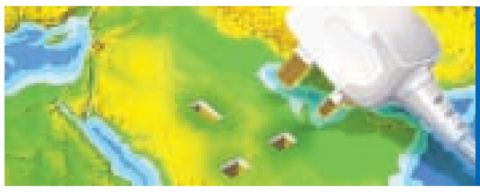

Saudi Arabia makes new economic connections
THE JOURNAL REPORT

How SEC chief bet big by going after Goldman
THE BIG READ 18-19

THE WALL STREET JOURNAL.

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Some success removing oil

BP PLC successfully inserted a tube into the broken pipe leaking oil into the Gulf of Mexico early Sunday and siphoned off some of the spilling oil to a vessel on the water's surface, increasing the chances that the company will be able to siphon off much of the oil now gushing into the sea.

By Guy Chazan,
Mark Peters
and Jeffrey Ball

The crude oil will be collected on a drill ship. Natural gas that accompanies it is to be flared, or burned off.

For the past three weeks, oil has been spewing into the Gulf from a ruptured well, threatening an environmental catastrophe along the Gulf coast. The leak was caused when the Deepwater Horizon rig, which had been drilling the well for BP, exploded and sank, killing 11 crew members.

Earlier efforts to contain the spill ran into a series of setbacks. BP made a first attempt to insert the tube late Saturday, but it fell out following a collision between two subsea robots. Before that, a huge dome that was to be lowered onto the leak got clogged up with gas crystals or hydrates.

It is still unclear whether the new siphoning operation will work. Even in the best-case scenario, the tube won't capture all the leaking oil.

The pipe connected to the tube is full of nitrogen, which will gradually be pulled back to allow oil and gas to flow into it. But the process must be done slowly to avoid seawater entering. Seawater could form hydrates that might block the pipe and stop the flow of oil to the surface.

Wind, currents and chemicals being sprayed on the oil are combining to keep most of the oil away from land.

The oil spill is having only minimal environmental effects on land, but it may be causing far more serious problems in the water, scientists said Sunday.

Scientists said they were growing increasingly concerned about two effects: the damage the oil might do to sea life and the possibility that currents might take some of the oil around Florida and up the East Coast.

Researchers on a ship that has been studying the underwater oil have detected a plume of it 24 to 32 kilometers southwest of the spill site at depths of 700 meters to about 1,300 meters, said Raymond Highsmith, executive director of the National Institute for Undersea Science and Technology, a university consortium based in Mississippi that is coordinating the ship's research.

Mr. Highsmith stressed that researchers don't know how much oil is in the plume, where the plume might end up, or what kind of damage it might do. "It's much harder to study it at those depths than it would be at the surface," he said.

But the underwater oil could snuff out large amounts of oxygen deep in the water, harming everything from corals to crabs to squid, Mr. Highsmith said. And that, in turn, could harm sea life such as whales, which feed on animals that live on the sea floor. "So you can see food chains getting impacted here," he said.

National Oceanic and Atmospheric Administration officials who are studying the slick say they are growing increasingly concerned that at least some of the oil could be picked up by a movement of

Please turn to page 8

Getty Images

An antigovernment protester throws a tire on a burned truck as the deadly violence in central Bangkok continues Sunday.

Thai protesters seek new talks

By James Hookway

BANGKOK—Thai protesters offered fresh talks with the government after another day of deadly rioting Sunday.

The new bid—along with some back-room negotiations—stirred faint hopes that leaders can contain a conflict that has claimed at least 30 lives in the capital over the past four days.

Red Shirt leaders told reporters they were ready to negotiate if the army ends its efforts to forcibly curtail the spread of protests.

Government negotiators, meanwhile, privately said limited back-channel talks continue even as the army continues its efforts to shut down the violent demonstrations that have rocked Bangkok since March. The government said at least 59 people have been killed and 1,600 wounded since the protests began, according to the Associated Press.

Ousted former Prime Minister Thaksin Shinawatra added his voice to the growing clamor for a negotiated resolution to the stand-off, which has hurt this popular tourist destination and major export hub. Mr. Thaksin, viewed as the driving force behind the Red Shirt movement from his self-imposed exile, said in a statement issued Sunday by his legal representatives in Bangkok that there is a "need for all sides to step back from this terrible abyss and seek to begin a new, genuine dialogue between the parties."

Nattawut Saikua, one of the primary rally leaders, told reporters that the Red Shirts are willing to start talks immediately.

"What's urgent is to stop people dying. Political demands can wait," he said.

The success of any fresh talks is far from certain. Prime Minister Abhisit Vejjajiva earlier offered new elections on Nov. 14 to break the impasse, but later withdrew the deal after Red Shirt leaders presented additional demands. Sunday, the Red Shirts and Mr. Thaksin demanded the involvement of a mediator from the United Nations—a stipulation that Mr. Abhisit's government rejects and that some analysts considered an attempt to bring greater international attention to Thailand's worsening crisis.

One of the negotiators on the government side, who didn't wish to be identified, said he was "still hopeful"

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Trichet edges Europe toward coordination

By Brian Blackstone And Terence Roth

FRANKFURT—Momentum is building for stronger coordination of fiscal policy in euro-zone countries ahead of a meeting in Brussels this week of senior European policy makers to discuss an overhaul of budget rules.

European Central Bank President Jean-Claude Trichet joined growing calls for euro-zone governments to do more to guarantee fiscal discipline amid concern in financial markets that Europe's debt crisis could eventually break apart its currency union.

Europe needs "a quantum leap" in how it collectively manages public finances, Mr. Trichet said in an interview with German news magazine Der Spiegel. He has previously refrained from demanding an overhaul of fiscal rules.

"There need to be major improvements [in fiscal coordination] to prevent bad behavior, to ensure effective implementation of the recommendations made by peers and real and effective sanctions in case of breaches," Mr. Trichet said in comments comfirmed by the ECB.

Euro-zone governments have long resisted stronger

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PAGE TWO

The party is over for the euro zone, how will it cope with the hangover?

[Agenda]

By Irwin Stelzer

"The party's over. It's time to call it a day. They've burst your pretty balloon, and taken the moon away." So wrote Betty Comden and Adolph Green over fifty years ago, when they couldn't possibly have realized they were creating a lyric that would some day describe the euro zone.

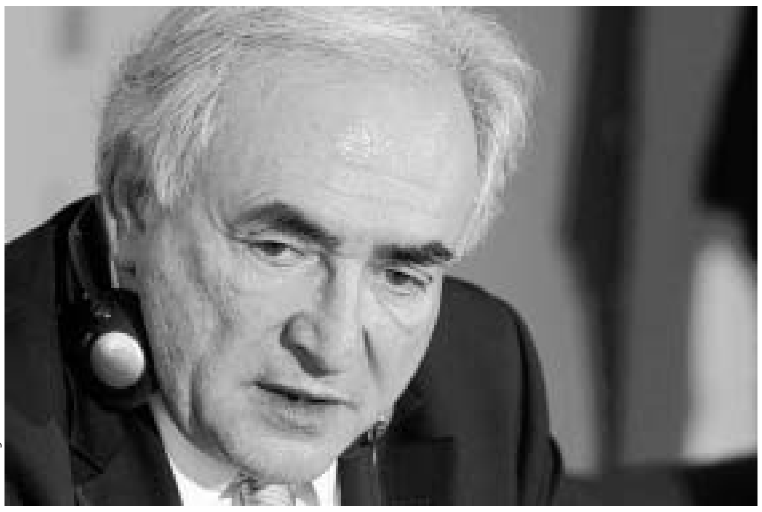
No need retelling the well-reported slide of Greece into what will likely be an eventual default. Or the trials and tribulations of the euro zone's other periphery countries. What is worth noting is that it is one thing for healthy nations to be the unfortunate victims of "contagion," quite another for them to pick up the infection by embracing the diseased country.

Which is what euro-zone countries have done.

They have in effect welcomed the disease-weakened balance sheets of Greece and other countries onto their until-now healthy, stronger balance sheets, wiping out decades of good, prudent living in the case of Germany, and calling attention to thirty years of deficits, in the case of France.

Worse still, the spread of the fiscal disease is not confined to the euro zone, which it can be said by the querulous should have seen it coming. Britain, with a fiscal deficit of Grecian proportions—12% of GDP—and the U.S., in similar circumstances, find themselves not immune to the disease.

