Republicans pin revival hopes on winning back the suburbs

THE BIG READ 16-17

New RBS incentive scheme eases fears of early payouts

BUSINESS & FINANCE 19

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U.K. ballot-box blues after Brown's 'bigot' gaffe

Getty Images

U.K. Prime Minister Gordon Brown committed the biggest gaffe of the election campaign Wednesday when his microphone was left on and he was heard saying voter Gillian Duffy, seen here talking to him, was a bigot. She had asked about immigration. **Article on page 6**

Spain hit with credit downgrade

BERLIN—A cut to Spain's credit rating on Wednesday, coming after downgrades this week to Portugal and Greece, fueled fears that the euro zone's debt crisis is widening and sent new tremors through financial markets.

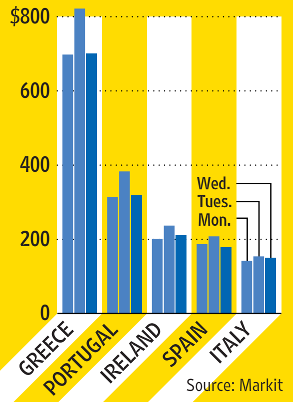
By Marcus Walker and Neil Shah

As concerns about a domino effect spread, officials said an International Monetary Fund-European Union rescue package for Greece could now total up to €120 billion ($150 billion) over three years—nearly three times the amount recently pledged—as the IMF exorted reluctant German lawmakers to move quickly in approving support for immediate financial aid.

European financial markets were volatile Wednesday as investors continued to dump stocks and bonds, while European policy makers scrambled to limit the fallout from Greece's meltdown.

Nerves linger

Annual cost to insure against a $10 million government bond default for five years, in thousands



Source: Markit

Standard & Poor's Ratings Services, which cut Spain's debt rating by one notch to AA from AA-plus on Wednesday, said the country's poor growth outlook in coming years will make it hard for it to repair its public finances. S&P also warned of possible

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The Quirk

Teens like to have their parents along when they watch TV. Page 33

World Watch

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

Editorial & Opinion

Telling the truth about the sources of British prosperity. Page 13

Fed sees strength, holds steady

By Luca Di Leo And Tom Barkley

The Federal Reserve said Wednesday the U.S. economy continued to strengthen, but that the slack left over from the recession was still so large that it expected interest rates to stay near zero for an "extended period."

At the end of its two-day meeting, the Fed's policy-making arm noted the labor market was beginning to improve, but still-high unemployment was keeping a lid on consumer spending.

"Information received since the Federal Open Market Committee met in March suggests that economic activity has continued to strengthen and the labor market is beginning to improve," the FOMC said in a statement. After its March meeting, the FOMC had said the labor market was "stabilizing."

To combat the financial crisis, the U.S. central bank slashed its benchmark federal-funds rate—a rate banks charge each other for overnight loans—close to zero in December 2008 and has kept it there since. When that wasn't enough to lift the economy, the Fed flooded the financial system with cash by buying $1.7 trillion in assets. Most were mortgage-backed securities, for which $1.25 trillion purchases were completed in March.

If the economy continues to gain speed, the Fed will have to calibrate when to raise rates and sell the assets to prevent an outbreak of inflation. Futures markets still see a good chance of a rate increase to 0.5% in November, although the probability has fallen recently amid continued debt woes in Europe.

After its latest meeting, the Fed indicated it was in no rush to tighten policy, sticking to its forecast that economic slack, low inflation and stable inflation expectations should call for record-low rates for "an extended period."

"Clearly, there's not a near-term urgency to raise short-term rates," said Paul Ballew, Nationwide's chief economist and a former economist at the Fed.

To give itself even more flexibility, the Fed has recently said there was no time-frame to "extended period." It all depends on how the recovery unfolds.

The most recent data point to an economy that continues to improve, but at a pace that is so gradual that inflation is

Please turn to page 9

PAGE TWO

A return to old-fashioned principles

[Agenda]

By Patience Wheatcroft

The Washington grilling of Lloyd Blankfein and his Goldman Sachs colleagues was never destined to provide a reasoned exploration of the bank's activities. However rational Goldman's explanation for its strategy of effectively hedging its risk in the subprime-housing market, there was no appetite to hear it on Capitol Hill.

There was a whiff of the Soviet show trial about the proceedings. Goldman, not without some cause, has been cast as the ultimate villain in the financial crisis. But the inquisitors' efforts to impugn the bankers' morality were rich with the sort of feigned shock that might have been exhibited by a genteel Victorian woman confronted by an unclad piano leg.

Reaching for her smelling salts, Sen. Susan Collins, a Republican from Maine, said she found Goldman's trading activities "unseemly." What a quaint old-fashioned expression to apply to the doings of one of the most powerful financial institutions the world has known!

Sen. Collins may hanker after an age when financiers operated under the maxim "My word is my bond," but she and her colleagues on the Senate Permanent Subcommittee on Investigations must know full well that era ended long ago.

Sen. Collins suggested the bank had a duty to act in the best interests of its clients. The responses to this idea from the bankers indicated they weren't quite so sure about this. Maybe that concept, too, has been relegated to the "word is my bond" cupboard for outdated working practices. In the modern investment bank, relationships with clients are matters for commercial judgment. In some cases, decisions will be influenced by the judged importance of building long-term relationships with clients; in others, a short-term profit for the bank may be the overriding factor.

Reuters

Lloyd Blankfein of Goldman Sachs appeared before a U.S. Senate panel Tuesday

In such an industry, conflicts of interest are plentiful; they simply have to be managed. In placing bets against the securities that it was selling to clients, some may feel Goldman was taking a somewhat cavalier attitude toward managing an apparent conflict. Others might argue, as Goldman has, that it was selling to sophisticated buyers who were capable of judging the attractiveness of the product on offer and weighing the risks.

For any organization to be sustainable, it must serve the long-term interests of all its stakeholders.

Caveat emptor seems to be the argument. Even if, in private e-mails, some pretty unflattering descriptions of some of the products were being applied to them by those who were selling them, no one was forced to buy.

This justification may not endear the "victims" to Goldman, but it might remind them to do their own due diligence a little more carefully in the future.

The U.S. Securities and Exchange Commission is pursuing its legal case against the firm, which is determinedly fighting it. Whatever any eventual penalty might be, it will hardly make a dent in the firm's pocketbook. The more interesting question, though, is what the effect might be on Goldman's future business.

At the beginning of the year, when Mr. Blankfein, the Goldman chief executive, was being castigated for his flippant remark about "doing God's business" and the firm was seemingly unrepentant for the excesses of the banking sector, there were some who opined that this public mauling would see clients choosing to take their business elsewhere. That doesn't appear to have been the case. Neither does the bad publicity seem to have had any ill effects on recruitment to the firm. Instead, the caliber of graduate applicants is, apparently, higher than ever. Well, ambitious would-be bankers are still likely to be enticed by the big bonuses.

