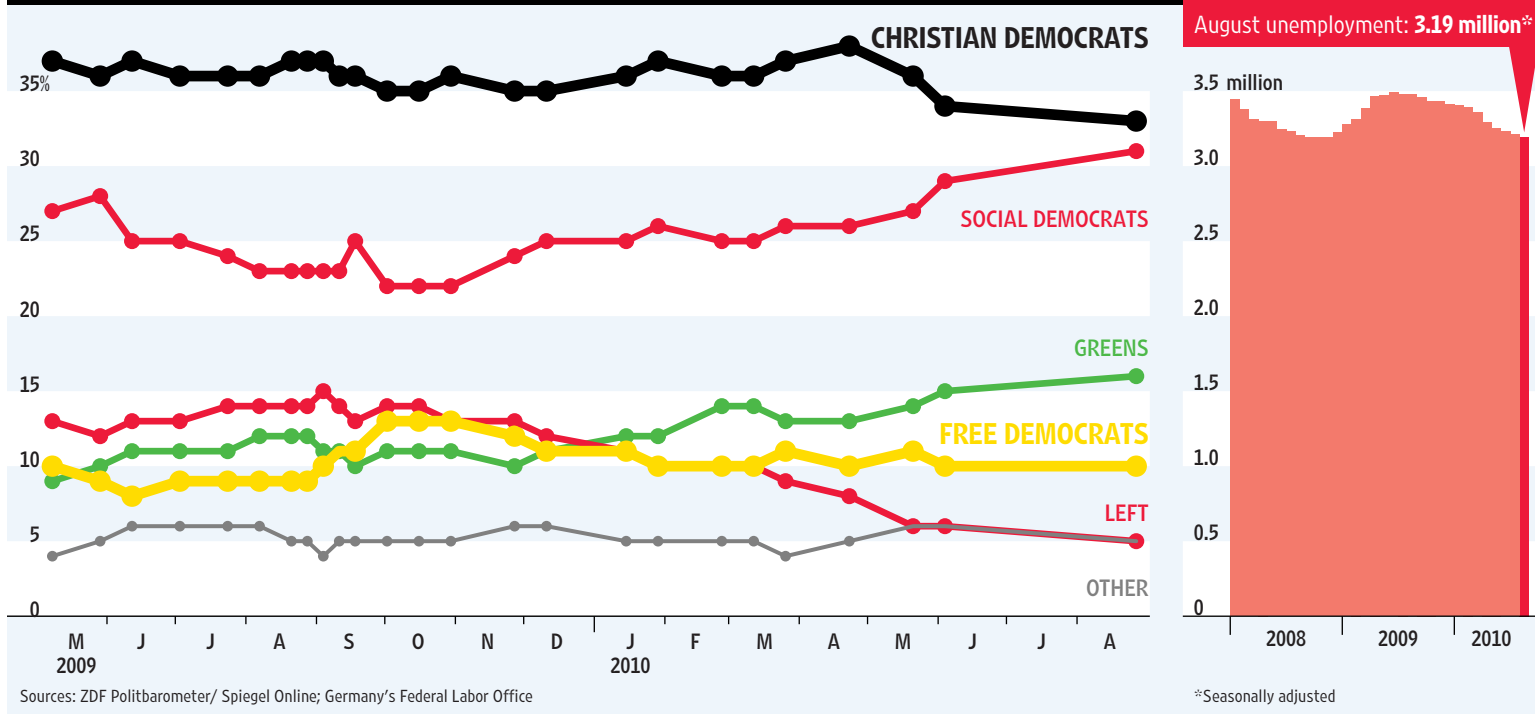


Getty Images

Slovak Prime Minister Iveta Radicova speaking to media last week.

EUROPE NEWS

Hitting lows | Polls show dwindling popularity for the Christian Democrat-Free Democrat coalition, despite a drop in unemployment



Euro zone, U.K. show slowdown in output

By NICHOLAS WINNING AND AINSLEY THOMSON

Surveys of European manufacturers released Wednesday provided further indications that the region's economic recovery is slowing in the third quarter.

Manufacturing-sector purchasing managers' indexes for August from both the euro zone and the U.K. showed a drop from strong levels in the previous period. British manufacturers were significantly less upbeat.

Markit Economics' final euro-zone manufacturing PMI, a gauge based on a poll of 3,000 companies, dropped to 55.1 in August from 56.7 in July. A reading above 50 indicates growth. August's euro-zone figure marked the slowest rate of expansion for the sector in six months.

The data also exposed marked disparities among member states, with Germany, France and Austria posting solid growth, while Italy, Spain, and the Netherlands managed only modest rates of expansion. The contraction in Greece worsened sharply from July.

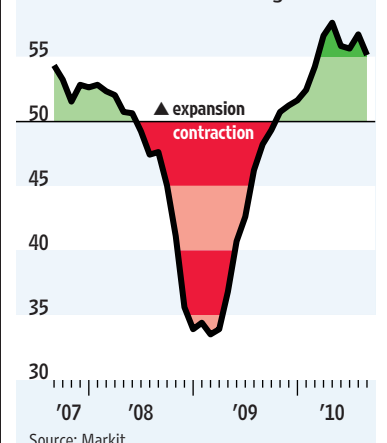
"The bottom line is that euro-zone output growth is still looking solid in Q3 but the growth rate is cooling following Q2's exceptional strength, and forward-looking indicators like new orders point to a further moderation going forward," Ken Wattret, chief euro-zone market economist at French bank BNP Paribas, said in a note.

In the U.K., the manufacturing PMI dropped even more sharply, falling to 54.3 in August from 56.9 in July, Markit and the Chartered Institute of Purchasing and Supply said. The August figure was the lowest in nine months.

Ross Walker, an economist at Royal Bank of Scotland, said a drop in new orders—which fell to their lowest level since June 2009—was particularly worrying. "Overall, the latest PMI survey will add to market jitters about the risks of a double-dip [recession]," he said.

Elsewhere in Europe, PMI surveys in Switzerland and Turkey also recorded declining levels of growth, with the Swiss figure falling to a still-strong 61.4 in August from 65.9 in July. Meanwhile the Turkish survey came in at 51.3, down from 52.8 in July.

Manufacturing cools
Euro-zone purchasing managers' index for the manufacturing sector



Economy soars, Merkel stumbles

By MATTHEW KARNITSCHNIG AND PATRICK MCGROARTY

BERLIN—In most countries, booming exports, falling unemployment, and the strongest economic growth in a generation would be a boon to the ruling political elite. Not in Germany.

Germany's renewed strength—the economy grew 9% in the second quarter on an annualized basis and unemployment, at 7.6%, is well below U.S. levels—has made it the envy of Europe.

Yet for weeks, approval ratings for Chancellor Angela Merkel's ruling center-right coalition—a combination of Ms. Merkel's Christian Democrats, its Bavarian sister party and the pro-business Free Democrats—have hovered at or near their lowest level since the government took power in the fall.