The rating agencies are increasingly nervous about leaving unchanged the triple-A ratings of the U.K. and the U.S. And the Obama administration is sufficiently fearful of the effect on America's recovery of the euro zone's problems, that the president called Spanish president José Luis Rodriguez Zapatero to urge him to take "resolute action" to get Spain's fiscal house in order—rather like the pot calling the kettle black, since the president has shown no inclination to cut his own spending programs, even thought the government's debt is headed to 110% of GRP by 2015, compared with 90% at the end of World War II.



Bloomberg News

The euro zone now has to contend with the IMF's Dominique Strauss-Kahn

> **The ruling classes have too big a stake in the European "project" to allow the euro to pass into history**

The good news is that the message from the markets seems to have gotten through. The eurocracy managed to cobble together a plan to prevent a complete seizing up of the banking system by promising to inject liquidity into the system. But nervousness about counterparty viability already has returned, driving up measures of bank credit risks to nine-month highs.

Better still, Spain's socialist government, reneging on its pledge not to reduce public sector salaries, cut them by 5%, ended its €2,500 ($3,100) childbirth allowance, cut foreign aid, and announced other economies—with new taxes on the "rich" soon to follow. Portugal's socialist government also has stepped up its austerity program, combining spending cuts with a one-percentage-point VAT increase to 21% on most goods, and a 2.5% tax increase on corporate profits in excess of €2 million. Other governments across Europe are discovering the virtues of prudence. But the markets remain skeptical, and the International Monetary Fund is demanding still more spending cuts and tax increases, even of wealthy countries.

The bad news is that the outburst of fiscal virtue is likely to strangle in its infancy the anemic European recovery—the EU and euro zone grew at an annual rate of only 0.2% in the first quarter, Spain's economy grew a tiny 0.1%, and Portugal's growth rate of 1% was the highest in the EU. Unlike Germany, with an export machine that will be helped by the falling euro, the drop in the euro will provide no such stimulus to the non-competitive economies on the euro zone periphery to offset fiscal tightening.

So cuts in spending and increases in taxes are likely to throw those economies back into recession. That will reduce tax receipts, further widening the fiscal deficits. Even worse, prices have already begun to fall in Ireland and Portugal, which might cause consumers, already hard hit, to rein in spending even more in anticipation of further falls in prices.

It is difficult to predict whether the euro can withstand the social tensions created by this deleveraging of public sector finances. My guess is that it will: the ruling classes have too big a stake in the European "project" to allow the euro to pass into history as an interesting experiment.

But the euro zone will be forever changed. France has scored a major victory over Germany in its battle to push European integration further by subjecting individual nation's fiscal policies to increased central control, a move it might come to regret when its own budget, running a deficit equal to 8% of GDP, is reviewed. The IMF is now a major player in the euro zone, an area previously verboten to it. And the credibility of the European Central Bank as an inflation fighter has been weakened by its active participation in the bail-out.

As the Comden-Green opus concludes, "Now you must wake up, all dreams must end. Take off your makeup. The party's over. It's all over, my friend."

—Irwin Stelzer is a business adviser and director of economic-policy studies at the ***Hudson Institute****.*

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Nina Koeppen & **Terry Roth** on the comments of Deutsche Bank CEO.

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Yes **94%**

No **6%**

What's News

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NEWS



Associated Press (3)

Icons of the old establishment: debutantes at the Waldorf in 1949 , left; center photo, Eleanor Roosevelt speaking in 1934 before the Daughters of the American Revolution; if Elana Kagan, right, is confirmed the U.S.'s nine most powerful judges will all be Catholic or Jewish.

The decline and fall of the WASP

The Kagan nomination for the Supreme Court shows the weakening grip of the U.S. Protestant establishment

By Robert Frank

On a recent morning at the Links Club, New York's wood-paneled preserve of the old banking elite, a small crowd of white-haired members gathered for breakfast.

The talk around the tables, over poached eggs and toast, was of Europe and sovereign-debt markets. Some were quietly negotiating deals. The crowd was mostly older, though it included a smattering of 40-something and 50-something members.

While undeniably upper-crust, the scene, which included a Latin American and an Asian, was a far cry from the Links Club of 20 years ago, when doing business was forbidden and the strictly homogenous crowd of Protestant blue-bloods spent their mornings comparing golf scores and vacation homes.

"It's changed with the times," said one former member. "That's both our gain and our loss."

In the long downward spiral of what used to be known as America's Protestant Establishment, there have been several momentous milestones: Harvard's opening up its admissions policies after World War II. Corporate America's rush in the 1980s to bring more diversity to the corner office. Barack Obama's inauguration as the first African-American president.

History may reveal another milestone—Elena Kagan's nomination to the Supreme Court. If she is confirmed, the nation's nine most powerful judges will all be Catholic or Jewish, leaving the court without a Protestant member for the first time.

Of the 111 Supreme Court Justices who have served, 35 have been Episcopalians, making them the largest religious group on the court, according to court historians. The court's first non-Protestant was Catholic Justice Roger Taney, appointed by President Andrew Jackson in 1836.

Whether the court's religious makeup even matters in today's legal world has become a subject of hot debate. Yet by ushering in a Protestant-free court, Ms. Kagan is helping to sweep away some of the last vestiges of a group that ruled American politics, wealth and culture for much of the nation's history.

"The fact that we're going to zero Protestants in the court may not be as significant as the fact that her appointment perfectly reflects the decline of the Establishment, or the WASP Establishment, in America," said David Campbell, associate professor of political science at the University of Notre Dame.

Seen from the distance of time, the changes are stunning. In the 1960s, the vast majority of corporate managers were Protestant, according to E. Digby Baltzell's famous 1964 tome, "The Protestant Establishment."

The percentage of Protestants in Congress has dropped to 55% from 74% in 1961, according to Pew Forum. The corner offices of the top banks, once ruled by Rockefellers and Bakers, now include an Indian-American and the grandson of a Greek immigrant.

In old-money enclaves like Palm Beach, Fla., Nantucket, Mass., and Greenwich, Conn., WASPs are being priced out of their waterfront estates and displaced on their nonprofit boards by Jewish, Catholic and other non-Protestant entrepreneurs. A survey by Pew Research found only 21% of mainline U.S. Protestants had income of $100,000 or more, compared with 46% of Jews and 42% of Hindus.

Until the early 1980s, when a flood of new wealth began to democratize the American elite, the path to power and status in America was straight and narrow. It usually began with old-line families in the lush estates of Greenwich, Boston, New York or Philadelphia and wound its way through New England boarding schools, on to Harvard or Yale and finally to the white-shoe law firms or banks of the Northeast or the corridors of power in Washington.

John J. McCloy—the Philadelphia-born, Harvard-educated lawyer and banker who served as assistant secretary of War during World War II and on several corporate boards, including Chase Manhattan Bank's—became known as "the Chairman of the Establishment."

His son, John J. McCloy II, a Connecticut-based venture capitalist, says Ms. Kagan's nomination is a sign of the nation's commendable meritocracy, but also a "dangerous departure" from Establishment mores, since Ms. Kagan, while a brilliant scholar, has no experience as a judge.

"I think we're losing something fundamental with the Establishment," he said. "The Establishment was really about people who became leaders because they were confident and highly competent in their areas."

The Protestant downfall can be attributed many things: the deregulation of markets, globalization, the rise of technology, the primacy of skills over family connections.

Yet many also point to the shifting dynamics of the faith itself, with mainline Protestantism giving way to the more fire-and-brimstone brands of Evangelicals in recent decades. The Episcopal Church, usually seen as the church of the Establishment, has seen some of the most pronounced declines in recent years.

Rev. Mark S. Sisk, bishop of the Episcopal Diocese of New York, said the polarized landscape of religion today hasn't favored more moderate faiths like Episcopals.

"When it comes to elective office, I can't think of anyplace in the country where being a middle-of-the-road Episcopalian would be a great plus," he said.

Meantime, WASP culture has been left to live out its days as a fashion statement, on the shelves of Ralph Lauren stores. In "The Protestant Establishment," Mr. Baltzell pointed to the prejudice and insularity of the elite as the causes of its decline. "A crisis has developed in modern America largely because of the White-Anglo-Saxon Protestant establishment's unwillingness, or inability, to share and improve its upper-class traditions by continuously absorbing talented and distinguished members of minority groups into its privileged ranks."