Nevertheless, there are some bankers prepared to argue that banks, and business generally, have responsibilities that go beyond making money. Stephen Green, the chairman of HSBC, has placed himself firmly in this category, and Wednesday he had another go at spreading his message, this time in a speech to the Institute of Directors.
He argued that "For any organization to be sustainable, it must serve the long-term interests of all its stakeholders." Although earning a good return for owners is a basic responsibility, he said that in the past 20 years or so, this aim had been "elevated in importance to become the over-arching objective of management in business."

Banks weren't the only culprits, he said, citing the chemicals company ICI. In its 1987 mission statement, it laid out a wide-ranging vision that involved serving the well-being of shareholders, employees, customers and communities. By 1994, the statement had been redrawn to encompass the sole objective of "maximizing value for our shareholders."

There may or may not be a link between that change and the fact that ICI, once judged the bellwether of British industry, no longer exists.

But Mr. Green does argue that there is a need for business, and banks in particular, to return to old-fashioned principles, dependent on the development of long-term relationships and the delivery of real value for customers.

The Goldman team that was subjected to the Senate scrutiny didn't give the impression they saw things that way.

Volcanic fallout

Michael O'Leary doesn't readily arouse sympathy. The Ryan Air boss has concentrated on wooing customers with cheap flights rather than courtesy and care.

Nevertheless, his protests against the burden now being placed on airlines to cover the expenses of passengers stranded by the volcanic ash debacle do seem to be justified.

Through no fault of their own, airlines now face bills out of all proportion to the value of the tickets sold. Some stranded passengers undoubtedly made the most of their enforced extended holidays. Someone has to pick up the tab but, in this case, it seems unfair that so much of it should fall on airlines, many of which are in no state to afford it!

What's News

■ **RBS shareholders**, including the U.K. government, approved a new long-term incentive plan for executives after the bank was pressured to raise the share-price target that would trigger part of the payouts. **19**

■ **The Swiss government** proposed tougher taxes on bank bonuses, seeking legislative support for a bill that would let it fulfill its obligations under last year's U.S. tax-case settlement. **26**

■ **Fears that Europe's** debt crisis is spreading beyond Greece have brought analyst scrutiny back to the German and French banks with high exposure to Greek debt. **5**

■ **Shell posted a 57% rise** in quarterly profit amid higher oil prices and an increase in natural-gas output. **21**

■ **Bank of America directors** chose as chairman former DuPont CEO Charles O. Holliday Jr., elevating an adviser to the bank's top boss. **25**

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"To more than a few market watchers, Greece is starting to look like Lehman's death throes."

Alen Mattich on how the fiscal crisis in Greece is affecting global markets

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Question of the day

Vote and discuss: What euro-zone country will need a bailout next?

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Previous results

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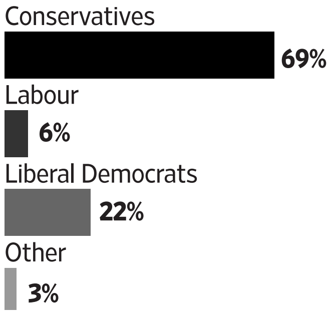

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NEWS

Met Opera moved endowment millions

BY ERICA ORDEN

In a sign of the financial pressure faced last year by one of the world's largest performing arts organizations, the Metropolitan Opera took the unusual step of unleashing $22 million from its restricted endowment in early 2009 by asking donors to lift regulations on how their contributions could be spent, according to state records. The company then used about a third of that money to help pay for operating expenses during this current season.

In an interview, Met general manager Peter Gelb said eliminating fund restrictions is "not unusual." Many contributors stipulate charitable gifts be restricted for specific initiatives, like elaborate capital projects, or educational programs. Such gifts prohibit the use of the contribution for operating funds.

Mr. Gelb said that the Met is "mindful of the long-term picture," but felt it needed to take these steps to address its mounting financial burden during a difficult period. The company's $282 million expenses during the fiscal year ended July 31, 2009, far eclipsed its $133 million earned revenue. Met donors and its board have kept a public silence on the restricted-funds issue, and there's no indication that the request will be repeated.

Between January and March 2009, when portions of the opera's endowment had fallen to a point from which they could not be drawn down, the Met began quietly approaching individual board members and asking them to lift binding restrictions on significant past gifts to the company, according to Mr. Gelb and state records. Mr. Gelb said the initiative was led by Met President and Chief Executive William C. Morris. Mr. Morris's was the largest of 10 gifts that constituted $15 million in funds accessed through the consent of individual donors, according to Met spokesman Peter Clark. Mr. Morris couldn't be reached for comment. The Met reported the funds shifts in consolidated financial statements filed with the New York attorney general's office.

Since then, there have been some bright spots in the Met's operations. Aided by the general economic turnaround, the Met's finances have rebounded somewhat, and the company has refrained from expending the $15 million on its operating expenses. Twice, however, it has "temporarily" used portions of the $15 million as a way to help back its revolving line of credit, said Mr. Gelb. Both times, the money was replaced.

The Met also asked oil company Chevron Corp., which merged with Texaco in 2001, for access to a restricted $7 million fund. Between 1940 and 2004, Texaco was one of the Met's largest corporate funders, sponsoring radio and television broadcasts. The Met used that money as part of its annual endowment draw toward operations, according to Mr. Clark.

"In 2009, the Metropolitan Opera approached Chevron about transitioning endowment monies into a pool of unrestricted funds, and Chevron gladly obliged," a Chevron spokesman said.

The Met has taken a series of steps to deal with its budget deficit, including salary reductions. According to Mr. Gelb, the company reduced its expenses by $12 million and $18 million during its previous and current fiscal years, respectively. A gift of $30 million from philanthropist Ann Ziff, announced in March, provides a cushion of unrestricted funds, though not all of that money will materialize at once.

Mr. Gelb's talent for attracting audiences with glamorous new productions—this season's "Attila" featured Miuccia Prada-designed costumes—helped boost attendance to 88% of paid capacity last season (it's now down about three percentage points), and its high-definition movie-theater broadcast program has earned a profit, Mr. Gelb said.

Funding The Met

A breakdown of The Metropolitan Opera's finances:

Current endowment level
$242 million

Accumulated deficit
$47 million

Earned revenue
$133 million

Expenses
$282 million

Donations
$127 million

Note: Earned revenue, expenses and donations are for the 2009 fiscal year.
Sources: The Metropolitan Opera

Associated Press

Renée Fleming and Lawrence Brownlee star in Gioachino Rossini's 'Armida'

EUROPE'S DEBT CRISIS

Associated Press

Officials meeting in Berlin Wednesday spoke later to reporters. German Chancellor Angela Merkel, third from left, listened as José Ángel Gurria, of the Organization for Economic Cooperation, made a point.

Ratings firms' influence under fire

S&P's downgrades of Spain, Portugal and Greece spook markets, worsen the pain for indebted nations, some say

By Stephen Fidler
And Tom Lauricella

Europeans took aim Wednesday at debt-rating firms, accusing them of worsening the plight of financially stretched governments such as Greece that are struggling with heavy debts.

