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Berlusconi hangs on to power

European Pressphoto Agency

Italian Prime Minister Silvio Berlusconi won a confidence vote he called in an attempt to shore up the strength of his conservative coalition after a group broke away, though he failed to achieve the commanding majority needed for measures to revive Italy's economy. **Article on page 4**

New BP chief orders reboot in spill's wake

By Guy Chazan

Acting to restore **BP** PLC's reputation in the wake of the Gulf of Mexico oil spill, incoming Chief Executive Bob Dudley unveiled big changes designed to improve safety and announced the departure of the senior executive who oversaw drilling operations.

Two days before officially taking over as CEO, Mr. Dudley also said Wednesday that he will split BP's exploration-and-production division into three parts and order a review of how the company manages third-party contractors.

The overhaul creates a safety unit that will have sweeping powers to challenge management decisions if it considers them too risky. It will be headed by Mark Bly, currently BP's top safety executive and author of the company's inquiry into the Deepwater Horizon disaster.

BP also will review how it rewards its managers, following criticism that employees have incentives to increase earnings and boost production but not to improve safety. Some U.S. legislators have said the gulf spill happened because BP cut corners on safety, which BP denies.

The moves show how Mr. Dudley plans to resuscitate BP after it plunged into the worst crisis in its 102-year history. The London-based company has lost more than a third of its stock-market value since April 20, when one of its gulf wells blew out, destroying the Deepwater Horizon drilling rig, killing 11 men and triggering the worst offshore oil spill in U.S. history. BP finally killed the well earlier this month.

The restructuring moves mark the "first and most urgent steps" in a plan to rebuild trust in BP, Mr. Dudley said in a written statement. The changes are in areas "where I believe we most clearly need to act, with safety and risk management our most urgent priority."

"BP realizes it has to change," said Peter Hitchens, an oil analyst at Panmure Gordon. "Another disaster like this and it will be stripped of its U.S. operations and may even go bankrupt."

The restructuring is one of the most far-reaching in BP's recent history. But BP critics on the Gulf Coast and Capitol Hill have pointed to similar promises to improve safety after the blast at its Texas City refinery in 2005, which killed 15 people and injured 170. Departing CEO Tony Hayward took charge two years later promising to focus "like a laser" on safety. Yet the new procedures he put in place failed to prevent the Deepwater Horizon disaster.

The main casualty of the latest restructuring is Andy Inglis, head of BP's exploration-and-production arm and

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The Quirk

As pencil makers push the envelope, age-old rivalry stays sharp. Page 33

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Despite new sanctions, Swiss and German firms sign up for new deals with Iran. Page 17

UniCredit is likely to tap Ghizzoni as its new CEO

By Sabrina Cohen And Stacy Meichtry

MILAN—**UniCredit** SpA is expected to name a longtime senior executive with experience outside Italy to run the bank, which ousted its well-known chief executive officer, Alessandro Profumo, last week, people familiar with the matter said.

The bank's board was expected to appoint Federico Ghizzoni as CEO at a meeting Thursday in Warsaw, people familiar with the matter said. The appointment of Mr. Ghizzoni, who was nominated to the post by the bank's chairman and has the support of UniCredit's shareholders, is expected to be announced Thursday.

The appointment of Mr. Ghizzoni would mean that the bank, Italy's largest, is likely to continue its operations in markets such as Germany and Central and Eastern Europe. Mr. Profumo snapped up banks in those regions because he saw better growth prospects there than in the bank's domestic market.

However, the strategy was controversial among some of the bank's largest shareholders, notably the Italian banking foundations that are controlled by local politicians and collectively hold more than 11% of UniCredit's shares. These shareholders believe that an Italian-based bank should be more focused on supporting domestic customers than on expanding in other European countries.

Mr. Ghizzoni, 55 years old, joined UniCredit in 1980 as a customer-relations manager in his hometown of Piacenza, northern Italy. He later worked out of UniCredit's offices in London and Singapore and had other foreign postings. In 2007, Mr. Profumo tapped him to oversee the bank's Central and Eastern European operations, an engine of revenue growth until the financial crisis.

Since then, Mr. Ghizzoni has focused on cutting costs,

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PAGE TWO

We've heard all this before from BP

[Agenda]

By Patience Wheatcroft

In the wake of disaster, it is only right that **BP** should announce sweeping changes aimed at improving safety. These include "formation of a senior executive team...to support and oversee process safety, integrity management, and operational integrity initiatives within the company"; "creation of a new Safety and Operations function" reporting directly to the chief executive; the appointment of a retired federal judge to hear, investigate and resolve the safety concerns of workers; an increase in, and acceleration of, spending on safety, and "changes in the way safety audits are conducted."

That should ensure that there is no repeat of the tragedy in the Gulf of Mexico, shouldn't it? Well, no. Because these developments were part of BP's response to the Texas City disaster in 2005, when a blast at BP's refinery killed 15 people. After investigations into that explosion, BP's then America chairman, Bob Malone, said that "If our approach to process safety and risk management had been more disciplined and comprehensive, this tragedy could have been prevented." Mr. Malone was put into that role after the blast and retired from the company in February last year. In the light of what happened at the Macondo well, it is difficult to credit him with having put right the failings in BP's approach to safety, despite the extensive plans that were laid down for doing so.