Jamie Johnson, the documentary filmmaker and heir to the Johnson & Johnson fortune, said he believed the destructive effects of wealth over multiple generations were also a factor. "The generations of affluence bred a certain kind of casual, passive approach to life and wealth building," he said. "Lots of people just got lazy."

Cameron sets audits

U.K. prime minister to examine public-sector pay, state spending

By Ainsley Thomson

LONDON—U.K. Prime Minister David Cameron on Sunday announced a new inquiry into public-sector pay and said a separate, independent audit of all government spending would be launched Monday.

Speaking on the BBC's "Andrew Marr Show," Mr. Cameron said Will Hutton, a left-wing commentator and vice chairman of the Work Foundation think tank, would lead the inquiry into public-sector pay.

"The idea is to improve fairness in the public sector—between the lowest paid and the highest paid there should not be a difference of more than 20 times," he said.

Mr. Cameron said the inquiry would also examine public-sector bonuses.

"I'm afraid we are finding by the day, very bad spending decisions that were taken by the last Labour government," he said, adding that future public-sector bonuses would be cut by around two-thirds.

Mr. Cameron, who became prime minister on Tuesday after his Conservative Party formed a coalition government with the Liberal Democrats, said Chancellor of the Exchequer George Osborne would on Monday launch an audit of government spending ahead of the planned emergency budget, which is due to be presented in the next 50 days.

The review will be carried out by the new Office of Budget Responsibility, Mr. Cameron said.

During the interview, Mr. Cameron didn't rule out a possible increase in the value-added tax, but reiterated his party's view that cuts in public spending should bear the majority of the burden for dealing with the deficit, not tax changes.

Mr. Cameron said Mr. Osborne and Liberal Democrat Vince Cable, who is business secretary in the new cabinet, would sit together on a cabinet committee examining the future structure of banking.

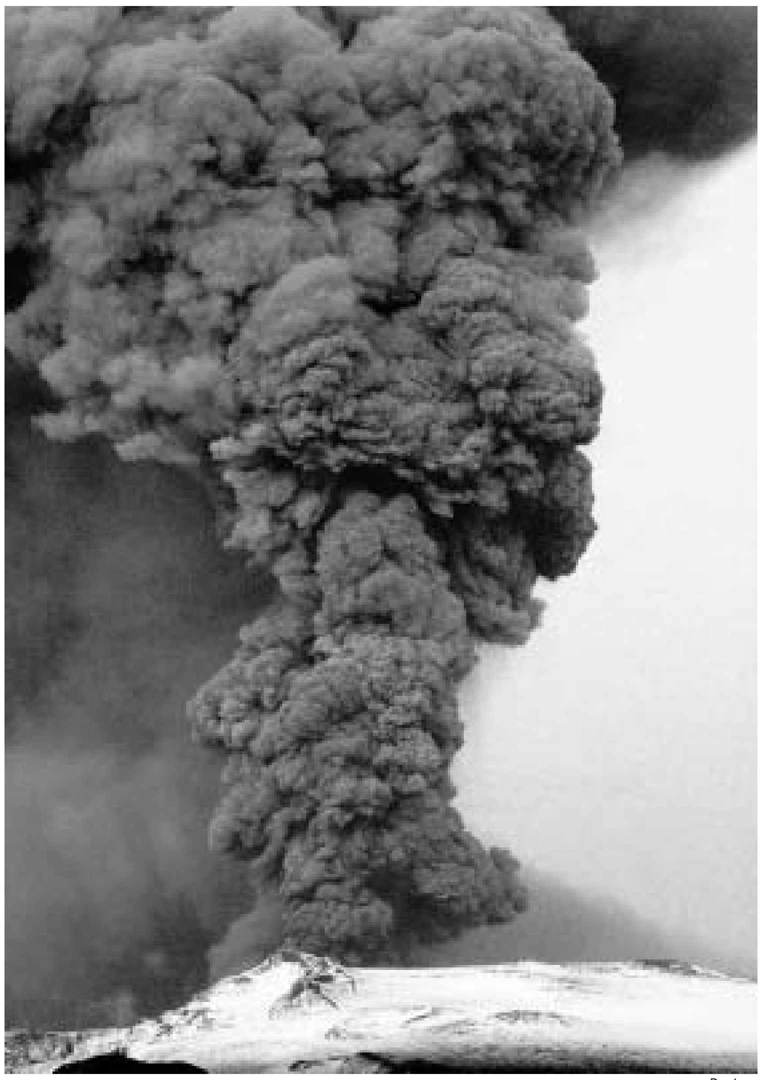
He also spoke about the process of forming a coalition government with the Liberal Democrats, saying he had preferred a coalition to a minority Conservative government.

"All the way through [the negotiations] I wanted to have that coalition. I thought it was better for the country—putting aside party interest and governing in the national interest," he said.

Mr. Cameron said a fuller coalition agreement would be published in the next two weeks.

Reuters

British Prime Minister David Cameron on the 'Andrew Marr Show' Sunday.



Reuters

A fresh cloud of ash rises from the volcano under the Eyjafjallajokull glacier in Iceland on Sunday. Parts of British airspace may have to close until Tuesday.

FSA shores up its image

By David Enrich
And Cassell Bryan-Low

LONDON—Britain's tumultuous election last week has delivered a new lease on life for the country's primary financial regulator. Now, the long-derided Financial Services Authority must prove it deserves to live.

Heading into the election, the front-running Conservative Party pledged to abolish the FSA and transfer its powers elsewhere. Knowing it was in the Tories' crosshairs, the FSA made a frenzied effort in recent months to showcase a new tough-guy persona and demonstrate its toothless reputation was undeserved.

But the election's unusual result delivered a stay of execution. The Conservatives failed to win a majority of seats and, to take power, were forced to form a coalition government with the third-largest party, which wasn't seeking to scrap the FSA. People familiar with the matter say the FSA is safe for now.

Now the agency needs to show its months of muscle flexing were more than a fleeting phase. The FSA's challenges range from luring a new chief to winning some high-profile convictions to escaping the shadow of U.S. regulators.

In the past few months, the FSA has unveiled a flurry of headline-grabbing arrests and other enforcement actions in an assault on insider trading. It took the unusual step of publicly announcing a formal investigation of **Goldman Sachs Group** Inc.'s U.K. subsidiary. The bank has said it is cooperating with the investigation.

Most recently, the FSA made waves by blocking a planned acquisition by **Prudential PLC** of **American International Group** Inc.'s largest Asian life-insurance business unless Prudential raised more capital.

The recent activity is unparalleled in the FSA's history. Since its creation nine years ago, the agency has generally deployed gentle tactics. It rarely challenged management decisions at the companies it oversaw. In cases of alleged financial wrongdoing, FSA investigators would invite suspects to stop by in a week or two with their lawyers.

Private Eye, a U.K. satirical magazine, dubbed the agency the "Fundamentally Supine Authority."

Today, the FSA is projecting a tougher image: staging raids, seizing computers and hauling suspects to police stations for questioning. It also is seeking prison time and stiffer fines for wrongdoers.

FSA officials say they are beefing up supervision of giant banks, stationing more examiners at the institutions and challenging their executives. The agency has irked U.K. banks by requiring them to hold more cash and other forms of liquidity than their foreign counterparts.

But critics still question the agency's credentials. The FSA only opened its Goldman probe after the U.S. Securities and Exchange Commission filed charges against the Wall Street firm, and nearly a week passed before the FSA summoned Goldman executives for a preliminary meeting.

"If success is measured in getting scalps, they need more," says **Ailbhe Edgar**, a London-based partner at law firm Hogan Lovells.

Some bankers and regulatory experts also question the FSA's motives, arguing its tougher tactics have been part of a politically inspired bid for survival.

FSA officials reject that notion. "This has nothing to do with elections," says the 48-year-old Margaret Cole, the FSA's enforcement chief and an architect of the tough-on-crime strategy, in a recent interview. "This has everything to do with showing we are good at what we do."

While it has escaped the guillotine for now, the FSA hasn't entirely secured its future. Agency officials are awaiting more clarity from the new government before they make key decisions. One looming question is whether to start searching for a permanent successor to CEO Hector Sants, who has said he plans to step down this summer.