Standard & Poor's was in the line of fire Wednesday, as it downgraded Spain one notch to AA from AA-plus. This came a day after it provoked a selloff in financial markets around the world by cutting the ratings of both Greece and Portugal. Greece became the first of the 16 nations that use the euro to have its debt rated as "junk."

The downgrades came at a sensitive time as euro-zone governments and the International Monetary Fund are attempting to fashion a large financial-rescue package for Greece, which has yet to be approved by the German parliament.

The ratings moves heightened fears that the package, even when finally delivered, wouldn't be enough to avoid a debt restructuring by Greece in which bondholders would be forced to take losses. S&P estimated that if Greece needed to restructure, investors would lose between 50% and 70% of their capital.

"We have a vicious circle in the last few days with Greek debt," said Sylvain Broyer, economist with the French bank Natixis.

He said rating-agency actions had been a reaction to previous sharp declines in government bond markets, and were now a cause of further bond-market declines. "The behavior of the rating agencies is entirely pro-cyclical," he said.

IMF chief Dominique Strauss-Kahn said Wednesday it wasn't clear whether the ratings agencies were reacting to the financial markets, or vice versa. "You shouldn't believe too much what they say, even if it may be useful," he said in Berlin.

Many European investment institutions, like those in the U.S., are highly sensitive to debt ratings. Life-insurance companies typically seek to hold only very safe investments, which means that when bonds are downgraded to junk, insurance companies sell them.

Many institutions have in-house rules that assign a percentage of a portfolio to top-rated triple-A bonds, and a smaller percentage to lower-rated double-A bonds and so on down the ratings ladder.

When a downgrade happens, the institutions adjust their holdings, selling the downgraded debt and seeking to replenish their quota of high-rated debt. Many rely on just one agency and for investors in government bonds that was most commonly S&P, Mr. Broyer said.

Banks, also big investors in government bonds in Europe, are sensitive to debt ratings. They are forced to increase the capital they must hold as a cushion against losses if bonds they hold are downgraded to junk. This reduces their profitability, and encourages them to sell.

Another way the feedback loop between the markets and rating agencies can be extended is through portfolios tied to indexes mandating certain holdings of Greek debt—but only if the bonds maintain a certain credit quality. For example, the Barclays Euro Government Bond Index uses whichever rating is lower from S&P and **Moody's**. Greece has been 4% of that index but will be excluded starting May 1, due to S&P's downgrade. That in turn would likely force selling from investors tracking that index.

Some indexes have different methodologies. For Barclays Global Aggregate and European Aggregate indexes, inclusion is based on the middle rating among S&P, Moody's and Fitch. So while the S&P downgrade wasn't enough have Greece ejected from those Barclays' indexes, if either **Fitch** or Moody's downgrades Greek debt to junk, the country would be removed. Greece makes up 0.7% of the Global Aggregate and more than 2% of the widely followed European Aggregate.

The agencies say the timing of their announcements is tied to decisions by their credit committees, panels usually of five to nine people who make the technical decisions on a rating.

Once a decision is made, it is announced quickly to limit the possibility of leaks. "Our policy is to release ratings decisions as soon as possible after they have been determined by our ratings committees," said Martin Winn of Standard & Poor's in London. He said that if ratings had influence in the market, that is because investors regarded them as credible.

Spain is added to the list of the downgraded

Continued from first page

further downgrades.

Only on Tuesday, S&P downgraded Greece's debt to "junk" status and cut Portugal's credit rating sharply, triggering heavy selling of the euro and on bonds of other indebted euro-zone members.

IMF head Dominique Strauss-Kahn told German politicians that the package for Greece could be worth €100 billion to €120 billion over three years, according to lawmakers who attended the meeting in Berlin. Mr. Strauss-Kahn neither confirmed nor denied the range to reporters, saying only that negotiations with Greece were continuing and that there was no decision on the numbers.

Previously, EU authorities had said only that the euro zone and the IMF would lend Greece around €45 billion in the first year of a three-year program.

The IMF appears to hope that by signaling a willingness to offer Greece roughly three times what it and the EU have already pledged will do what their previous efforts have failed to achieve—assuage investor concerns about a default. Similar moves by the U.S. and many European countries, which pledged huge sums to backstop their banks during the financial crisis, accomplished that.

The news about the potentially larger scale of the full aid program did little to restore calm to financial markets, however. After Tuesday's rout in European markets, investors unloaded more stocks and bonds tied to debt-laden countries on Europe's periphery, including Spain and Portugal.

The nervousness spread to Europe's corporate debt markets, where the cost of insuring against debt defaults by European companies jumped.

Greece remained at the heart of market woes. The cost of insuring $10 million of Greek government debt against default for five years jumped to over $900,000, from $824,000 on Tuesday, signaling extreme fear of a default, before falling against to $760,000 by evening in London, according to CMA DataVision.

The respite was sparked by the news that the EU-IMF package for Greece could be significantly larger than expected, and by assurances from senior EU and German officials that the aid package won't involve restructuring Greece's debt.

EU President Herman Van Rompuy and German Finance Minister Wolfgang Schäuble said a debt restructuring isn't on the table. Mr. Schäuble rejected demands from German lawmakers that banks should pay part of the cost of bailing out Greece, saying a debt restructuring would destabilize the situation further and is "not an issue" in the EU-IMF talks with Greece.

Mr. Strauss-Kahn and European Central Bank President Jean-Claude Trichet warned leaders of German political parties in Berlin that the euro zone could face an even bigger crisis if Germany's parliament delays the expected Greek aid package.

"Every day that is lost, the situation is growing worse and worse, not only in Greece but in the European Union," Mr. Strauss-Kahn said at a news conference.

Mr. Trichet said Greece's fiscal problems are "a very special case," but that the stability of the whole euro zone is at stake. "It is extremely important that the decision is taken extremely rapidly," Mr. Trichet said, adding: "That calls for a fast procedure in the German parliament."

Mr. Schäuble said an agreement with Greece on the terms of aid could be reached by this weekend, allowing Germany's parliament to pass the necessary legislation by May 7. EU leaders are expected to sign off on the aid package on May 10, so that Greece can receive funds in time for its large bond repayments due on May 19.

Political bickering over the Greek bailout in Germany, where aid for Athens is deeply unpopular, has been a major source of the uncertainty roiling financial markets in the past week. Germany, Europe's biggest and financially strongest economy, is essential to a euro-zone rescue package.

While Europe lumbers toward arranging aid for Athens, financial markets are increasingly focused on whether other euro-zone countries will be unable to cope with their fast-growing debts.

Spain, unlike tiny Greece or Portugal, is a large and important part of the euro-zone economy, and a full-blown debt crisis in Spain would severely test Europe's capacity to mount a rescue.

However, economists say Spain is still some way from needing a bailout like Greece, as Spain's overall public debt remains relatively low despite the country's gaping budget deficit.

—Jonathan House contributed to this article.