Support for the Christian Democrats has declined to 31% from the 38.4% the party received in last year's election, according to a weekly poll published by Stern magazine on Wednesday. The Free Democrats have plummeted in the polls to just 6%, less than half the nearly 15% they received in the September 2009 election. Polls indicate that if elections were held now, the government would likely lose power to the opposition.

Part of the government's problem in selling the recovery is that even though Germany's economy is improving, voters remained concerned about the longer-term outlook, especially with much of Europe struggling to reduce debt loads. A reminder of that caution

came Wednesday with news that German retail sales fell 0.3% in July from June, the second successive monthly decline. The government also said it had approved the bulk of an €80 billion (\$101.4 billion) austerity package to bring Germany's growing budget deficit under control.

Despite Germans' continued insecurity over the economy, however, many see another reason for the coalition's unpopularity—the persistent conflict between the ruling parties themselves. Over the past year, the coalition has sparred publicly over matters such as bailing out Greece, offering a financial lifeline to General Motors Co.'s Opel subsidiary, and abolishing conscription.

The divide between the partners was evident Monday at a joint news conference by Environment Minister Norbert Röttgen, a Christian Democrat, and Economics Minister Rainer Brüderle of the Free Democrats.

The two men were supposed to explain the results of a government study about extending the life of Germany's nuclear-power plants. The issue is an emotional one for many Germans who oppose nuclear power and want the government to accelerate the adoption of renewable energy.

Instead of presenting a united front, however, the pair disagreed over the basic findings of a study. Mr. Brüderle said the report made it clear that by keeping the plants online for 20 more years, Germany would dramatically reduce its reliance on fossil fuels. Mr. Röttgen countered that extending the plants' service would have only a "mar-

ginal" environmental impact.

The often-heated battles within the coalition have convinced many voters that the government is dysfunctional. So far, attempts by Ms. Merkel and her foreign minister, Free Democrat leader Guido Westerwelle, to end the bickering in their ranks have failed.

"The government isn't working well at all," says Christoph Giesa, a Free Democrat voter who works for a mail-order company in Hamburg. "What does Ms. Merkel stand for? What's Ms. Merkel's vision for how this society should look in 20 years? No one can say, and the same goes for Guido Westerwelle. They don't lead."

The sniping has come as a surprise because the Christian Democrats and Free Democrats shared power for 16 years when Helmut Kohl was chancellor and have long been regarded as natural allies. After years of gridlock under the previous government—a so-called grand coalition of Germany's two biggest parties: the Christian Democrats and the left-leaning Social Democrats—the new center-right coalition pledged to reform the economy, labor market and education system.

Critics say the infighting stems from Ms. Merkel's consensus-driven, hands-off leadership style.

"She is like a shepherd who leads the flock from behind, but voter support is plummeting because she can't keep the sheep together," says Josef Joffe, prominent German political commentator and publisher of Die Zeit, a weekly.

In recent weeks, Ms. Merkel has acknowledged in interviews that the

status quo is untenable and hinted that she is going to be less tolerant of dissension.

One explanation for the divide in the coalition is that Ms. Merkel has driven her party toward the middle of the political spectrum. That has helped the Christian Democrats attract swing voters, but the party's moderate direction has created tension with the conservative base and also put it at odds with the Free Democrats on key issues such as tax cuts. Amid such tensions, a more assertive approach by Ms. Merkel could make the situation worse.

"It looks as if she's not leading, but if she were to bang her fists on the table, it might backfire," says Peter Lösche, a political scientist at the University of Göttingen. "If her coalition parties don't follow, what then? She is blamed. It is very difficult to coordinate policies between the three of them."

A complicating factor for Ms. Merkel is the decline in support for the Free Democrats. Many analysts blame the erosion on the party's decision to pursue a single policy objective—tax cuts—despite a budget already strained by continued stimulus spending and commitments to curb the deficit. Mr. Westerwelle faces an open revolt as a result of the party's flagging fortunes.

"The FDP came in saying, 'We want to be different, we want to practice a new kind of politics, with a clear compass,' and that very clearly didn't work, because they made poor decisions," Mr. Giesa says. "I'm convinced that as long as Guido Westerwelle is the party leader, the FDP has no chance to recover."

U.N. trims forecast for Russian wheat

By SAMEER MOHINDRU

The United Nations Food and Agriculture Organization cut its wheat-output estimate for drought-hit Russia by 10% and raised its export estimates for the U.S. by 43%, a senior FAO official said Wednesday.

The organization's forecast underscores concerns that Russian wheat output will drop following the worst drought in the country's history, which is supporting wheat prices and altering grain trade

flows, although higher U.S. exports could mitigate some of the impact.

The FAO cut its projection for Russian wheat output this year by five million metric tons to 43 million tons, said Abdolreza Abbassian, secretary of the organization's Intergovernmental Group for Grains. In its Aug. 4 estimate, the FAO had put Russian wheat output at 48 million tons, compared with 60 million tons last year.

The new estimate is lower than the U.S. Department of Agriculture's

projection of 45 million tons and the International Grains Council's figure of 44 million tons.

The FAO also raised its estimate for U.S. wheat exports in the year ending May 31 to 33 million tons, an increase of 10 million tons, or 43% higher than its outlook in June.

A large volume of wheat that was expected to be exported by Russia will now be shipped from the U.S., he said, adding that "wheat market supplies are tight but adequate."

Mr. Abbassian said large invento-

ries in the U.S. would help tide over a shortfall in the Black Sea region after a drought spurred Russia to ban grain exports.

Mr. Abbassian sought to allay fears that Russia could become a major importer of wheat. Recent rainfall in Russia's wheat-growing regions may boost winter planting, which is crucial for next year's harvest, he said. Mr. Abbassian said global wheat production may rise next year as planting would likely expand owing to higher prices.

EUROPE NEWS

Blair backs Iraq war, defends Bush

BY PAUL SONNE

LONDON—A day after President Barack Obama formally declared an end to combat operations in Iraq, one of the war's chief supporters, former U.K. Prime Minister Tony Blair, released a memoir in which he defends the invasion but admits he never could have envisioned "the nightmare that unfolded."

Mr. Blair's memoir, "A Journey," hit stores across Britain on Wednesday, more than three years after the former prime minister left No. 10 Downing St. in 2007 and handed the reins of the ruling Labour Party to Gordon Brown—his successor as prime minister and the memoir's key supporting actor, described alternately as a leader with vast intellect and "a strange guy."

Mr. Blair's 718-page book, published by Bertelsmann AG's Random House, comes at a time of soul-searching for Labour, which suffered a disastrous defeat in May's general election, losing grip after 13 consecutive years in power.

For a decade of that reign, Mr. Blair stood at the helm, having risen to power in 1997 on the back of a "New Labour" movement that he engineered to shed the party's socialist trappings and embrace more centrist politics.

For Random House, the book is a big bet, but Neill Denny, editor in chief of publishing trade magazine the Bookseller, says he expects the memoir to become profitable, even though the publishing house shelled out a reported £4.6 million (\$7.1 million) advance.