In the U.K., insider trading only became a crime in 1980; in the U.S., it has been illegal since the 1930s. The maximum prison sentence for insider trading in the U.K. is seven years, and the FSA's harshest penalty to date is two years. That is far short of the U.S., which has imposed sentences of at least a decade.

British enforcement of the law has also lagged behind America's. The FSA last year brought seven civil and criminal insider-trading-related cases, compared with an average of nearly 50 civil cases brought annually by the SEC.

In its history, the FSA has won just four criminal convictions for market abuses such as insider trading; three of those came in the past year. The FSA mainly has prosecuted small-time characters, such as a former intern and his father.

London air hubs face ash threats

By Michael Carolan

LONDON—Iceland's volcanic ash cloud could shut London's key transport hubs on Monday after closing airports in the northern U.K. on Sunday, the U.K.'s Met Office said.

Such a closure could start a very bad week for U.K. air travelers. A five-day strike of **British Airways** PLC cabin crew is expected to start Tuesday.

On Sunday, a no-fly zone was enforced in Scotland, Northern Ireland and northern England after an ash cloud from Iceland's Eyjafjallajokull (ay-yah-FYAH'-tlah-yer-kuh-duhl) volcano drifted into U.K. airspace. The main transport hubs in southern England, such as Heathrow and Gatwick, have so far remained open.

"Tomorrow, the risk extends further south," a spokesman for the Met Office, the U.K. weather service, warned. "This brings London airports into the range for potential closure."

Heathrow is the world's busiest international hub, with more than 90 airlines flying through it. Any closure there would significantly increase the operational and financial damage from the most recent ash clouds.

Neither the Civil Aviation Authority nor air-navigation controller NATS were willing to predict what would happen once restrictions ended at 7 p.m. U.K. time on Sunday.

"It doesn't mean that everything will be open at 7 p.m.," a spokesman for NATS said, adding, "We can't predict beyond that."

The Met Office spokesman said the midterm forecasts were much "kinder." Southwesterly winds should move the ash cloud away from the U.K. and by midday Tuesday U.K. airspace should be completely clear of ash, he said.

Charts released by the Met Office show the ash cloud covering much of the U.K.—including southern England—on Monday. Some airports in Ireland are also hit.

The presence of the ash cloud doesn't necessarily mean planes will be grounded. Before implementing no-fly zones, the CAA takes a number of factors into consideration, such as the density of the ash and its height.

The ash cloud forced the closure of airports in southern Europe earlier this month after causing huge disruptions to European air travel in April.

Any closure at Heathrow would significantly increase the financial damage from the ash clouds.

The ash's dispersal on Tuesday would be just in time for travelers to be hit by the British Airways strike, which remains a threat although negotiations will continue on Monday. The company and the Unite union will hold separate talks with new Transport Secretary Phil Hammond.

The company will also seek an High Court injunction to stop the strike on the grounds that the union hasn't complied with some technical procedures that are required by law before a strike can take place.

EUROPE NEWS

New financial risks after the bailout

BY BRIAN BLACKSTONE

FRANKFURT—The euro fell to an 18-month low as investors questioned Europe's prospects for a sustained economic recovery, despite a nearly $1 trillion rescue plan and tough austerity programs in Spain and elsewhere along the Continent's debt-laden southern fringe.

Particularly worrying to many investors was news that in April Spain recorded falling prices, excluding food and energy, for the first time on record. If that deflationary trend continues, Spain, the euro-zone's fourth-largest economy with a debt load larger than Greece's, could find it even more difficult to pay back creditors.

Prices—excluding food and energy—are already falling in Portugal and Ireland. That isn't a risk if the deflation lasts only a few months, economists say. But if consumers expect price drops to persist and delay spending deflation could become an economic threat, robbing governments of badly needed sales tax receipts and other revenue. That, in turn, could force governments to undertake more spending cuts.

Euro-zone countries such as Spain, Portugal, Greece and Ireland have pledged to cut state spending and raise taxes over the next several years in a bid to bring their ballooning deficits under control. Yet the planned austerity "reduces the potential for economic growth going forward," says Lawrence Eagles, an oil analyst at J.P. Morgan Chase.

Euro-zone economic growth has been driven by countries such as Spain and Ireland for many years. For example, domestic demand in those two grew at more than double the rate for the currency bloc as a whole in the years before the recession began in 2008.

Economists are especially worried about Spain, which announced more spending cuts and tax increases on Thursday. Its economy barely expanded last quarter—after declining for six consecutive periods. The unemployment rate is nearly 20%, twice the euro-zone average, raising doubts about how much more economic pain the public can withstand.

Unlike Germany, which improved the productivity and competitiveness of its industry in the past decade, Europe's periphery is unlikely to benefit much from the slide in the euro. During the early years of the euro, growth in these countries was tied to housing bubbles and debt-fueled consumption, not exports.

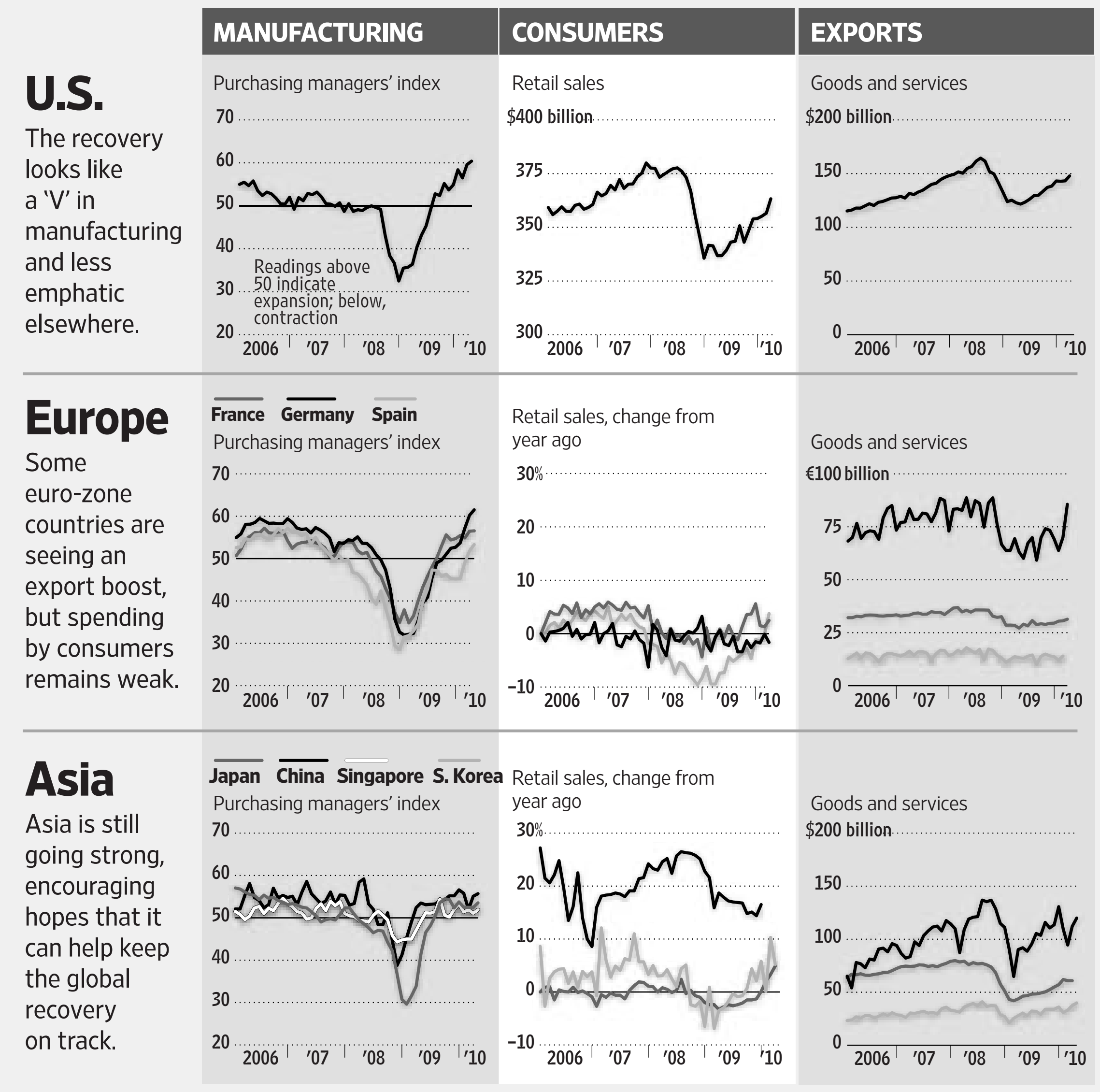
In Germany, the tumbling euro cuts two ways. For Marcus Vatter, chief financial officer at **SICK** AG, a sensor-technology firm in Dusseldorf, it "is playing a very positive role," especially when fighting for business with Asian and U.S. competitors.