EUROPE'S DEBT CRISIS

German, French banks vulnerable

Analysts say a 'severe' blow in store for lenders if Greece defaults on its debt; lack of information roils markets

By William Launder And Jethro Mullen

FRANKFURT—Fears that Europe's debt crisis is spreading beyond Greece have brought analysts' scrutiny back to the German and French banks with high exposure to Greek debt.

French banks would be dealt a "severe" blow by a default on Greece's debt, even if their underlying book value would remain intact, said Dirk Hoffmann-Becking of Sanford C. Bernstein.

A "much less manageable" problem for the banks is the contagion risk of debt crises spreading to other countries like Portugal and Spain, Mr. Hoffmann-Becking said. Late Wednesday, Standard & Poor's downgraded Spain's long-term rating to double-A from double-A-plus, putting more pressure on European banking shares near the close of trading.

"French and German financial institutions, by virtue of size and home-currency bias, have greater exposure than others," Citibank said. Evolution Securities analyst Arturo De Frias Marques writes that "contagion is the worst fear. Investors seem to have gone beyond the Greek default and started to discount contagion into Portugal, Spain etc."

French banks have nearly $80 billion in exposure to Greece, followed by Germany at $45 billion, according to the Bank for International Settlements.

Within Germany, **Hypo Real Estate** has the largest exposure at €9.1 billion ($12 billion). **Commerzbank** AG holds €4.6 billion in Greek bonds, according to Germany's bank regulator, while public-sector banks known as Landesbanken hold billions of euros in Greek bonds. The exposure figure for France may be inflated by the loan book of **Crédit Agricole** SA's subsidiary Emporiki Bank of Greece SA, Citigroup analysts said.

France and Germany were at the center of reported efforts to put together a rescue package for cash-strapped Greece. Switzerland, the second-biggest claims holder in the third quarter of 2009, had virtually eliminated its stakes in Greece by the fourth quarter, according to the BIS report. The exposure of banks in the U.K., Sweden and Netherlands is also limited, the report says.

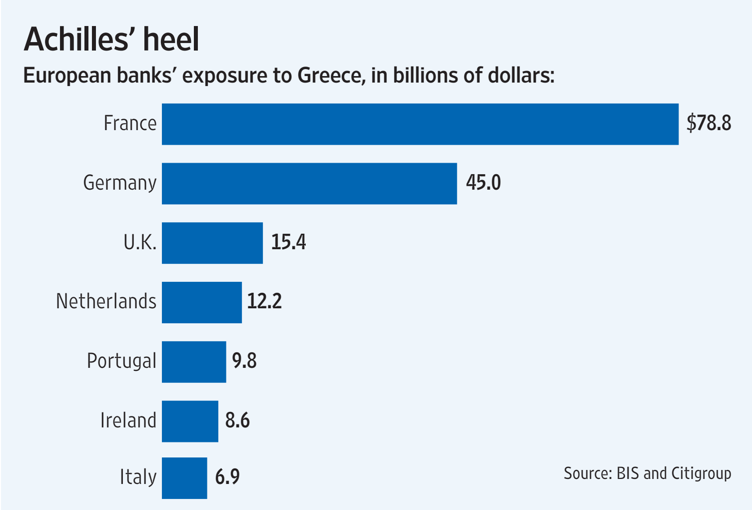
Even various measures to save Greece, like proposed haircuts—or discounts—on Greek bonds, could also leave highly exposed banks on the hook for major losses.

For banks like government-owned Hypo Real Estate, a 30% haircut on bonds would result in staggering new write-downs, said LBBW analyst Olaf Kayser. Contagion would remain a major risk in the event such measures were implemented. "As soon as a haircut occurs in Greece, then there is the problem of who is next and what happens to Portugal and Spain."

Further roiling markets and bank share prices are a prevailing sense of uncertainty and a lack of information about how banks could be burdened by the default woes.

The head of **BNP Paribas** SA sought to calm market worries Wednesday in an interview broadcast on French radio. "We've had quite a reserved attitude to the Greek risk for several years now," Chief Executive Baudouin Prot said.

Deutsche Bank AG Chief Financial Officer Stefan Krause on Tuesday assured analysts the bank's exposure to Greece was limited.



Reuters; Agence France-Presse/Getty Images (2)

At left, Gordon Brown shakes hands with Gillian Duffy on Wednesday. At center, Mr. Brown reacts after his remarks about her were played back. At right, Mr. Brown leaves Ms. Duffy's home.

Brown's gaffe caught on microphone

U.K. prime minister apologizes repeatedly after calling voter 'a bigoted woman' following a campaign exchange

By Laurence Norman

LONDON—Eight days before the U.K.'s hotly contested election, Prime Minister Gordon Brown committed the campaign's biggest gaffe on Wednesday when a live microphone caught him calling a voter "bigoted" after she confronted him over government policies including immigration.

U.K. Election 2010
WSJ.com/UKElection

A poll, released late Wednesday, showed Mr. Brown's Labour Party in third place in the election race. The survey was mainly taken before the gaffe was widely reported.

The incident occurred at a campaign event in Rochdale, north England. The woman, Gillian Duffy, asked Mr. Brown about the budget deficit, pensions and immigration, pressing him about Eastern European workers who are "flocking" to Britain in search of jobs. The encounter seemed to end in friendly fashion, with Mr. Brown telling her that "it's very nice to see you."

After Mr. Brown got into his car to leave, however, he testily lectured aides over the confrontation, calling it "ridiculous."

"That was a disaster—they should never have put me with that woman. Whose idea was that?" Mr. Brown said to his aide. He went on to call the voter "a bigoted woman."

Sky News said Mr. Brown had been given a radio microphone in Rochdale at the request of Labour officials.

"Audio from the microphone was widely available as part of the pool arrangements between broadcasters covering the election campaign," Sky said, and it was broadcast later on television.

In an interview later with the British Broadcasting Corp., a visibly distressed Mr. Brown apologized to the voter over the incident, which could prove to be one of the most costly gaffes in any recent U.K. election. "I apologize if I'd said anything that has been hurtful," Mr. Brown said. When the tape of his remarks was played back to him, Mr. Brown, who had his head in his hands, said, "I apologize profusely."

At midafternoon, Mr. Brown's motorcade pulled up to Ms. Duffy's home and he entered for a private meeting. He spent almost an hour with her before emerging to read a short statement that said he was "mortified" by what had happened and that it had arisen from a misunderstanding.

"I have given her my sincere apologies. I misunderstood what she said and she has accepted that there was a misunderstanding and she has accepted my apology," Mr. Brown said. Asked what Mr. Brown had misheard, a Labour spokesman said the prime minister had "made his position clear."

Mr. Brown later sent an email to Labour supporters apologizing to them for his remark and acknowledging he has "strengths as well as weaknesses."

"I am under no illusions as to how much scorn some in the media will want to heap on me in the days ahead," he said.

The incident comes at an inopportune moment for Labour. After 13 years in power, it is already facing what could be its worst electoral showing in decades, at least as measured by the nationwide popular vote. In some polls, Labour is running third, behind the front-running Conservatives and the surprise Liberal Democrats, who are surging on the strength of strong debate performances by leader Nick Clegg.