Mr. Blair said last month that he would hand over the proceeds, including the advance, to a charity benefiting the U.K. armed forces. Random House didn't say how much it paid.

Like others of its kind, the memoir functions in large part as a final defense—in this case, of Mr. Blair's tenure at Downing Street, which became entwined with the politics of U.S. President George W. Bush, particularly after Britain supported the 2003 U.S.-led invasion of Iraq.

"The memoir is the one place—and the only place really—where the politician can make a case one-on-one to the reader. It is



An employee at a London bookstore arranges former Prime Minister Tony Blair's memoir, 'A Journey,' on Wednesday.

their last plea to the court of history," Mr. Denny says. "This is a book that every historian who ever writes about Blair from now to the end of time will read."

In that sense, Mr. Blair's plea focuses largely on the wars in Afghanistan and Iraq, which occupy four chapters that explain why he stands behind his decision to take Britain to war in Iraq. "On the basis of what we do know now, I still believe that leaving Saddam in power was a bigger risk to our security than removing him, and that terrible though the aftermath was, the reality of Saddam and his sons in charge of Iraq would at least arguably be much worse," he writes.

Mr. Blair says he takes full responsibility for leading Britain to Iraq, but he doesn't express regret. "I am unable to satisfy the desire even of some of my supporters, who would like me to say: It was a mistake but one made in good faith," Mr. Blair writes. He later says: "History, as ever will be the final judge."

The U.S. pervades the memoir. Long caricatured in the U.K. press as

Mr. Bush's lap dog, Mr. Blair notes that there was a political gulf between him and the Republican former president in some respects—"he was a conservative and I was a progressive"—but says they nonetheless got on well, and calls Mr. Bush a "true idealist" with "genuine integrity and political courage."

Despite admitting that he is, "of course, a Democrat," Mr. Blair defends Mr. Bush. "One of the most ludicrous caricatures of George is that he was a dumb idiot who stumbled into the presidency," Mr. Blair writes.

He argues that Mr. Bush has a simplicity about him that is the product of a decisive nature. "It's easy to mock the simplicity of the George Bush view of the world," Mr. Blair says. "On the other hand, the simplicity was born out of a very direct analysis which it was hard to dispute."

Mr. Blair also offers his take on former Vice President Dick Cheney, a figure he recognizes as a hardliner. "So he was for hard, hard power. No ifs, no buts, no maybes.

We're coming after you, so change or be changed."

Wrestling with Mr. Bush for the No. 2 role in the memoir is Mr. Brown, the Labour Party's longtime second fiddle, who finally wrested power in 2007 after engineering what Mr. Blair calls a coup.

The memoir is a roller coaster of what some, including Mr. Blair, call "the TB-GBs": the strained back-and-forth between Mr. Blair and Mr. Brown, which began in 1994 when former Labour leader John Smith died of a heart attack and the two heirs apparent struck a notorious deal, whereby Mr. Blair would take up the party leadership, eventually ceding control to Mr. Brown.

It took more than a decade, with Mr. Brown nipping at Mr. Blair's heels. Mr. Blair deals his fellow Labour leader some blows. "Political calculation, yes. Political feelings, no," Mr. Blair writes of Mr. Brown. "Analytical intelligence, absolutely. Emotional intelligence, zero."

Mr. Brown and his wife, Sarah, are currently writing their own books.

Zapatero asks China to buy debt from Spain

BY DINNY MCMAHON
AND JASON DEAN

BEIJING—Spain hopes China will increase its investment in Spanish government debt, Prime Minister José Luis Rodríguez Zapatero said on a visit to Beijing, highlighting China's importance as a source of global capital.

Mr. Zapatero made the comments in a group interview with Chinese media Tuesday, during a brief stop in Beijing.

"We definitely hope that China will continue to increase its holdings of Spanish government bonds," he said, according to a recording of the interview. "China has indeed increased its holdings of Spanish government bonds. This in fact has injected confidence to the market."

Mr. Zapatero didn't elaborate. A spokesman at the Spanish Embassy in Beijing said China bought €400 million (\$507 million) of Spanish government bonds in July. It's unclear how that compares to China's previous purchases of Spanish debt. China doesn't disclose details of its overseas debt buying.

Mr. Zapatero's statement reflects how China is increasingly seen as a source of capital because of its pile of foreign-currency reserves, by far the largest in the world, totaling \$2.454 trillion at the end of June.

There was no indication that China had committed to increasing its investment in Spanish debt.

The bond issue didn't appear to be the focus of Mr. Zapatero's visit and his comments on the issue were limited to a few sentences during the interview with Chinese media.

Earlier this year the crisis of confidence in Greece's public debt threatened to spread to Spain, where high levels of government borrowing and a faltering economy prompted investors to reassess the cost of lending there.

Spain has moved to aggressively cut spending since then, with the government's budget deficit for the first seven months of the year almost half that of the same period in 2009.

China's government tends to be cautious in investing its reserves, and because of that its investment can be seen by some as an important vote of confidence—even though €400 million is a pittance for China, which accumulated \$55 billion of foreign-exchange reserves in the first half of this year alone.

The bulk of China's holdings are invested in Treasuries and other U.S. dollar assets, but the government has made efforts to diversify into other currencies and asset classes in recent years, and companies and governments have sought to take advantage of that.

China's diversification push has been felt by its neighbors, with Beijing stepping up buying of Japanese government bonds and, to a lesser degree, Korean debt.

Earlier this year, amid Greece's sovereign-debt crisis, the Greek government sought out China's reserves managers to solicit interest in its bonds. China's response appears to have been lukewarm.

—Liu Li contributed to this article.

IMF warns wealthy countries on debt

Continued from first page
faulting. They also contend that a default wouldn't help because Greece would be shut off from international borrowing and would still have to sharply cut its government spending.

Additionally, they said that while Greece is paying higher rates now for new borrowing, the average interest rates that the country pays are lower than those paid by developing countries that had defaulted.

"Once countries endure pain of adjustment, they persevere," rather than default, said Mr. Mauro.

Citigroup's Mr. Buitter said he hadn't read the IMF analysis and couldn't comment on it, but still sees Greece as likely to default.

Overall, the IMF says that escalating debt levels in the Group of Seven industrialized countries—the U.S., Canada, Germany, Britain, Italy, France and Japan—are the result of growth of the welfare state, particularly health-care spending.

"In the last three and a half de-

cadecades, public debt has been the shock absorber in advanced economies—going up in bad times and not coming down in good times," said a paper by two IMF economists.

The economists say that the recession has worsened the debt problem, but they argue that stimulus plans are responsible for a small portion of the debt increase. The key to taming debt to more manageable levels, the IMF economists said, is getting health-care and pension costs under control and boosting growth.

They also raise the possibility of creating a World Tax Organization, which would coordinate tax policies around the globe, so countries don't compete for investment by multinational companies by slashing taxes and worsening their fiscal problems.