But the political crisis at the root of the euro's slide, and its potential inflationary effects, are negatives for Germany's frugal consumers. "There's a lot of confusion. It's a bad atmosphere, bad for consumption," says Thomas Kemmerich, who owns a chain of hair salons with 50 locations, mostly in eastern Germany.

Germany and others such as France and the Netherlands—whose finances are in much better shape than Greece—also face financial risks. They have already taken on some of Greece's credit risk by committing loans under the EU-IMF plan. If other countries such as Spain have to tap the €750 billion stability fund, healthier countries would face even more pressure on their own interest rates.

—Liam Pleven contributed to this article.

U.S. strengthens, Europe stumbles, Asia surges



Note: Consumers chart shows change in retail sales (Spain), consumer spending (France), retail sales excluding autos and fuel (Germany); PMI for South Korea isn't available, so another export economy has been substituted; Japan's exports are converted from yen at the current rate
Sources: Institute for Supply Management; Commerce Department; Labor Department; Markit (PMIs) and national statistical offices via Thomson Reuters; Eurostat

Momentum for stronger fiscal coordination grows

Continued from first page

oversight of their budgets by their peers or by European Union institutions, fearing a loss of national sovereignty. Such concerns remain strong, but governments are coming under increasing pressure to accept limits on national fiscal policies to restore confidence in the euro zone's viability.

German Chancellor Angela Merkel is pushing for a tightening of the euro zone's fiscal rules, warning that the survival of the euro and even the EU itself is at stake. Ms. Merkel argues that at the very least the euro zone needs real enforcement and penalties behind limits on debt and budget deficits. She has also said countries that flout the rules should have their voting rights in the EU temporarily suspended.

The euro zone's existing Stability and Growth Pact, which requires countries to limit their budget deficits and overall debts, is widely seen as having failed to ensure fiscal discipline. Numerous countries have broken the limits over the past decade, including Greece, whose excessive public debt and threatened financial meltdown have forced other euro members to intervene with huge rescue loans.

The EU's executive arm, the European Commission, proposed last Wednesday that EU governments submit their budgets for review by their counterparts in other euro-zone countries before they are approved by national parliaments.

The commission also advocated punitive measures for countries that flout the EU's budget rules. These could include cutting them off from EU subsidies and forcing them to make deposits to a rainy-day fund.

It is unclear how this system of mutual scrutiny would work. Also open is the extent to which governments will allow national sovereignty over their budgets to be compromised. The power to tax and spend is at the heart of national government. Where there is agreement is that what has been done to date hasn't been enough.

In the Spiegel interview, Mr. Trichet defended his controversial decision to use ECB money to buy the government debt of the euro zone's most troubled countries. He said the move to pump unspecified billions into the debt markets of Greece, Portugal, Spain and others won't lead to inflation.

There was "continuous deterioration" in markets prior to the ECB's move on May 10 as yield spreads and interbank lending markets "were signaling the spreading of severe tensions," Mr. Trichet said.

German opinion is critical to the success of Europe's rescue of Greece and defense of Spain and Portugal. As the euro zone's largest economy, Germany must contribute the biggest amount of loans. But Germans are angry that while they took painful steps in the past decade to shore up their finances and improve their economy's competitiveness, Greece and others maintained bloated public sectors and neglected their economies' vulnerabilities even as entry to the euro afforded them low interest rates that fueled spending and property booms.

In a rare sign of defiance, Germany's top central banker, Bundesbank President Axel Weber, voiced his opposition to the ECB's bond-purchase plan less than 24 hours after it was announced.

Mr. Trichet said, "I fully understand the particular sensitivity of my German friends. But facts are facts: Inflation in Germany has never been as low as it has been over the past 11½ years."

The ECB's decision early last Monday to purchase government debt coincided with action by European governments, including Germany, to set up a stabilization fund that could total €750 billion ($928 billion), which at-risk countries could tap if needed.

The ECB has never taken such a drastic step in its 11-plus-year history. Even at the height of the Lehman Brothers crisis when the U.S. Federal Reserve and the Bank of England were buying government securities in an effort to keep market interest rates down and spur growth, the ECB refrained.

Financial markets reacted positively, at first, to the ECB's decision, which came just three days after Mr. Trichet said officials hadn't even discussed the idea during their monthly meeting. But the euphoria quickly faded when concerns rose over what the ECB's reversal means for its credibility as an inflation fighter and its reputation for independence for political pressure.

Financial markets sensed that danger, when the recent euro selling turned into a rout. For many, the response to the Greek debt crisis didn't address longer-term concerns that the euro zone might have become unmanageable in its current form. The euro fell below $1.24 in New York trading Friday, as financial markets continued to reassess the bailout package.

But a senior German finance official said Saturday that he is comfortable with the current value of the euro. Steffen Kampeter, German parliamentary state secretary in the ministry of finance and a member of Chancellor Angela Merkel's Christian Democratic Union, told a conference in Bahrain that the euro "is a success story." Mr. Kampeter said Greece is paying the highest price for its debt problems, not other countries. Greece, Spain and Portugal, he said, are "paying the price for irresponsible deficit spending and lack of competitiveness."

ECB officials won't say how much they intend to spend on the debt-purchase program, or how they will divvy up the purchases among countries. They have promised to drain equal amounts of money from the banking system so that the program doesn't increase the money supply.

—Stephen Fidler in Brussels contributed to this article.

EUROPE NEWS

Uncertainty in East

EBRD sounds note of caution, seeks to bolster local currencies

By Clare Connaghan

ZAGREB, Croatia—The European Bank for Reconstruction and Development said the recovery path in Eastern Europe and the former Soviet Union is "exceptionally uncertain," with risks tilted to the downside in the short-term given the volatility surrounding euro-zone sovereign debt.

The development bank said at its annual meeting that it launched an initiative to develop local-currency capital markets in the region, adding that the move should help lower the region's dependence on foreign currency and external capital.

The EBRD said the recovery—which is under way in most countries in the region—is now being "overshadowed by euro-zone market volatility and increasing pressures to accelerate fiscal consolidation in East and West."

As a result, external risks are rising, while domestic risks in emerging Europe, such as rising unemployment and bad loans, are leveling off, the EBRD said.

"The Local Currency and Local Capital Markets Initiative aims to support and complement the actions of many governments in the region which are helping to build up local sources of domestic funding and reduce the use of foreign exchange in the domestic financial system," the EBRD said.

In its latest report on the 29 countries in which it invests, the EBRD said their combined gross domestic product will grow by 3.7% this year, having forecast in January that GDP would expand by 3.3%.

In contrast, the International Monetary Fund expects Asian economies to expand by 7.1% and Latin America and the Caribbean economies to grow by 4% in 2010.

Several countries in Eastern Europe were hit particularly hard by the financial crisis as the wave of foreign-currency lending on which they relied dried up. Many people and businesses struggled to repay foreign currency debt when their domestic currencies tumbled.

"The crisis laid bare the region's twin vulnerabilities of excessive reliance on foreign capital and excessive use of foreign exchange borrowing," said Erik Berglof, the EBRD's chief economist. "As the recovery takes hold in the region, it is important to urgently address these vulnerabilities."

With that in mind, the EBRD, working alongside the IMF, the European Commission and other international institutions, said it will promote currency-funding operations and also provide technical cooperation to develop the domestic capital markets of each of the 29 countries it invests in.

An assessment of each country's capital markets will be carried out in order to propose further policy initiatives, the EBRD said. The EBRD was founded in 1991 to help countries in Eastern Europe make the transition to market economies after the collapse of communism.