A YouGov poll late Wednesday showed the Conservatives at 34%, the Liberal Democrats at 31% and Labour with 27%.

Anthony Wells, associate director at YouGov, said only a couple of hundred of the 1,530 people polled would likely have given their responses after Mr. Brown's comments were reported.

One of Mr. Brown's problems has long been that he lacks the easy connection with voters that his predecessor, Tony Blair, possessed. Ironically, he has been trying to get out and meet more ordinary voters in recent days.

Mr. Brown himself has made an issue of his lack of political charisma, admitting in the opening statement of last week's televised leaders' debate he was no media star. "If it is all about style and PR, count me out," he said.

Immigration has been a significant issue in the general election, with Mr. Brown's governing Labour Party facing criticism from the main opposition Conservatives over the net inflow of people since Labour took power in 1997.

Immigration is also a concern in some traditionally working-class Labour areas—parts of the country Labour in which must poll strongly in to have a realistic chance of winning the election.

A spokesman for the prime minister said Mr. Brown will continue getting out and meeting ordinary voters.

"He was letting off steam in the car after a difficult conversation. But this is exactly the sort of conversation that is important in an election campaign and which he will continue to have with voters," the spokesman said.

Ms. Duffy, who described herself as a lifelong Labour voter, was interviewed by reporters about Mr. Brown's comments. She described them as "very disappointing" and said she wouldn't vote for him now.

Asked about the incident, Conservative Treasury spokesman George Osborne told Sky News Television, "I think the words speak for themselves and the whole country will make their own judgment about Gordon Brown."

Mr. Clegg told Sky News, "If you're answering people's questions, you have to answer them with a degree of respect and not insult them."

—Joe Parkinson, Nicholas Winning and Ilona Billington contributed to this article..

A hung Parliament's economics

By Natasha Brereton

LONDON—The U.K.'s three major parties focused on their economic policies Wednesday ahead of the much-anticipated televised leaders' debate Thursday.

At the Institute of Directors' annual convention, Business Secretary Peter Mandelson, Conservative Treasury spokesman George Osborne and Liberal Democrat Treasury spokesman Vince Cable appealed for the corporate vote.

Lord Mandelson and Mr. Cable continued to emphasize the need to maintain support for the economy this year, but Mr. Osborne countered that if businesses and households could tighten their belts now, it was "pathetic" if the government couldn't do the same.

The Conservatives detailed plans for a national loan-guarantee scheme that they said would expand on the current Labour government's program. The Conservatives said the program will be "bigger, bolder and simpler" than the government's Enterprise Finance Guarantee, which is offering up to £500 million ($758 million) in guarantees on additional loans from April 2010 to March 2011.

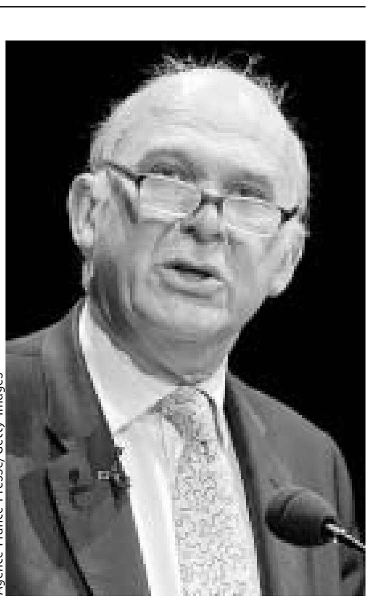
Mr. Osborne said it was fair to make the argument that giving the Conservatives a clear majority would help them to tackle key economic and social issues.

"I think it's important for us to highlight some of the risks of a hung Parliament, which is no one's in control, it's the oldest of old politics—trading jobs and positions of influence and the like—and it is not, frankly, as decisive as a government with a majority," he said.

Mr. Cable—whose party would likely be a hung Parliament's kingmakers—said a coalition government could actually be good for financial stability if it forced politicians to work together, and the public would likely welcome an arrangement that helped politicians to get out of their "tribal traditions of conflict."

"If parties are forced to work together in the national interest, this is actually good for financial stability," he said.

Asked about a coalition government, Lord Mandelson said he didn't like the idea of a smaller third party "wagging the dog," potentially leading to "chopping and changing" between policies. But while a majority Labour government would, in his view, be the best outcome for the country, "this is for the voters to decide, and decide they will," he said.



Agence France-Presse/Getty Images

Vince Cable

EUROPE NEWS

Sarkozy courts China

French president, in Beijing talks with Hu, stresses bid to curb Iran

Associated Press

BEIJING—French President Nicolas Sarkozy stressed the urgency of efforts to curb Iran's nuclear program in a meeting with China's leader, saying new sanctions must be imposed on Tehran if negotiations fail.

Mr. Sarkozy was hoping to make headway on the nuclear standoff in talks with Chinese President Hu Jintao when the two met privately Wednesday at the Great Hall of the People in Beijing.

"China hopes to use dialogue to solve this problem. France completely understands China, and we are willing to discuss this problem together at an appropriate time, but if dialogue does not work then we can only use sanctions," Mr. Sarkozy said at a joint news conference with Mr. Hu after their meeting at the start of his three-day visit.

"Everyone thinks this must be solved right now," he added.

Three permanent United Nations Security Council members—France, Britain and the U.S.—have been pressing for a fourth round of U.N. penalties on Iran for its refusal to halt a key part of its nuclear program that could be used to make weapons.

Reuters

Mr. Sarkozy, left, and his wife, Carla Bruni-Sarkozy, in Beijing on Wednesday.

Iran says it wants the technology only to produce nuclear power.

China and Russia—which also have permanent Security Council seats—have important commercial links to Iran and have been reluctant to support new sanctions.

Iranian President Mahmoud Ahmadinejad has applied for a U.S. visa to attend a nuclear conference at the U.N. next week, U.S. Ambassador Susan Rice said Wednesday. The conference opens Monday and lasts nearly until the end of May.

Mr. Sarkozy's visit to China is being billed as a return to healthy diplomatic relations between the two countries after spats over Tibet.

Messrs. Sarkozy and Hu said they also discussed reforms of the international financial system, agreeing that instituting more controls was key to preventing another global financial crisis like the one in 2008 that revealed flaws in financial regulation.

Moscow to release Katyn data

By Gregory L. White

MOSCOW—Russian President Dmitry Medvedev said he ordered his government to give Poland once-secret documents on the 1940 Katyn massacre of 22,000 Polish prisoners, the latest step in a warming trend in ties with Warsaw.

The move is also the latest sign that Mr. Medvedev's Kremlin is more willing to publicly admit the crimes of the Stalin era, a period that had been cast in a more equivocal light by his patron and predecessor, Prime Minister Vladimir Putin.

"I think this is our duty," Mr. Medvedev said in Copenhagen. "Let everyone see what was done, who made the decisions. ... All the signatures are there."

Moscow's long-chilly relations with Warsaw have warmed in recent months, particularly since the April 10 plane crash in western Russia that killed Polish President Lech Kaczynski, his wife and 94 other Polish dignitaries on their way to a ceremony at Katyn. The tragedy prompted an outpouring of sympathy in Russia.