It is unlikely such a proposal, which has been made sporadically over the years by economists, will gain traction. Governments consider taxes a key part of their sovereignty and economic policy.

Lower interest rates, heavier debt burdens

Advanced economies are expected to pay lower borrowing costs to finance their large debt burdens than emerging countries paid in advance of their defaults.

ADVANCED ECONOMIES		Central-government debt as a percentage of GDP, 2009
Inflation-adjusted interest rates, 2010-11 averages		
Greece	4.0%	116.6%
Italy	2.5	90.3
Japan	2.4	158.2
Spain	3.2	42.6
U.K.	2.2	55.5
U.S.	1.9	48.5
EMERGING ECONOMIES (default year)		Central-government debt as a percentage of GDP* one year prior to default
Inflation-adjusted interest rates, averages two years prior to default		
Argentina (2002)	43.1%	43.1%
Indonesia (1999)	63.9	63.9
Mexico (1982)	24.2	24.2
Russia (1998)	44.2	44.2

*Local-currency government debt and foreign-currency public and publicly guaranteed external debt
Source: International Monetary Fund

U.S. NEWS

Parsing Republicans' economic playbook

[Capital]

BY DAVID WESSEL



Polks suggest Republicans have a good chance of taking the House of Representatives this fall and a slim shot at the Senate. So what would a GOP congressional majority do to revive the U.S. economy?

Republican rhetoric offers little help. To the quiet discomfort of a few GOP politicians and several who advise Republicans on economics, this year's campaign, so far, has little of the substance that accompanied the 1994 Republican renaissance with then-House leader Newt Gingrich's "Contract with America."

The only sure thing is that if President Barack Obama is for it, Republicans are against it.

Comments by Senate Republican leader Mitch McConnell a few weeks ago are typical: "Virtually every bill they [Democrats] pass adds more burdens on the very people we need to get us out of the recession and create jobs. If a bill doesn't kill jobs or make it harder to create them, they're not interested. It's time for a different approach."

This may be smart politics. Why be specific and give the other side a target, when you're winning by riding a wave of voter

frustration: Don't like the Obama economy? Vote for us.

The closest Republicans come to a public economic agenda are speeches by their House leader, John Boehner, who promises more detail later this month to blunt Democratic efforts to paint Republicans as the "Party of No."

For now, a few themes are evident.

One is that the spending-heavy Obama is a failure, often extrapolated into arguing that government spending is inherently bad.

"The common logic among Washington Democrats is that government spending creates jobs when that money is used to build a hiking trail or a playground," Mr. Boehner said, disapprovingly, during an Aug. 24 speech in Cleveland.

Adds GOP Rep. Paul Ryan: "We are not Keynesians. We don't believe in demand-side stimulus. We're going to stop the spending spree."

That's easier to promise than do. History doesn't favor spending foes.

"Prior to the Democrats' takeover of the Congress and the White House in 2008, the Republicans ushered in the largest expansion of federal spending since the heydays of Lyndon Johnson's Great Society in the 1960s," says Alaska's Joe Miller, who beat Sen. Lisa Murkowski in the Republican primary.

"You're going to have a whole bunch of people coming here who



Associated Press
GOP Rep. John Boehner giving an Aug. 24 speech on the economy in Cleveland.

aren't going to want to vote for any spending bill—maybe defense? maybe not?—to fund the government," predicts Vin Weber, a former Republican congressman. That could force GOP leaders to rely on Democratic votes for spending bills to keep the government running, hardly a recipe for curbing spending.

And some Republican advisers counsel against an abrupt cut in government spending while the economy remains weak. "I don't think right now is the time to make massive spending cuts. Now is the time to announce a path to restrain spending in the future," says Columbia University's Glenn Hubbard, co-author of "Seeds of Destruction," an attempt to offer the outlines of an economic

agenda. His favorite idea: Fix Social Security for the long run by raising the retirement age and tweaking benefit formulas, and—if there's a political imperative to help today's economy—package that with a temporary payroll tax cut to spur hiring.

Business-friendly tax cuts are another Republican theme.

Douglas Holtz-Eakin, a Republican economist, suggests a big corporate tax overhaul that cuts rates now to spur business investment and hiring and ends tax breaks in the future to offset the lost revenue. His pitch: Do only things to help the economy today that also spur future growth. Harvard University's Greg Mankiw argues that since the Federal Reserve can't cut interest

rates any further to encourage spending and consumers are wisely trying to save more, the best fiscal substitute is a temporary investment tax credit to induce more business spending.

The absence of a coherent Republican agenda reflects more than the usual lack of consensus. The gap between current congressional leaders and tea-party activists is huge.

For now, that argues for sticking to slogans, promises to "end uncertainty" and vows to repeal Mr. Obama's health-care legislation. After the election, that portends deep tensions.

The leadership's avowed interest in free-trade pacts, for instance, may not be shared by the populist Republicans winning primaries. This year's challenge for Republican leaders has been to keep their moderate senators from voting with Democrats; next year's may be keeping new Republican senators from opposing bills passed by a GOP-led House.

Barack Obama ran for president and won on a call for "change." But he had an agenda, and has managed to push a good chunk of it through Congress—fiscal stimulus, expanded access to health care, rewriting the rules of finance. His problem is that none of these legislative successes are popular.

Many Republicans are running on "anger." That may win the election; it's hard to turn into a legislative agenda.

Tax cuts weighed to spur economy

BY DEBORAH SOLOMON
AND JONATHAN WEISMAN

The Obama administration is considering a range of new measures to boost economic growth, including tax cuts and a new nationwide infrastructure program, according to people familiar with the discussions.

The president's economic team has met frequently in recent days to list ways to bolster the struggling recovery, according to government officials.

On the list of possible actions: additional tax cuts for small businesses beyond those included in a \$30 billion small-business lending bill before the Senate. It's not clear what those tax breaks would target or how much they might cost in lost revenue to the government.

Also in the mix: a possible payroll tax cut for businesses and individuals, as well as other business tax breaks, according to people familiar with the discussions. Currently, income taxes are scheduled to rise with the expiration of Bush-era tax cuts at the end of this year.

Efforts to boost growth have taken on urgency as the economy has shown signs of flagging and is among voters' chief concerns ahead of November's midterm elections.

The White House is struggling with whether to propose ideas that would appeal to Republicans, and thus get support on Capitol

Hill—such as tax cuts—or whether to promote ideas that officials believe could have more economic impact but might hit political resistance, such as more aid for states and more infrastructure funding.

Aides to the Democratic leadership in the House and Senate see little prospect of anything significant happening soon. With the party's majority in Congress under threat in November's elections, Democratic lawmakers are busy campaigning.

One of the few exceptions: Democrats have lined up enough support to pass the small-business bill the Senate has been considering, said Jim Manley, a spokesman for Senate Majority Leader Harry Reid (D., Nev.).

In a Rose Garden address Monday, President Barack Obama said he was aiming to identify "additional measures that could make a difference in both promoting growth and hiring in the short term."