Reuters

A window cleaner next to the partially built Moscow City financial district

U.S. NEWS

Crew had argument before rig exploded

Disagreement concerned steps of shutting down well, worker says

By Russell Gold

About 11 hours before the Deepwater Horizon exploded, a disagreement took place between the top manager for oil giant **BP** PLC on the drilling rig and his counterpart for the rig's owner, **Transocean** Ltd., concerning the final steps in shutting down the nearly completed well, according to a worker's sworn statement.

Michael Williams, a Transocean employee who was chief electronics technician on the rig, said there was "confusion" between those high-ranking officials in an 11 a.m. meeting on the day of the rig blast, according to a sworn statement from Mr. Williams reviewed by The Wall Street Journal.

Mr. Williams himself attended the meeting.

The confusion over the drilling plan in the final hours leading up to the explosion could be key to understanding the causes of the blowout and ultimately who was responsible.

What is known from drilling records and congressional testimony is that after the morning meeting, the crew began preparations to remove from the drill pipe heavy drilling "mud" that provides pressure to keep down any gas, and to replace this mud with lighter seawater.

Ultimately, the crew removed the mud before setting a final 300-foot cement plug that is typically poured as a last safeguard to prevent combustible gas from rising to the surface. Indeed, they never got the opportunity to set the plug.

Mr. Williams declined to be interviewed.

In his sworn statement, he described the meeting as including ranking personnel from BP, Transocean and **Halliburton** Co., a contractor that dealt with cementing the well.

According to Mr. Williams's account, Transocean's rig manager, Jimmy Wayne Harrell, was discussing the plans for the next few hours' work, including taking out the drilling mud and running a test to make sure gas wasn't seeping into the well.

The driller in charge of the crew tried to ease the tension, one witness said in a statement: 'We'll get it worked out. Let's go up there and go to work.'

Mr. Harrell explained in the meeting that he had received the plans from BP.

Then, according to Mr. Williams's statement, the top-ranked BP employee assigned to the rig, Donald Vidrine, disagreed and said "that was not the correct procedure."

A Transocean driller in charge of the crew, Dewey Revette, tried to ease the tension.

"We'll get it worked out. Let's get up there and go to work," he said, according to Mr. Williams's statement. Mr. Revette, 48 years old, was among 11 workers who died on the rig.

At about this point in the meeting, according to Mr. Williams's attorney, Scott Bickford, all other employees were asked to leave the room so that Messrs. Vidrine and Harrell could talk in private.

Mr. Williams's statement doesn't include a reference to asking others to leave.

It's not clear what position either BP's Mr. Vidrine or Transocean's Mr. Harrell took on when the drilling mud should be removed.

Mr. Williams's statement said only that the disagreement concerned taking out the mud, running a "negative pressure" test on the well, and dealing with a piece of equipment called a seal assembly.

It also isn't clear whether Mr. Vidrine or Mr. Harrell won the day.

Typically well owner BP would have final say, since it was paying roughly $1 million a day to lease the rig and pay for services from 12 companies that had employees on the rig.

What is clear is that workers soon began displacing the mud.

Later that afternoon a pressure test provided ambiguous readings, a possible sign of gas seeping in, according to what Rep. Henry Waxman says a BP executive told House investigators. Eventually, in the evening, after further tests, BP made a decision to carry forth in removing more drilling mud. The rig blew about 10 p.m.

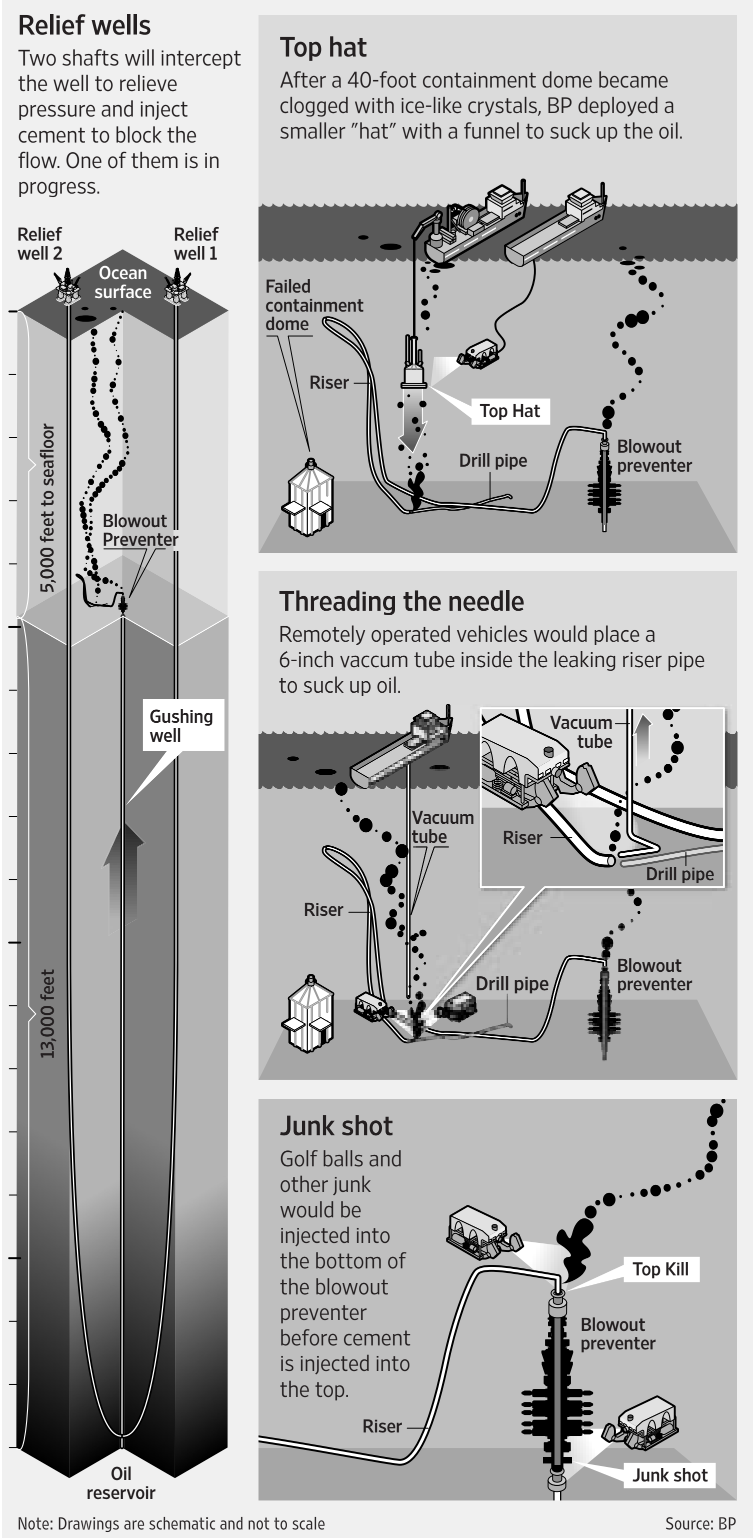
A BP spokesman, asked about the account in Mr. Williams's statement, said: "We're simply not going to comment on that sort of detail or speculation about causes." BP's Mr. Vidrine couldn't be reached for comment.

A Transocean spokesman said the company couldn't provide details of the meeting's discussion.

A woman who answered the phone at the residence of Transocean's Mr. Harrell, and who identified herself as his wife, said he would have no comment.

Oil has been spewing since the rig Deepwater Horizon exploded April 20, killing 11 people and sinking two days later.

Four ways to stop the spill



Note: Drawings are schematic and not to scale

Source: BP

Latest try in the Gulf removes some crude oil

Continued from first page

water in the gulf known as the "loop current" and sent around Florida and up the East Coast. The current typically goes up to Cape Hatteras, in North Carolina, but spinoff currents then could take the oil farther up the east coast of the U.S., scientists said.

"We're very concerned and vigilant about that," David Kennedy,

Even in the best-case scenario, the tube won't capture all the leaking oil.

NOAA's acting assistant administrator for ocean services and coastal zone management, said about the loop current taking up some of the oil.

The loop current presents a concern within the Gulf too: It could bring oil that's now deep underwater up toward the surface, where the oil could be carried by various currents to shore, said Stephan Howden, a marine-science professor at the University of Southern Mississippi who is helping track the slick's movement.