Russia's State Archives released several Katyn documents on its Web site Tuesday, including orders signed by Joseph Stalin and other top officials approving the killings. But those documents had been handed over to Poland and made public there in the early 1990s.

"Everyone who studied this question already had these documents," said Alexander Guryanov, a Katyn specialist at Memorial, a Russian human-rights group that sued for the release of a classified 2004 report of a 14-year Russian criminal probe into the killings.

It wasn't clear whether Mr. Medvedev's pledge would cover materials that Polish relatives of the dead have sought for years, particularly the 2004 report. That document remains secret, but Russia's Supreme Court last week ordered a lower court to reconsider whether to declassify it. A new ruling could come in the next few months.

Associated Press

A partly emptied mass grave in the Katyn Forest in Russia in May 1943

Mr. Guryanov said Tuesday's release of documents, accompanied by an interview on state television with the head of the archives confirming the documents' authenticity, appeared aimed at those in Russia—including some Communist lawmakers—who still hew to the Soviet propaganda line that the Polish prisoners were killed by the Nazis, not the Soviet secret police.

—Nonna Fomenko contributed to this article.

Case to test rules on legal privilege in EU countries

By Charles Forelle

BRUSSELS—A case in which European Union investigators seized emails between an employee of a company suspected of cartel behavior and the company's in-house lawyer is testing the rules on legal privilege in Europe.

A legal adviser for the European Court of Justice, the EU's highest court, is expected to hand down a crucial opinion Thursday. At stake: whether attorney-client privilege covers a company's in-house lawyers.

To the frustration of many corporations on the receiving end of antitrust probes, the answer so far in EU cases is no—privilege is only applicable to outside lawyers.

That's a stark difference from the U.S., where privilege can be asserted to keep communications between a lawyer and a corporate client private, no matter whether the lawyer works for the company or an outside firm.

Many private lawyers say extending the privilege would permit companies to get better advice about what they can and cannot do under EU law.

The general view at the EU bar is that a wider privilege means "very clearly greater compliance with the law," said Christopher Thomas of the firm Lovells LLP in Brussels.

In 2003, EU antitrust investigators raided the U.K. office of Akzo Nobel Chemicals Ltd., part of **Akzo Nobel** NV of the Netherlands, to see whether the company was fixing prices for additives used to make plastic products. They took with them boxes of Akzo documents.

Five documents in particular aroused controversy—among them two emails exchanged by a company executive with the Akzo in-house lawyer, and a copy of a memo on which an employee had made notes referencing contacts with a lawyer.

In 2007, Akzo lost a lower-court bid to prevent the EU from using the documents. It appealed to the Court of Justice in Luxembourg, arguing that the longstanding distinction between in-house and outside lawyers ought to be revisited.

Under the high court's procedure, the judges first request an opinion from a court legal adviser, known as the advocate general. That opinion is due Thursday.

The court's judges often, but not always, follow the advocate general's advice. A final ruling by the judges is expected later this year.

(The EU concluded last year that Akzo, along with nine other companies, was indeed involved in the cartel; Akzo was fined €40.6 million, or about $54 million. Its appeal of that decision is pending.)

An Akzo spokesman said only that the company "will study" Thursday's opinion "very carefully." A spokeswoman for the European Commission, the bloc's executive arm and its antitrust enforcer, didn't return a message seeking comment.

The situation in the EU is particularly complex because the bloc's 27 nations have different ways of treating privilege in national courts.

In the U.K. and Ireland, for instance, privilege can apply to communications with any lawyers admitted to the bar, in-house or not. Some countries on the Continent, including France and Italy, don't extend privilege for corporate in-house lawyers—and don't even let them be members of the bar, saying that being in the employ of the company isn't compatible with the independence necessary to give unbiased legal advice.

The EU has long struggled to bridge the gap in European law. In a landmark 1982 case, the European Court of Justice held that privilege applies only to communications with outside lawyers, though it gave relatively broad scope to what material could be considered subject to privilege.

Susan Hackett, general counsel of the Association of Corporate Counsel in Washington, D.C., says there is little reason to consider outside lawyers' communications more deserving of privilege than in-house lawyers.

Many private lawyers say extending legal privilege to in-house attorneys would permit companies to get better advice about what they can legally do.

"A good lawyer is independent regardless of how they are paid, whether it's by retainer, paycheck or bill," she said. The association has intervened on Akzo's side in the European case.

Ms. Hackett said the tangle of different privilege rules varies for U.S. lawyers working on EU cases, in-house counsel in EU courts, European outside counsel, and so on "causes huge problems" for multinational companies.

"You are creating an environment where the client and the lawyers don't know what is privileged," she says.

Sometimes the same advice from the same lawyer can be privileged or not, noted Mr. Thomas. Privilege might keep a British in-house lawyer's memo to the chief executive confidential if the U.K. antitrust authorities ask for it, but not if their EU counterparts do, he said.

Thursday's opinion in the Akzo case will also be closely watched for any sign that the court might deal with the thorny question of what sort of confidentiality applies to the coterie of economists, consultants and public-relations advisers that typically works on an antitrust case.

One answer to the legal disparities may be clearer laws.

"It can't be beyond the wit of man to come up with a solution that deals with in-house EU counsel, non-EU counsel and professional advisers through legislation as opposed to litigation," said David Wood of Gibson, Dunn & Crutcher, who isn't involved in the case but whose firm has worked for Akzo in the U.S.

Reuters

President Barack Obama, in Missouri Wednesday, aims to sell the Democrats' financial regulatory overhaul bill on his three-state Main Street tour.

Banking bill on track

Senators reach deal to allow some debate on financial overhaul

By Michael R. Crittenden

WASHINGTON—The three-day standoff between Senate Democrats and Republicans over sweeping banking legislation appeared to be over Wednesday after key negotiators reached a deal that may allow debate to soon begin.

Sen. Mitch McConnell of Kentucky, the top Senate Republican, said that Sens. Richard Shelby (R., Ala.) and Christopher Dodd (D., Conn.) had reached an agreement on the part of the legislation dealing with "too big to fail" firms.

The two were unable to reach agreement on other portions of the legislation, but Mr. McConnell suggested Republicans would allow the legislation to be debated on the Senate floor.

"Now that those bipartisan negotiations have ended, it is my hope that the majority's avowed interest in improving this legislation on the Senate floor is genuine and the partisan gamesmanship is over," Mr. McConnell said.

Senate Republicans were scheduled to huddle later Wednesday to discuss the agreement between Messrs. Dodd and Shelby. A senior GOP aide said the caucus will then decide whether they will drop their objections to allowing the bill to proceed. The agreement came after GOP lawmakers three times this week successfully blocked attempts to move forward with the legislation, including earlier Wednesday, when Republicans blocked progress on the bill. The Senate had voted 56-42 on a procedural motion.