Among the ideas he cited were extending tax cuts for the middle class and renewing a mix of tax credits for businesses, such as the research tax credit.

The administration hasn't settled on whether to take bigger—and more expensive—steps, such as a payroll tax cut or additional tax cuts for small businesses. Complicating the talks are concerns about the cumulative federal deficit, which could rise by \$11 trillion over the next decade.

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U.S. NEWS

U.S. marks start of new era in Iraq

By SAM DAGHER
AND JULIAN E. BARNES

BAGHDAD—The U.S. marked the start of a new era in Iraq on Wednesday with a ceremony at one of Saddam Hussein's former palaces in Baghdad attended by senior American military and political leaders, who reflected on some of the darkest and bloodiest episodes of the conflict here while underscoring the opportunities and challenges lying ahead.

As Washington formalized the end of its combat mission in Iraq and the transfer in the command of the almost 50,000 soldiers remaining through the end of 2011 to a new general, the country continued to be mired in a deep political crisis that has tested its fragile democracy amid concerns over a looming security vacuum.

America "must maintain strategic patience and continue to do all we can to develop Iraq's capacity and build meaningful relationships," Gen. Ray Odierno said in an emotional address at the end of two years as the commander of all U.S. forces in Iraq.

Gen. Odierno, who served for 55 months in Iraq in different capacities, symbolically handed the mantle of leadership of U.S. troops in Iraq to Lt. Gen. Lloyd Austin during the ceremony at the Al-Faw palace. Also in attendance were Vice President Joseph Biden, Defense Secretary Robert M. Gates, chairman of the Joint Chiefs of Staff Adm. Mike Mullen and Gen. James Mattis, head of U.S. Central Command.

Echoing themes from President Barack Obama's Oval Office address on Tuesday, Mr. Biden spoke about a "new chapter" in the U.S. engagement in Iraq as part of what has



Vice President Biden, left, looks on as Lt. General Lloyd Austin, second from right, takes over U.S. command Wednesday.

been labeled Operation New Dawn.

"Our goal is not just a physically secure Iraq, but an economically prosperous and stable one as well," said Mr. Biden. He said that in addition to continuing efforts to train and modernize Iraq's security forces, which now number almost 650,000, the U.S. would ramp up diplomatic efforts to strengthen Iraq's sovereignty and stability and boost economic, cultural and educational ties.

New consulates would be opened in major cities including Basra in the south and Erbil in the north, Mr.

Biden said. Baghdad is already home to the world's largest U.S. embassy.

Mr. Biden said the past 7½ years in Iraq have "tested our mettle like no conflict in recent American history."

"A high-speed invasion that toppled the tyrant became a grinding struggle against violent extremists. ... Suicide became a devastating weapon," said Mr. Biden, referring to the tactics of groups such as al Qaeda in Iraq.

More than 4,400 U.S. soldiers have been killed and more than 30,000 wounded in a war that has

cost America more than \$750 billion. Iraqis have paid the heaviest price with close to 120,000 dead and the legacy of a sectarian conflict that continues to rattle the country.

Iraqi and American flags decked the majestic marble rotunda of the palace where the ceremony was held. But reminders of Mr. Hussein's reign were all around. The initials "S.H." remain inscribed on the walls and ceiling, as do poems paying tribute to "Saddam the Great" and the battles he waged against Kurds in northern Iraq and neighbors including Iran.

U.S., China economic data cheer investors

Continued from first page
lysts said. Many auto factories didn't scale back as much this summer as they normally do.

Many manufacturers waited for clearer signs the recovery won't falter. Furniture Brands International Inc., a St. Louis furniture maker that produces in both the U.S. and Asia, is still focused on improving efficiency at its U.S. operations, not expanding them. During the current housing slump, the company went from operating 19 U.S. plants to 15.

Furniture Brands expects its capital spending to roughly triple this year compared with 2009 to between \$25 million and \$30 million. But much of that will go toward a major expansion in Indonesia.

Indeed, the manufacturing sector's recovery is closely tied to global growth, especially in Asia. Economists have grown worried a recent slowdown there would cascade through the global production system—with diminished demand from China leading to downturns for producers of raw materials and equipment in many advanced economies.

That helps explain why investors around the world welcomed news that China's official Purchasing Managers Index rose following three straight months of declines. HSBC economist Qu Hongbin said the reading confirmed "China is moderating rather than melting down."

To be sure, the global outlook for manufacturing is mixed. Growth in the U.K.'s manufacturing sector slowed sharply in August, while manufacturing growth in the Euro zone slowed to its weakest pace in six months, according to Markit Economics and the Chartered Institute of Purchasing and Supply. The euro zone index dropped to 55.1 in August from 56.7 in July.

In the U.S., the manufacturing rebound still wasn't inspiring a major wave of hiring. Eaton Corp. CEO Alexander "Sandy" Cutler said his Cleveland-based company's businesses were recovering, but "there will be no net hiring for Eaton." The company, which makes electrical, hydraulic and aerospace equipment, has made strides in productivity that allow it to make more goods without adding people, he said.

—Aaron Back, Ainsley Thomson and Nicholas Winning contributed to this article.

Illegal immigration to U.S. slows sharply

By MIRIAM JORDAN

Illegal immigration to the U.S. has slowed sharply since 2007, as the bleak U.S. job market has discouraged potential migrants from heading north.

The influx of illegal immigrants plunged to an estimated 300,000 annually between March 2007 and 2009, from 850,000 a year between March 2000 and March 2005, according to new study released Wednesday by the Pew Hispanic Center, a nonpartisan research group.

The findings come as the Obama Administration begins deploying hundreds of national guards in Arizona this week, and Homeland Security Secretary Janet Napolitano announced Monday that the number of drones flying surveillance on the southern border would double by Jan. 1. The increased security has driven up the cost of border crossings and contributed to the drop in illegal entries.

The decline in arrivals led to a contraction in the overall size of the undocumented population to 11 million people in March 2009. That compares with a peak of 12 million illegal immigrants two years earlier, according to the Pew analysis, which is based on data from the Census Bureau.

All told, illegal immigrants in 2009 represented 28% of the foreign-born population in the U.S. Nearly half of them arrived since 2000, according to Pew.

The flow of Mexicans, who represent 60% of all undocumented immigrants in the U.S., plummeted to 150,000 annually during the 2007-2009 period, compared with the annual average of 500,000 during the first half of the decade.

The bleak U.S. job market drove down the influx to 300,000 a year during the 2007-2009 period.

"Not only do we see flows down; it's a steady downward trend in the last four years," said the lead study author, Jeffrey Passel, the Pew demographer who is considered a leading expert on the undocumented population.

Mr. Passel's "residual methodology" uses data for the foreign-born population in the Current Population Survey, which is issued by the Census, to calculate the legal and illegal immigrant populations.

The mortgage crisis and the broader economic slump that ensued have slashed jobs in construction, tourism and other sectors that are the mainstay of low-skilled Latin Americans. Immigrants already in the U.S. are struggling, and word of their hardship is dissuading those back home from flocking to the U.S.