Now it is Bob Dudley's chance to try. Just two days before he formally takes over as chief executive of the oil company, he announced the creation of "a new safety division" which will have "authority to intervene in all aspects of BP's technical activities." Perhaps Mr. Malone's Safety and Operations function was barred from such intervention, although that would have made it fairly pointless.

Reuters

New CEO Bob Dudley outside BP's headquarters in London in July.

In acknowledging the scale of the failings at Macondo, it was inevitable that heads would roll, just as they did after Texas City. Tony Hayward has been sacrificed as chief executive and now Mr. Dudley has dispensed with Andy Inglis, the head of the exploration division, as the upstream side of the business is divided into three separate operating units. There is also to be a review of the performance and reward strategy, to "focus on how to deliver better safety and risk management."

In acknowledging the scale of the failings at Macondo, it was inevitable that heads would roll.

It all sounds like an appropriate response to a failure which cost lives, hit livelihoods and has wiped more than a third off the value of BP's shares. But the lesson is that worthy statements and reorganizations do not change cultures. The company's own report into what happened in the Gulf of Mexico highlighted failings which should have been eradicated if Mr. Malone's reforms had been implemented effectively. Human error can never be totally eradicated but its effects can be ameliorated by proper procedures. These were not in place at BP.

In January 2007, the then chief executive of the company, Lord Browne, declared: "I intend to ensure BP becomes an industry leader in process safety management and performance." It is the ambition that Mr. Dudley, and the BP chairman, Carl-Henric Svanberg, should now have as their priority. Shareholders might wish to see an annual independent audit of their success in achieving that ambition. It might help to avoid the reason for a third *mea culpa* after another avoidable tragedy.

Icelandic guilt

It seems but a distant memory now but there was a time not so long ago when little Iceland was a financial powerhouse on the global stage. In the process, its three main banks assumed debts and liabilities that amounted to around six times the country's GDP. It was clearly unsustainable and the inevitable collapse that followed has plunged Iceland into a dire recession.

A report into the banking collapse accused the government of acting with "gross negligence" and suggested that the consequences of the banking expansion could have been seen as early as 2006. Now Geir Haarde, who was prime minister of Iceland until February last year, is facing a possible trial before a special court, the Lansdomur, which was established to try government ministers accused of crimes but has never before been called into action.

Perhaps Mr. Haarde should not be the only politician to be tried for his role in the financial crisis. There were some people in the U.K. who had qualms about the growth of the Icelandic banks and, in particular, the way they were soaking up U.K. depositors' cash. One Liberal Democrat Treasury spokesman, Lord Oakeshott, actually questioned the British government in July 2008 about whether it was satisfied with "the solvency and stability of Icelandic banks." The response was that there was no concern about the Icelandic banks' liquidity or capital base.

It may well have been that this ill-informed and glib response was what persuaded the U.K. government that it had to ensure that all British depositors should be compensated in full, rather than just to the statutory level, for their losses when the Icelandic banks collapsed.

For this alone, perhaps Gordon Brown, the then prime minister, should be hauled in front of an equivalent of the Lansdomur. Then he might also be asked to explain how he took a healthy economy and left it a weakling.

Regulatory risk

The European Central Bank has been pondering the new capital and liquidity requirements being imposed on banks. They will curb profits and, as is already being seen, dampen lending. But the ECB fears that this effort by the authorities to demand greater prudence from the banks could actually push them into taking greater risks as they try to seek out profits. The Association for Financial Markets in Europe was quick to dismiss the idea, pointing to improved risk management. But the ECB may be right. The profit motive is still a pretty strong force in many banks.

What's News

■ **A strike halted** much of Spain's industry as workers across Europe protested government spending cuts. The demonstrations came even as France and Portugal worked on austerity budgets and the European Commission proposed new fiscal controls. **6**

■ **Top European executives** have seen cash compensation rise 6% this year, as a recovery in cash bonuses boosted pay amid flat base salaries, according to a study. **21**

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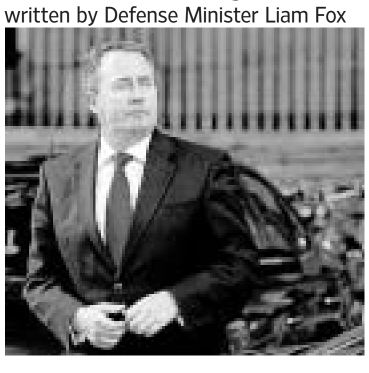
Iain Martin on the leaking of a letter written by Defense Minister Liam Fox



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NEWS

EU starts action against France on Gypsies

By Charles Forelle

BRUSSELS—The European Union began legal proceedings against France related to the country's expulsion of Gypsies, though it backed down from an assertion that France was discriminating against the minority group.

France's removal of hundreds of Gypsies touched off an unusual dust-up between France and the European Commission, the bloc's executive arm, in which a commissioner alluded to Nazi deportations and French President Nicolas Sarkozy responded with a heated rebuke.