After the vote, some Republicans showed signs they were ready to relent in their opposition to debating the bill, which would increase oversight over Wall Street banks, establish new protections for consumers, and give the government more authority to deal with failing firms.

Lawmakers from both parties have said the government needs new powers to avoid a repeat of the financial crisis in 2008, when regulators allowed Lehman Brothers to fall into a messy bankruptcy and then bailed out American International Group Inc.

Florida governor to break with GOP

By Peter Wallsten And Valerie Bauerlein

Florida Gov. Charlie Crist, determining he cannot win the Republican primary for U.S. Senate, has decided to exit the race and run instead in the general election without a party affiliation, according to two advisers.

The governor scheduled a formal announcement for Thursday afternoon at a waterfront park in his hometown of St. Petersburg, Fla.

A campaign official declined Wednesday afternoon to discuss Mr. Crist's plans.

The advisers, both of whom said they spoke with Mr. Crist Tuesday night, said the governor was also planning a major fund-raiser for Sunday in Miami to try to keep most of his big donors from fleeing the campaign.

If Mr. Crist follows through, he would upend one of the country's most closely watched campaigns and hand the Republican nomination for the Senate seat to former state House Speaker Marco Rubio.

Mr. Rubio, drawing energy from the party's conservative wing and the tea party movement, has taken large leads over Mr. Crist in surveys of Republican voters.

As an independent, Mr. Crist would join a three-way race against Mr. Rubio and the presumptive Democratic nominee, U.S. Rep. Kendrick Meek. The winner isn't required to win a majority.

A Rasmussen Reports survey taken last week of 500 likely voters found that in a three-way Senate race, 37% supported Mr. Rubio, while 30% supported Mr. Crist and 22% supported Mr. Meek.

An adviser said that Mr. Crist expects to lose his entire professional campaign staff, and it isn't clear who he will bring on as replacements. GOP officials have instructed party political operatives not to work in opposition to the Republican nominee, and Democratic campaign workers are unlikely to sign on to work against Mr. Meek.

One of the advisers, who requested anonymity to discuss private deliberations, said Mr. Crist conducted a poll earlier this week to assess his chances in a three-way race.

"The numbers were encouraging," the adviser said. "He's very sure of himself on this."

High court rules cross can remain

By Jess Bravin

WASHINGTON—The Supreme Court on Wednesday reversed a lower court decision that could have required removal of a cross that has stood in California's Mojave National Preserve for generations.

Although it splintered in its reasoning, the court suggested strongly that the cross should remain because Congress has transferred the small plot on which it stands to a private group, addressing constitutional concerns.

"The goal of avoiding governmental endorsement does not require eradication of all religious symbols in the public realm," wrote Justice Anthony Kennedy. "This cross," he wrote, "evokes thousands of small crosses in foreign fields marking the graves of Americans who fell in battles."

The cross was originally erected on the site in 1934 by members of the Veterans of Foreign Wars, to honor American soldiers who died in World War I. The cross has been maintained or rebuilt over the decades by members of the veterans group.

A retired park employee sued, contending that the cross violated the constitutional separation of church and state. The national preserve is public land stretching about 1.6 million acres in southeastern California.

After Congress transferred ownership of the land to the veterans group, lower courts found the cross still had to go.

The justices told the lower courts to reconsider whether the land transfer cured the constitutional issue, but, Justice Kennedy wrote, made no "sweeping pronouncements" on the line between church and state. Due to the "highly fact-specific nature" of the case, it is "unsuited for announcing categorical rules."

The court suggested the cross should remain because the site was transferred to a private group.

Four other conservatives agreed with the outcome, although only Chief Justice John Roberts joined Justice Kennedy's reasoning in full. Four liberal justices dissented.

Fed sees continued strength but holds rates near zero

Continued from first page

not a risk.

U.S. consumer spending, which accounts for about 70% of economic activity, rose for the fifth month in a row in February, putting it on track to grow at the fastest pace since the first quarter of 2007. The Fed noted that spending had "picked up recently," but that it remained constrained by stagnant incomes, tight credit and high unemployment in the U.S.

Although the labor market is improving, the jobless rate in March remained at a lofty 9.7%. Nonfarm payrolls rose by 162,000, the fastest pace in three years, but some of those gains came from temporary hiring for the 2010 Census.

The last U.S. inflation reading showed that prices outside the volatile food and energy sectors contracted at a 0.2% annualized rate in the first quarter. Though commodity-price pressures have held up broader measures of inflation, with the consumer-price index rising a monthly 0.1% in March, prices fell across a broad range of goods and services last month.

The Fed reiterated that inflation is "likely to be subdued for some time."

In the latest Wall Street Journal poll out last week, economists were evenly split over the near-term inflation risks: 23 said accelerating inflation was a bigger risk over the next year, while 23 said slowing inflation was the bigger risk.

At their meeting, Fed officials also discussed how to shrink the central bank's portfolio of more than $1 trillion in mortgage-backed securities without hurting the recovery.

However, the statement Wednesday simply reiterated that the Fed would continue to monitor the economy and financial markets, and stood ready to purchase or sell assets as needed. But the minutes of the FOMC meeting, due for release on May 19, could show an intensifying debate within the central bank over the need to sell assets.

With the recovery more firmly in place, the Fed stopped buying the mortgage bonds a month ago. The market showed little reaction, with 30-year mortgage rates staying close to levels seen all year, close to 5%.

But since the holdings are so large and the Fed has made it clear it wants to go back to holding only government bonds on its balance sheet, markets remain on edge.

Some officials are pushing for the sales to start soon. Narayana Kocherlakota, president of the Minneapolis Federal Reserve Bank, this month called for monthly sales of $15 billion to $25 billion to eliminate the Fed's mortgage holdings within five years. Federal Reserve Bank of St. Louis President James Bullard said in a February interview the asset sales should happen before the central bank raises short-term interest rates.

However, Mr. Bernanke said in February testimony he doesn't expect that the Fed will sell any security holdings in the "near term, at least until after policy tightening has gotten under way and the economy is clearly in a sustainable recovery."

The Fed Wednesday noted that housing starts have edged up recently but added they remain at a depressed level.

—Jon Hilsenrath contributed to this article.

U.S. NEWS

Associated Press

A worker looks over an oil boom Tuesday as it collects oil leaking from the site of a rig explosion in the Gulf of Mexico.

Coast Guard to burn off oil threatening to foul shoreline

ROBERT, La.—Officials planned Wednesday to start burning a giant oil slick in hopes of preventing it from lapping onto the environmentally sensitive Gulf of Mexico shoreline.

By Ben Casselman, Angel Gonzalez and Guy Chazan

The slick has grown to 160 kilometers by 70 kilometers—or about the size of Jamaica. As of Wednesday, it was about 24 kilometers off the Louisiana coast and the state had activated a response plan, the U.S. Coast Guard said.

A boom will be used to corral some of the thickest oil on the surface, which will then be towed to a more remote area, set on fire, and allowed to burn for about an hour, the Coast Guard said. Such burns will continue throughout the day if they are working, the Associated Press reported.