"People don't want to come now; they know the economy is bad," said Braulio Gonzalez from Guatemala,

who has been scraping by as a day laborer outside Los Angeles.

The decrease in the flow of illegal immigrants reported by Pew is supported by new studies from Wayne Cornelius, co-director of the migration research center at the University of California, San Diego.

In 2009, the center found that potential migrants in Mexico were "two times less likely" to plan a move to the U.S. than in the pre-recession year of 2006. Among those already living and working in the U.S., more than half said they had experienced a cut in work hours, according to the field research.

Ms. Napolitano said earlier this week that Washington has dedicated unprecedented manpower and technology to combat smuggling and illegal immigration. As a result, she said, seizures of drugs, money and arms were climbing, while the influx of undocumented immigrants was falling.

Mr. Cornelius and other migration experts believe the business cycle, not tighter border security, has played the biggest role in the drop in illegal entrants.

"The intensity of U.S. border enforcement has continued to increase during the recession, but only gradually," said Mr. Cornelius. "What has changed drastically is the demand for Mexican labor in the U.S. economy."

Mr. Cornelius's research team found no evidence that border fortifications were keeping undocumented migrants out of the U.S.:

More than nine out of 10 immigrants succeed at sneaking into the country eventually, he said.

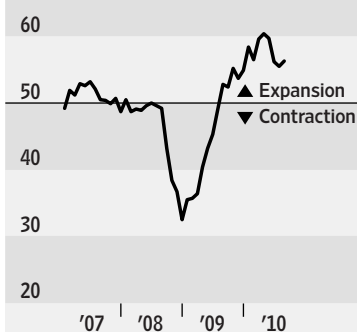
However, border enforcement has created greater demand for "coyotes," who smuggle undocumented immigrants across the border and transport them to a U.S. destination. Coyote fees have increased in tandem with bolstered enforcement.

Mexicans currently pay about \$3,000 for a coyote, compared with \$700 in the early 1990s. The cost for immigrants from Central and South America can surpass \$10,000, which they pay back in installments with money earned in the U.S.

"Because the return on their investment to gain access to the U.S. labor market now looks much less certain, many potential migrants are postponing their journeys until the economy is again growing," said Mr. Cornelius.

Illegal immigrants represented 5% of the U.S. labor force last year, according to the Pew study. States where the housing market has been hardest hit, such as Florida, saw the steepest decreases in their undocumented population.

The South Atlantic region, stretching from Delaware to Florida, saw a significant drop in the undocumented population. These states were deemed new magnets for undocumented immigrants who began in the 1990s to bypass traditional gateway states, such as California and Texas, in search of opportunity further East.

Accelerating
U.S. purchasing managers' index for the manufacturing sector

Source: Institute for Supply Management

WORLD NEWS

West Bank tensions rise as peace summit begins

Rising tensions in the Mideast cast a shadow over the start of the first direct Israeli-Palestinian peace talks in nearly two years Wednesday, and leaders at the Washington summit vowed to press on with negotiations.

By Charles Levinson in Jerusalem and Jay Solomon in Washington

A day after gunmen from the militant Islamist group Hamas killed four Jewish settlers in the West Bank, Palestinian security services detained dozens of alleged Hamas members, and thousands of settlers turned out for emotional funerals.

In Washington, President Barack Obama, speaking alongside Israeli Prime Minister Benjamin Netanyahu at the White House, warned militant groups that the U.S. and its allies were undeterred.

"The message should go out to Hamas and everybody else who is taking credit for these heinous crimes that this is not going to stop us from not only ensuring a secure Israel but also securing a longer-lasting peace," Mr. Obama said, following a meeting with the Israeli leader.

Mr. Obama has made securing a comprehensive Arab-Israeli peace a centerpiece of his foreign-policy agenda. U.S. officials have voiced modest expectations for this week's talks, where the primary focus is to establish the time and place for more regular negotiations expected to commence in the coming weeks, as well as a general outline for the talks. Mr. Netanyahu has said he

would like to meet personally with Palestinian President Mahmoud Abbas twice monthly to press the peace process forward.

On Wednesday, Mr. Obama also held separate meetings with Mr. Abbas, Egyptian President Hosni Mubarak and Jordan's King Abdullah II. The five leaders were to have dinner together at the White House ahead of the first day of negotiations Thursday at the State Department.

U.S. officials privately have voiced fear that wider violence could break out in the Palestinian territories and inside Israel itself if the talks quickly break down.

The Palestinian Authority's arrest campaign appeared aimed at reassuring the U.S. and Israel that it was serious about enforcing security in the West Bank.

Hamas said Mr. Abbas's forces had rounded up hundreds of Hamas members in the West Bank following the shooting—a figure the Palestinian Authority said was an exaggeration intended to incite public resentment against the authority.

Palestinian Authority security forces are responsible for parts of the territory, mainly urban pockets where most Palestinians live. Israeli forces conducted their own efforts to track down suspects in Tuesday's shooting, the deadliest Palestinian attack on Israelis since March 2008.

At funerals for the victims of Tuesday's shooting by Hamas gunmen, loved ones and rabbis gave fiery speeches. "God avenge the spilled blood of your servants," said Rabbi Dov Lior, a resident of a settlement near Hebron.

After the funerals, groups of Jewish settlers protested near the site of the attack, in which Palestinian gunmen ambushed a vehicle when it stopped at a road junction in the southern West Bank. Settlers threw stones at Palestinian homes on the outskirts of Hebron and set fields on fire. Police arrested at least one right-wing activist, according to Israeli officials.

Settler leaders, in a 6 p.m. public ceremony coinciding with Mr. Netanyahu's meeting with Mr. Obama, fired up bulldozers to signal they were restarting construction in Jewish settlements in the territory, activity that would violate a government-decreed building freeze that Palestinians say must be in place if they are to participate in the talks.

Mr. Netanyahu said Israel will continue to enforce the moratorium despite the settlers' threats.

But an early issue facing the peace process is whether Mr. Netanyahu will extend the 10-month building moratorium after it expires on Sept. 26. He is under pressure at home to abandon the freeze, but Mr. Abbas has threatened to walk out of the talks if the Israeli government doesn't extend it.

Hundreds of Palestinian protesters, meanwhile, turned out in downtown Ramallah, in the West Bank, to denounce the resumption of talks. They shouted slogans accusing Mr. Abbas of surrendering to U.S. pressure without sufficient guarantees from Israel. In East Jerusalem, dozens of Israeli and Palestinian activists protested against the eviction of Palestinian families from homes claimed by Jews.



U.S. President Barack Obama meets with Israeli Prime Minister Benjamin Netanyahu, top, and Palestinian President Mahmoud Abbas.

China asks phone users for ID

By LORETTA CHAO

BEIJING—China began implementing a long-discussed measure that requires cellphone subscribers to register their identities when setting up an account, prompting concerns over privacy in the world's largest mobile market.