Rough waters and stormy weather hampered offshore cleanup efforts over the weekend. Crews were unable to sweep offshore waters or execute controlled burns. They did use chemical dispersants in deep waters to break the oil into smaller droplets, allowing microbes in the water to break it up. The chemicals in the past were only authorized for use on the water's surface, but the Coast Guard said Friday that following several tests the Environmental Protection Agency had approved their continued use at the site of the leak

During a press briefing Saturday, BP Chief Operating Officer Doug Suttles said the dispersants appeared to be working.

Blowout complicates Arctic plans

By Jim Carlton

ANCHORAGE, Alaska—Plans by **Royal Dutch Shell** PLC to begin exploratory oil drilling in the Arctic Ocean this summer are drawing increased scrutiny in the wake of the Gulf of Mexico oil spill.

Interior Department officials—under pressure from native and environmental groups to halt the activity—say their final drilling permits will be contingent on new safety reviews.

Last fall, Interior Secretary Ken Salazar approved Shell's plans to drill five exploratory wells in the Chukchi and Beaufort seas after the area was opened to oil and gas leasing in 2008 by the Bush administration. But Interior still has to sign off on the permits, and officials there now say their decision would rest, in part, on the outcome of a federal review President Barack Obama ordered completed by May 28 of safety issues pertaining to drilling in U.S. offshore waters.

Meanwhile, a coalition of 14 environmental groups joined by the native village of Point Hope, Alaska, sent a letter to Mr. Salazar on May 5 asking him to reconsider Shell's approval on grounds that the Minerals Management Service, the Interior Department agency that regulates offshore drilling, didn't "analyze or disclose the effects of a large oil spill" from the exploratory drilling when the MMS approved it.

On May 3, the Northwest Arctic Borough—populated mostly by Alaskan native people—sent a letter to the MMS urging that Shell's plans be suspended or revoked until the cause of the April 20 Gulf spill at a **BP** PLC-owned well can be determined.

A key concern among all the groups: that a giant spill in the Arctic Ocean would devastate the fragile environment, and wreak havoc on the culture and economy of native villages that depend on subsistence hunting of marine creatures like the bowhead whale. "The ocean is our garden," said Earl Kingik, a tribal elder in the Inupiat community of Point Hope. "If any oil spills in our garden, the currents would blow it to us."

Arctic drilling in Alaska has been mostly confined to coastal land areas such as at Prudhoe Bay, but both the industry and state are pushing to open new fields offshore to help keep oil flowing through the aging Trans-Alaska Pipeline.

Shell officials say they have no plans to delay their drilling, but acknowledge that the Gulf spill didn't help the Anglo-Dutch company's public-relations efforts. "Yeah, I woke up that day [of the spill] and said, 'Yes, this truly will impact the way people look at this industry,' " said Pete Slaiby, a Shell vice president in Anchorage.

As part of the federal safety review, MMS Director Elizabeth Birnbaum on May 6 sent a letter to Shell officials asking for an accounting of any additional safety procedures that the company is proposing in light of the Gulf spill.

But Shell officials said the Arctic drilling poses less of a threat of a disastrous spill than the Gulf, in part because of differences in geography. One difference, Mr. Slaiby said, is that the BP well at 5,000 feet deep on the Gulf floor was under far greater pressure than Shell's would be, because the seabed where the exploratory drilling is to take place is only about 150 feet deep. He added that his company's drilling sites also would be surrounded by ice much of the year.

U.S. NEWS

Feeling Europe's pain

The U.S. recovery is vulnerable on many fronts to the EU crisis

By Mark Whitehouse

Markets fell sharply Friday amid new jitters about Europe's debt troubles, underscoring worries that external woes may threaten the recovering but still vulnerable U.S. economy.

Upbeat reports on U.S. shoppers and factories Friday added to the picture of an economy firmly in recovery mode. Rising consumer spending appears to be offsetting a moribund housing market, and businesses seem on track to keep investing—and, possibly, hiring.

But the strong U.S. data failed to cheer financial markets, as concerns about Europe's ability to contain its sovereign-debt crisis took center stage. Borrowing rates for European banks rose sharply, reflecting persistent fears that harsh austerity measures could prove too much for the governments and economies of Greece, Spain and Portugal.

"It's important to recognize that we're now in a solid recovery—but it's not a gangbusters recovery, and we have a new wild card in the picture, which is the European mess," said Frederic Mishkin, a professor at Columbia Business School who served on the Federal Reserve's Board of Governors from 2006 to 2008. "Except for a very large shock, we should be OK, but we still don't know how big of a shock this could end up being."

The U.S. Commerce Department said retail sales rose a seasonally adjusted 0.4% in April, building on a robust 2.1% rise in March and consistent with annualized, inflation-adjusted economic growth of more than 3% in the current quarter.

But while the world's largest economy might be out of intensive care, it's still weak. The rate of growth falls far short of the 7%-to-9% booms that helped restore jobs and rebuild strength after previous deep downturns. Even at April's relatively strong rate of job growth, it could take seven years to get the unemployment rate—currently 9.9%—back down to the 5% level of December 2007.

"We're getting more growth than people expected, but it's less than we need to put us on a path that would undo the damage in any reasonable period of time," said Bruce Kasman, an economist at J.P. Morgan Chase in New York. His projection for growth this year, at 3.7%, is among the more optimistic.

On average, economists polled earlier this month for The Wall Street Journal expect inflation-adjusted growth of 3.2% in 2010, up from a forecast of 2.6% in May 2009. At that rate, economic output should be regaining its pre-recession level about now, describing a recovery path shallower than the "V" some had hoped for, but better than the "L" many had feared.

Europe's troubles present several kinds of threats to the U.S. Among the most dangerous is the possibility that fears of bank losses related to sovereign-debt defaults would undermine confidence in the global financial system—fears that **Deutsche Bank** AG Chief Executive Josef Ackermann fanned late Thursday by expressing doubts on German television about Greece's ability to repay its debts.

In one sign of returning jitters, the annual cost of insuring against default on a €10 million basket of European bank debt rose Friday, to €145,000 from €129,000.

Losing confidence

Anxiety over euro-zone credit markets has driven up one indicator of financial stress, the difference between interest rates at which banks lend to each other and expected central-bank rates*. Meanwhile the euro continues its slide.

Source: Thomson Reuters *Three-month rates; based on the spread between Libor/Euribor and overnight index swap rates

In another worst-case scenario, the fiscal stress in Europe could engender fears about other countries with large budget deficits and growing government debt loads, such as the U.S. and the U.K. "If investors decide that countries with big budget deficits are a bad place to put their money, that's a problem, because half of the world economy has big budget deficits," said Ethan Harris, head of North America economics at Bank of America Merrill Lynch in New York.

In the absence of a full crisis, Europe's feeble economy can still be a drag, cutting into the exports that have played a large role in boosting U.S. output.

Austerity measures will hit hardest in the southern European countries that have generated much of the region's consumer spending growth, adding to doubts that Europe can add meaningfully to global demand.

The euro zone grew at an annual rate of just 0.8% in the first quarter, one-fourth the pace in the U.S. and only a small fraction of growth rates in China and India.

The falling European currency can also hit U.S. exports, about one-fifth of which go to the European Union. As of Friday, one euro bought as little as $1.2376, down 4% in just one week and 13.5% on the year, making U.S. products more expensive for European consumers.

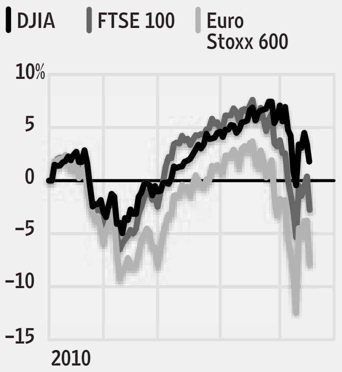
The Federal Reserve is now expected to raise interest rates more aggressively than the European Central Bank, one of various factors weighing on the euro. The ECB is seen staying on the sidelines through 2011 with its main policy rate at just 1%, some economists say. Earlier this year, some economists had penciled in rate hikes as early as the middle of 2010.

U.S. exporters can still count on the booming economies of Asia. In one sign of Asia's growing importance, the moving 12-month sum of U.S. merchandise exports to Asia's emerging markets exceeded that of exports to the European Union for the first time. Growth in Asia shows little sign of cooling: In April, Chinese retail sales were up 18% from a year earlier.