The slick began last week when the **Transocean** Ltd. rig Deepwater Horizon caught fire and sank.

While Coast Guard officials admit a controlled burn of some pockets of the crude sitting on the water's surface isn't optimal, they say it is better than allowing the oil to hit the Gulf Coast's beaches and marshes, which will likely happen by this weekend if weather patterns hold.

Such a burn technique has been carried out before, as off the coast of Newfoundland. The environmental downside is that it creates "air pollution issues," said National Oceanic and Atmospheric Administration official Charlie Henry.

But Rear Adm. Mary Landry said the burning would be a far smaller scale than that which occurred during the rig fire.

"When you can get oil ignited, it is an absolutely effective way of getting rid of a huge percentage of the oil," Greg Pollock, head of the oil spill division of the Texas General Land Office, told the AP. "I can't overstate how important it is to get the oil off the surface of the water."

The planning came as **BP** PLC, the oil company that contracted with Transocean to use the rig, had failed to shut down the gushing crude. "We will not stop until we have exhausted every single option," BP executive Doug Suttles said, adding that the company was spending $6 million a day in the effort.

The drilling rig caught fire April 20; 11 workers are missing and presumed dead. The fire raged until the rig sank Thursday, severely bending the pipe that connected it with equipment on the seafloor. Crude began to gush from the end of the pipe, as well as from a hole in it.

BP says it plans to drill an 18,000-foot relief well to stop the oil flow and also plans to put in place a dome above the leak to contain the spill. The dome is being built, and it will be put in place in two to four weeks, Mr. Suttles said.

First offshore wind farm approved

By Stephen Power And Mark Peters

WASHINGTON—The Obama administration approved what would be the nation's first offshore wind farm, delivering a major victory for a controversial project after years of litigation and lobbying.

Interior Secretary Ken Salazar announced the approval of Cape Wind on Wednesday, giving the long-planned project access to federal waters off Cape Cod, Mass. The developer plans to start construction later this year, but still could face financial and legal challenges.

"With this decision we are beginning a new direction in our nation's energy future," Mr. Salazar said during a news conference in Boston.

First proposed in 2001, the Cape Wind project has been watched closely by other offshore developers. Offshore projects already are operating in Europe, while analysts expect the U.S. to see some development in the coming decade focused mostly in the Northeast.

Interior Department approval for Cape Wind marks the latest—and supporters hope, the last—major political hurdle needed for the project's developers before proceeding with the project.

Supporters have said the wind farm will deliver annual reductions in greenhouse-gas emissions equivalent to taking 175,000 cars off the road. Opponents—including members of the Kennedy family—warn it will industrialize Nantucket Sound, a popular summer playground, and interfere with fishing and recreation.

Mr. Salazar said the approval includes conditions to address some of the concerns. The project can only have 130 turbines rather than the 170 turbines that had been planned and must take additional steps to reduce the visual impacts.

Cape Wind still faces challenges including likely legal action by opponents and finalizing financial aspects of the project. The project must secure an agreement for the sale of the power it will generate, with the developer currently negotiating an agreement with **National Grid** PLC. The higher price of power from offshore wind farms has stymied other projects in the eastern U.S., however.

The Daley show stays in Chicago

Mayor is favorite to win a seventh term

By Douglas Belkin

CHICAGO—Mayor Richard M. Daley has had a bumpy ride of late: budget cuts, corruption scandals and a bid for the 2016 Olympics that flopped on the world stage. Last fall, his approval rating fell to 35%, lowest in his 21 years in office.

So could someone else be elected Chicago mayor next year? Sure—if Mr. Daley decides not to run.

"The job is his to lose," said Paul Green, a political scientist at Roosevelt University in Chicago and a longtime observer of city politics. "The only people who want to run against him are the ones who want to commit political suicide."

Mr. Daley, 68 years old, hasn't said whether he would seek a seventh term and, with his wife battling cancer, there is considerable speculation that he may not.

The topic came up anew last week when Chicagoan and White House Chief of Staff Rahm Emanuel said he would like the job should Mr. Daley take a pass.

A Daley has been mayor here for 42 of the past 55 years. By the end of the year, Mr. Daley will be the longest-serving mayor in Chicago's history,Mr. Daley's father, Richard J. Daley, was first elected in 1955 and served 21 years before he suffered a heart attack and died in office. Harold Washington, the city's first black mayor, was elected twice but spent much of his tenure hamstrung by a racially polarized city council. Shortly after he died in office, the younger Daley took over.

Today, he is considered all but untouchable, largely because serious opponents are scarce.

Presumably, a politician from the city's relatively well-to-do north side could mount a challenge. But in Chicago, where race and politics are deeply intertwined, that raises the prospect of a divided white vote and a second black mayor, said Democratic strategist Delmarie Cobb. That, in turn, generates fear in white, working-class neighborhoods that additional city resources would be directed to African-American parts of the city.

The most high-profile black politician who has toyed with a bid is U.S. Rep. Jesse Jackson Jr. But Mr. Jackson has been dogged by connections with the corruption trial of former Illinois Gov. Rod Blagojevich, although he hasn't been accused of any wrongdoing, and is unlikely to run. Toni Preckwinkle, a black woman who for 20 years has been the dean of South Side aldermen, is running for president of the Cook County Board of Commissioners.

Another constituency is the business community. Chicago's economy has fared better than most Rust Belt cities. But taxes and fees have climbed steadily while in the past six years, more than 45 members of Mr. Daley's administration have been convicted of corruption.

While many private-sector leaders are disillusioned with the mayor, he retains their public support, said Andy Shaw, Executive Director of the Better Government Association in Chicago.

"Maybe it's habit, maybe it's fear of the unknown, maybe it's fear of retribution, but as long as [Mr. Daley] has the nominal support of the business community it's hard to imagine anyone stepping up and challenging him," Mr. Shaw said.

The result: Mr. Daley is likely to enjoy another campaign without a serious challenger.

Mr. Emanuel, who helped raise money for Mr. Daley in the 1989 election, raised the prospect of running for Chicago mayor in a television interview last week.

On Tuesday at the Richard J. Daley annual Global Cities Forum at the University of Illinois at Chicago, Mr. Emanuel implied that the media had hyped the story. "Don't over-interpret anything," he said. "You guys gotta start drinking decaf."

Nevertheless, his declaration could be seen as a warning to anyone else—particularly Democrats—considering a future run for mayor. "He was putting his marker down," Mr. Shaw said.

Mr. Emanuel, 51, is an aggressive politician who represented Chicago's North Side for four terms in Congress and owns a house in the district. He boasts a proven ability to raise money and deep connections in President Barack Obama, and Bill and Hillary Clinton.

With the 2011 election 10 months away, Mr. Daley's political machine is chugging along. In the last six months of 2009, he spent nearly $300,000 on polling and political consultants, according to his latest campaign-disclosure forms.

He also has recently championed relief for parking tickets and a cap on property-tax increases, and moved toward more transparency in city government. He declined to be interviewed.

Associated Press

Rahm Emanuel recently mused about someday wanting to be Chiicago's mayor.