The measure went into effect Wednesday, with customer-service representatives at mobile operators China Mobile Ltd., China Unicom (Hong Kong) Ltd. and China Telecom Corp. telling customers that new users would need to register their names and provide proof of their identity when signing up for new phone numbers. State media said all existing users will eventually need to register as well.

Chinese officials have talked for years about possibly implementing such a "real-name" system for cellphones. Most mobile users in China use prepaid accounts that don't require them to provide identification. Research firm Nielsen says 87% of Chinese mobile subscribers use prepaid phone plans, compared with less than 20% in the U.S.

The government says that anonymity enables rampant spam and telecom fraud. But the anonymity has also enabled people to share politically sensitive information—from text-message jokes poking fun at top leaders to photographs of public demonstrations—with far greater freedom than before the advent of cellphones.



A customer looks to select a mobile-phone number at a cellphone market in Shanghai on Wednesday.

China now has more than 814 million mobile subscriber accounts—far more than any other country—and adds an average of more than five million a month. For many Chinese users, cellphones are a key means of expression, communication and getting news.

Some Chinese users expressed support for the government's real-name effort, but questioned the lack of detail on how the information will be handled or kept private.

There is "both a bright side and a dark side" to the policy, said Helena Luo, a 27-year-old mobile user

in Shanghai. "We'll need to worry about our privacy from now on, but we'll also see less mobile fraud."

"Who would be responsible for the possible leak of personal information?" one Internet user from Liaoning province wrote about the measure on a website run by the Phoenix satellite television station.

China's Ministry of Industry and Information Technology, which regulates the telecom industry, declined to comment. China Unicom also declined to comment. China Telecom couldn't be reached. A China Mobile spokeswoman declined to confirm whether the company will force subscribers to register their real names, but said that, regardless, "China Mobile is, as always, determined to protect the rights and interests of customers."

It is unclear how effectively the government will be able to enforce the new real-name system. An executive at one of China's three major carriers said the plan would be "impossible to implement nationwide in one step," since phone network cards are sold through a wide array of outlets, including mom-and-pop stores in small villages.

It is also uncertain whether the rule can be enforced for the hundreds of millions of existing subscribers who haven't registered their real names with operators.

—Owen Fletcher in Beijing and Juliet Ye in Shanghai contributed to this article.

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WORLD NEWS

Pakistan bombers kill 25 after respite amid floods

BY REHMAT MEHSUD
AND TOM WRIGHT

ISLAMABAD, Pakistan — Triple bomb blasts targeting a Shiite religious procession in Lahore killed at least 25 people and left scores of others fighting for their lives as Pakistani militants renewed a campaign of violence against a country recovering from devastating floods.

Two of the blasts were suicide attacks, while the third was from a timed device, local police officials told television news channels. Footage of the incident showed a small blast erupting amid a crowd of people on the street followed by a large plume of smoke. About 170 were injured, the officials said.

The bombings show that Islamist hardliners have no plans to let up their attacks even as the country continues to deal with the enormous reconstruction task after the flooding, which finally began to recede this week.

Prime Minister Yousuf Raza Gilani, in a speech to cabinet on Wednesday, said the country had suffered economic losses of \$43 billion from the deluge. U.S. officials fear militants might seek to exploit the state's current weakness to intensify attacks.

Local police were protecting the procession because of regular sectarian attacks on Shiite Muslims, a minority sect in Pakistan. "It was a security lapse that an attacker succeeded in breaking the security cordon," Khusro Pervez, Lahore's top bureaucrat, told local television.

Police rejected a security failure and said police officers had died trying to stop at least one of the suicide bombers from approaching the procession, forcing him to detonate

his payload early. A second bomb went off as survivors and onlookers were gathering around the injured from one of the two earlier explosions, police officials said.

No one took immediate responsibility for the blast. In the past al Qaeda-linked militants based in Pakistan have struck at Shiite targets. Al Qaeda's brand of hardline Sunni Islam considers Shiites heretics.

The attack sparked immediate protests by angry residents who have endured months of violent suicide bombs, most recently the July attack on the shrine of a Sufi saint, which killed more than 40 people.

Following that earlier attack, moderate Muslim groups paraded in Lahore with arms and threatened to retaliate against conservative Islamic groups if they weren't protected by the state.

On Wednesday, protesters set a police station, some shops and vehicles on fire, according to local television news reports. The provincial government in the eastern Punjab province, of which Lahore is the capital, called out paramilitary forces to quell the violence.

Bomb attacks on civilian, military and government targets in Pakistan cities, especially Lahore, the country's richest, have jumped in the past year. The Pakistan Taliban have claimed many of the attacks as retaliation for the Pakistan military's U.S.-supported war against them in their strongholds bordering Afghanistan.

The Pakistan Taliban work closely with Punjab-based militants, many of whom have a long history of attacking Shiites. The Punjabi groups have increasingly sought shelter with the Pakistan Taliban on the Afghan borders, where foreign al Qaeda and Afghanistan Taliban also

operate.

The Pakistan military on Tuesday targeted militants in the border areas with air strikes from army jets and helicopters, killing at least 45 people, security officials told the Associated Press Wednesday. The dead were believed to be insurgents or their families, including women and children, the officials said. Attacks on militants are often reported days after they occur.

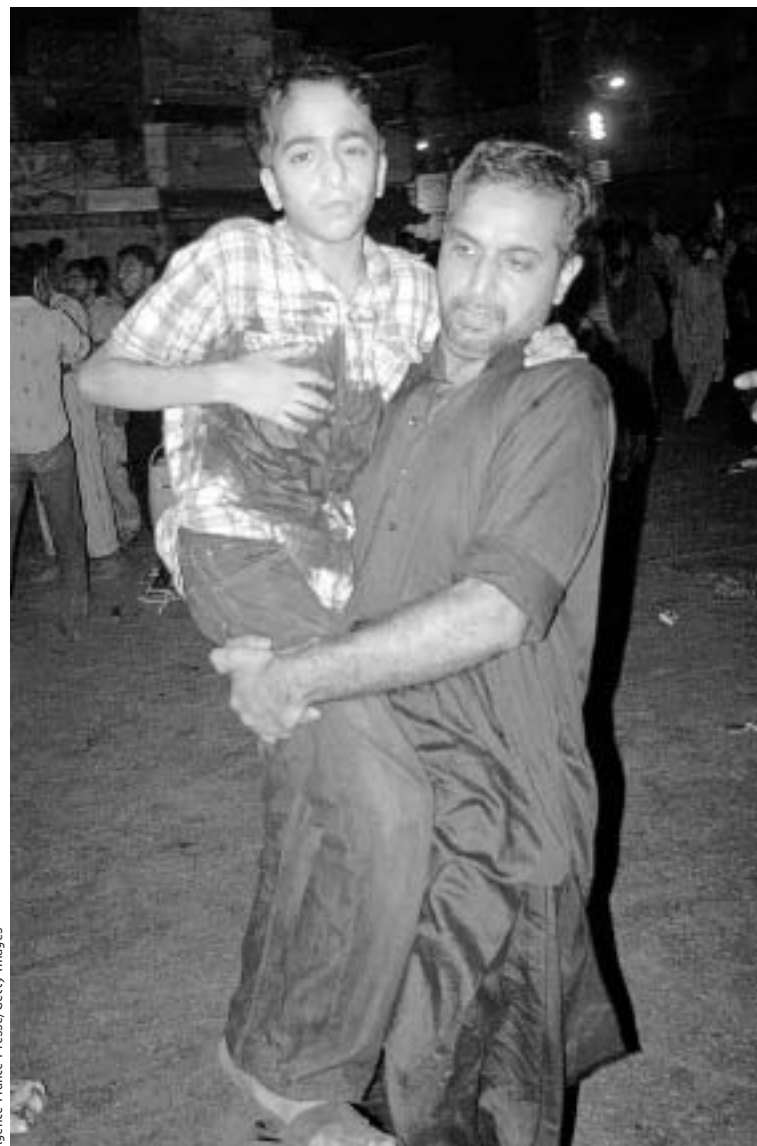
The attacks were in the Khyber region's Teerah Valley, one of seven semi-autonomous tribal areas that border Afghanistan. Military officials say there has been renewed militant activity in Khyber in recent weeks despite the army's war there. A strike in the same valley in April mistakenly killed some 60 civilians, according to a later admission by the army.