Meanwhile, domestic demand in the U.S. is holding up so far. Stimulated by federal tax breaks and the cash some have saved by not paying their mortgages, U.S. consumers spent a seasonally adjusted $366 billion in April. That's up 9% from the low point in December 2008, but still about 4% below the pre-recession peak. Most of the rise came in sales of building materials—possibly related to home sales stimulated by tax credits that expired at the end of April.

About face

Global stock-market indexes



Source: Thomson Reuters via WSJ Market Data Group

Manufacturers from **Intel** Corp. to **Caterpillar** Inc. have seen a strong rebound as rising sales both at home and abroad prompt them and other companies to restock the inventories they slashed during the darkest days of the recession.

The most forward-looking measure of manufacturing activity, an index the Institute for Supply Management compiles from a monthly survey of purchasing managers, soared to 60.4 in April, 20% above the pre-recession high in January 2008.

Still, the recovery might not be as strong as it seems. Excluding temporary factors such as inventory restocking and government stimulus, the economy wouldn't have grown at all in the first quarter, according to estimates from Goldman Sachs.

As the boost from inventories and stimulus fades toward the end of this year, consumers and companies will have to pick up the slack by buying more new houses and investing more of their cash.The 290,000 jobs created in April offer some reason for optimism, and central banks in the U.S. and Europe are being careful to support demand by keeping interest rates low, particularly amid growing jitters about Europe. But shrinking bank lending and a budget crunch at state and local governments present obstacles.

"We are getting there, but have a long way to go," says Robert Hall, an economist at Stanford University who chairs the business-cycle dating committee at the National Bureau of Economic Research.

—Brian Blackstone contributed to this article.

Workplace likely to remain key source of health benefits

[The Outlook]

By Anna Wilde Mathews

The share of Americans who get health coverage through their jobs has been declining gradually for years, dropping to 63.3% of working-age adults in 2008. The question now is whether the new health law will accelerate that trend, and induce more employers and workers to turn to government coverage options.

In the near term, at least, that is unlikely.

The U.S.'s employer-based health-insurance system dates back to the 1940s. That is when companies began offering health benefits to get around wage caps imposed during World War II. Despite the declines in such coverage, which have mostly been among small employers, about 163 million people, including children, were under workplace health plans in 2008, according to the Kaiser Family Foundation.

For the next decade, the overall number of Americans with workplace health benefits isn't likely to change much, government analysts suggest. The Congressional Budget Office estimates the new law will result in about three million fewer people having employer health benefits in a decade than would have otherwise been the case, while the Lewin Group, a consulting unit of UnitedHealth Group Inc., sees a slightly smaller dip.

The chief actuary of the agency that oversees Medicare projects even less of a drop-off, about one million people by 2019.

But behind the flat-line net predictions there will likely be a lot of churn. Some small firms, particularly those with predominantly low-income employees, will likely drop health insurance.

Other companies may see more workers joining their coverage rolls, largely because of the law's new requirement for Americans to have health plans.

The Medicare actuary, Richard Foster, writes that nationally, 14 million people will move out of employer coverage. That is partly because companies will have the option of throwing at least part of the cost of covering lower-income employees onto the government. Starting in 2014, some of those workers will qualify for the newly expanded Medicaid program, while others will be able to purchase government-subsidized health plans. In addition, insurers have to sell plans to people regardless of their health status, so employers won't worry that their sicker workers could get shut out.

The actuary's report says there will be little deterrent effect from a penalty that can hit employers with 50 or more workers that don't provide coverage, if at least one employee qualifies for subsidies.

The biggest test is likely to come with small firms like **460 Machine** Co., a machine shop in Prince George County, Va., with five workers. A recent downturn in its business, combined with rising premiums, has made it tougher to keep its health plan. Sandra Wallace, vice president of operations, says her insurance broker has predicted double-digit rate increases.

The options available on the new exchanges, along with the subsidies that two of the five employees would be able to get, would make it easier to consider dropping the coverage, she says, though she would like to keep the plan if the company can afford it. "We certainly don't want to leave our employees in the dark for their health insurance," Ms. Wallace says.

For many low-wage employees, a pay bump combined with a subsidized health plan bought on their own may be a better deal than a workplace health package, says Brad Herring, an economist at Johns Hopkins University.

However, "from the federal government's point of view, it wouldn't be so great," because of the budget strain, says Roger Feldman, an economist at the University of Minnesota.

Mr. Feldman thinks the CBO's projections may understate the number of people who will lose employer coverage.

WORLD NEWS

European Pressphoto Agency

Antigovernment protesters run for cover Sunday at their barricade in Bangkok as they battle soldiers to enter a protest site. Some 30 people have died in clashes in the capital since Thursday.

Thai protesters seek talks; 30 die in riots

Continued from first page

that a deal to end the protest could be reached. "We came so close before," the negotiator said.

It was not immediately clear whether the U.N. would be willing to play a role. The Red Shirts—named for their scarlet tops and flags—for two months have pressed Thailand's army-backed government to call new elections in a marathon protest in Bangkok, one of Asia's busiest capitals, shuttering five-star hotels and costing nearby shopping malls millions of dollars in lost revenue.

They hope a new vote will bring in a populist government they say would better cater to the needs of Thailand's large, rural population. They also hope a new government could help Mr. Thaksin return to the country after a 2008 corruption conviction.

Thailand's leader for five years, Mr. Thaksin was overthrown in a military coup in 2006, and continues to worry Thailand's army and political leaders from his self-imposed exile in Dubai and, more recently, Montenegro.

Street battles continued across parts of Bangkok on Sunday, leading to the death of at least five people and complicating efforts to reach a peaceful resolution to the conflict. Thick pillars of smoke billowed over parts of Rama IV, a main thoroughfare crossing the city's financial district, as rioters burned tires and other debris. At the main protest site, demonstrators smashed a few shop windows amid fears of potential looting, while 1,000 or more allies of the protesters established a second rally stage in another part of city.

The army has come under increasing criticism for using live ammunition to pin back protesters attempting to expand their territory. The latest spate of violence was triggered by an apparent assassination attempt on a renegade army general who had defected to the Red Shirt protesters. Maj. Gen. Khattiya Sawasdipol was shot in the head and is in a coma. The army denies orchestrating the shooting.

"It's going to be much more difficult to reach a negotiated settlement now, though not impossible," said Chaturon Chaiseng, an opposition politician who is assisting the Red Shirts' mediation efforts.

Mr. Thaksin's continued involvement in the stand-off riles many in Thailand's conservative ruling classes. From time to time, Mr. Thaksin addresses the protesters by video link or through his Twitter account, and government officials accuse the former telecommunications magnate of using his vast fortune to help finance the protests.

Thailand's National Security Council announced Sunday that it would closely monitor 106 bank and stock-trading accounts linked to Mr. Thaksin, and would freeze them if they were used to finance antigovernment protests. "We watched transactions where somebody would withdraw a few million baht and then something bad would happen," said one official under condition of anonymity.

Mr. Thaksin couldn't be reached for comment on the issue.

Some government officials also accuse Mr. Thaksin of delaying or sabotaging previous talks between the Red Shirts and Mr. Abhisit's administration by urging local negotiators to proceed slowly—a claim Mr. Thaksin described through his legal representatives as "fiction."

One official, who declined to be identified, said Mr. Thaksin recently urged Red Shirt negotiators to stretch out talks over Mr. Abhisit's offer of a Nov. 14 election.

The Red Shirts demanded that Deputy Prime Minister Suthep Thaugsuban turn himself in to police to acknowledge a criminal complaint relating to a series of clashes between protesters and troops that killed around 25 people on April 10.

Mr. Suthep surrendered to Thailand's Department of Special Investigations. The Red Shirts then said Mr. Suthep, who denies any wrongdoing, should surrender to regular police, too.

By the time the Red Shirts agreed that Special Investigations was an acceptable agency to process the case against Mr. Suthep, Mr. Abhisit had withdrawn his election offer and ordered the army to contain the Bangkok street protests.

"The government just ran out of patience," said Mr. Chaturon, the opposition politician.

—Wilawan Watcharasakwet contributed to this article.

Associated Press

Buddhist monks gather Sunday in Bangkok to chant prayers for peace.