Retaliatory suicide bomb attacks by the Pakistan Taliban had appeared to be in hiatus during the floods which over the past month have wreaked havoc on Pakistan, killing more than 1,600 people and leaving 7 million survivors homeless.

Prime Minister Gilani painted a bleak picture. The floods hit the agricultural sector, washing away a fifth of crops such as cotton and killing a similar proportion of the nation's livestock, he said.

As a result, Mr. Gilani said, economic growth will likely slow to 2.5% this year from an earlier forecast of 4.5%. Inflation will accelerate to between 15% and 20% from an earlier forecast 9.5%. The budget deficit will swell to 6-7% of gross domestic product from 4.5%.

"The floods inflicted huge damages in the country, which could lead to food crisis," Mr. Gilani said. "Prices of daily-use commodities



Agence France-Presse/Getty Images

A Shiite man carries an injured blast victim after the Lahore bomb blasts.

and edibles including pulses, sugar, vegetables, rice and wheat could witness a record surge."

The international community has donated or pledged about \$1 billion to help. The United Nations Food and Agriculture Organization said in a statement Wednesday it feared that Pakistani farmers might not be able to plant the crucial winter wheat crop, which they are sup-

posed to do in coming weeks, because half a million seeds had been wiped out by the flooding.

There have been some reports of deaths in the many refugee camps set up to accommodate those who lost their homes. But most people are getting some form of food and medical aid and so far there have not been widespread outbreaks of fatal diseases.

Japan's Ozawa vows new pact for U.S. base

BY YUKA HAYASHI

TOKYO—The two candidates for Japanese prime minister laid out sharply contrasting visions for the country's future, with the challenger vowing to rip up a hard-fought agreement with the U.S. over a military base, taking a more aggressive stance than the incumbent on boosting spending to lift growth, and playing down the need for a concrete plan to curb the government's mammoth borrowing.

A day after efforts to avert a party showdown fell apart, Prime Minister Naoto Kan and his rival, Ichiro Ozawa, faced each other at a one-hour news conference as they unveiled their policy platforms ahead of an internal party election on Sept. 14. Mr. Ozawa is trying to unseat Mr. Kan as party chief and prime minister, the job that has eluded him repeatedly despite the huge influence he has had in Japanese politics for more than two decades. Analysts say the race is too close to call. Many fear the fight will lead to an eventual breakup of the ruling party.

While Mr. Kan played up his current role as a responsible national leader pursuing realistic solutions to difficult economic problems, Mr. Ozawa emphasized several of his trademark populist policies, such as



Japan's Prime Minister Naoto Kan, left, with party powerbroker Ichiro Ozawa.

boosting a monthly allowance to families with children and to farmers. But he didn't explain in detail how he planned to pay for such costly steps at a time when Japan grapples with government debts nearly twice the size of its economy. Mr. Ozawa said shifting policy priorities and eliminating waste by shrinking bureaucracy will free up huge amounts of funds.

Mr. Ozawa surprised the market with a pledge to "boldly implement steps, including intervention in the market, to protect Japan's economy" in case of a dramatic rise in

the yen. The statement came amid criticism the ruling party's infighting is hurting the government's ability to cope with the current market turmoil, which sent the yen to a 15-year high against the dollar last week. Mr. Ozawa's plan would mark a sharp break from recent practices, as the government hasn't intervened in currency markets in six years.

Mr. Ozawa also suggested more complications in the Okinawa base debate that has strained the bilateral relationship since the DPJ took power last September. He said Tokyo should hold fresh discussions

with Washington and the local government of Okinawa to find a solution more acceptable to both parties. "Under the current framework, no matter how hard we try, the plan will not move forward because of the opposition from Okinawa," Mr. Ozawa said.

In contrast, Mr. Kan repeated his intention to stick with an existing bilateral agreement reaffirmed in May for the construction of a new facility. "Starting over the discussion would only create a new chaos in this problem that has already lingered for nearly a year," the prime minister said.

In his policy statement, Mr. Ozawa emphasized the alliance with the U.S. is "the most important bilateral relationship" for Japan, but also suggested Japan should be more independent from the U.S.

"The alliance isn't a relationship of subordination, but it's an equal partnership," his platform says. "So Japan should pursue a bigger role and more responsibility as it plays a part in the international community alongside the U.S."

The policy debate shed light on an ironic role reversal of the two iconic politicians. Mr. Kan, a former leftist civil activist who made his name going after powerful bureaucrats, is now playing the part of a practical leader, a fiscal hawk and a

good steward of the U.S.-Japan military alliance. Mr. Ozawa, who started as a conservative politician deft at behind-the-scenes political maneuvering, is appealing to the public with generous handout policies and an outspoken stance challenging Washington.

A major point of contention in their debate was how closely they should stand by campaign promises the DPJ made last year, particularly costly steps such as the child allowance and a pledge to maintain the unpopular national sales tax at the current level for 5%.

Mr. Ozawa vowed to do his "utmost to diligently implement" those promises. Mr. Kan, meanwhile, said he would "honestly explain" to the public and seek their understanding if some plans had to be abandoned due to a shortage of funds.

Analysts say the race, open only to DPJ lawmakers and registered supporters, is a toss-up at this point. With his strong following among party lawmakers, Mr. Ozawa seems to enjoy an edge. But Mr. Ozawa, embroiled in a campaign scandal at his fund-raising organization, is unpopular with the general public. Polls show 70% or so of respondents favoring Mr. Kan over Mr. Ozawa. While only party members vote, the polls could influence those who haven't made up their minds.