European law requires countries to permit citizens of other EU nations to reside on their territories. They can be kicked out if they can't show they can support themselves, but deportees can't be selected by race, nationality or ethnicity.

Over the summer, France accelerated a program of dismantling illegal camps and deporting foreign occupants, mostly to Bulgaria and Romania. France insisted it was complying with EU rules and not targeting any particular people—only those who happened to be in illegal camps. But news reports earlier this month disclosed an internal French Interior Ministry directive ordering regional governors to make camps of Roma, as Gypsies are also known, a "priority."

Viviane Reding, the EU's justice commissioner, said two weeks ago that the apparent singling out of an ethnic group had echoes of World War II and that the commission would bring legal action. At its meeting Wednesday, the commission decided not to take action on the discrimination question, reasoning that French authorities had revoked the Gypsy-specific directive.

The commission did determine that France hadn't properly encoded the EU's free-movement principles onto its own statute book, a more technical violation of European law. The commission resolved to send a "letter of formal notice"—the first step in legal proceedings against an EU member state—next month if France hasn't fully complied. The matter could ultimately end up in EU courts.

The French Foreign Ministry said the government has been in talks with the commission since May over the issue of including free-movement principles in its laws and would "engage in the coming days in a detailed analysis of the commission's new demands."

The French statement noted that several other European countries have faced similar criticism from the commission for their own laws.

Both the French government and the commission said Wednesday that they would work to better integrate Gypsy communities.

Mr. Sarkozy's popularity has flagged in opinion polls at home, and the deportations are part of a law-and-order campaign that has proved relatively popular. Other countries too, notably Italy and Hungary, have seen tensions with Gypsy populations.

EUROPE NEWS

Berlusconi's troubles remain

BY STACY MEICHTRY

ROME—The government of Italy's Prime Minister Silvio Berlusconi won a confidence vote in parliament Wednesday, but he failed to achieve the commanding majority needed for measures to revive the country's stalled economy.

Mr. Berlusconi called the confidence vote in an attempt to shore up support for his conservative coalition after a group of lawmakers broke away. The government received 342 votes in the lower house, surpassing the 316 votes needed for a majority. To cross that threshold, however, the government relied on the votes of a group of lawmakers who have publicly feuded with Mr. Berlusconi for months. The lawmakers supported the government because they have no significant policy differences with Mr. Berlusconi.

"Today, we face a delicate moment in the life of Italian politics," Mr. Berlusconi said in a speech hours before the scheduled confidence vote. Though he is known as a provocative public speaker, he struck a conciliatory note, calling on lawmakers to "collaborate so we can get out of this crisis."

Reuters

Italy's Prime Minister Silvio Berlusconi is applauded after delivering his speech during Wednesday's parliamentary debate.

The vote followed the breakaway in July and August of 35 lawmakers in Mr. Berlusconi's People of Freedom party. The party forms the core of his center-right coalition, which also includes the regionalist Northern League party.

The rebels, most of whom voted for Mr. Berlusconi, haven't pledged their long-term support for the prime minister. After Mr. Berlusconi spoke Wednesday, the group announced it was forming a new political party called Future and Freedom for Italy, formally severing their ties with Mr. Berlusconi's People of Freedom Party.

Without a clear mandate, Mr. Berlusconi might be forced to delay further his overhauls of Italy's tax code, labor laws, justice system and other structural problems that have left Italy struggling to bounce back from its deepest recession since World War II.

"The only thing this vote demonstrates is the survival of an executive that's in no position to take decisive action" to revive Italy's economy, said Tito Boeri, an economist at Bocconi University in Milan.

The motion received faint applause in the lower house after the votes were tallied. The results "clarify there's a problem between the government and its majority," Italo Bocchino, one of the breakaway lawmakers, told parliament.

Some of Mr. Berlusconi's key allies said the lackluster vote showed that early elections were all but inevitable. "The numbers are limited," said Umberto Bossi, head of the Northern League. "In life it's better to take the main path, and the main path leads to elections."

Uncertainty over Italy's government has also prompted some investors to question whether the country can keep a lid on public spending. A policy of fiscal restraint has so far helped Italy avoid the scrutiny faced by Greece, Spain, Portugal and Ireland during the sovereign-debt crisis. Mr. Berlusconi's finance minister, Giulio Tremonti, has been widely credited with keeping Italy's annual budget relatively healthy, with a deficit equivalent to 5.3% of gross domestic product in 2009—below the European average of 6.3% and Greece's 13.6%.

With Mr. Tremonti seated to his left, Mr. Berlusconi told parliament that Italy had "fared better than other countries" during Europe's sovereign-debt crisis and cited the "credibility" his government had garnered among investors.

But Italy's outstanding public debt of €1.7 trillion ($2.308 trillion)—equivalent to 115% of GDP—makes it one of Europe's most indebted countries in absolute terms. Over the past week, political volatility has helped fuel a 20-percentage-point rise in the spread of 10-year Italian bonds over their German equivalent. That means Italy has to pay a higher rate of interest when borrowing money.

The political crisis stems from a dispute between Mr. Berlusconi and lower house speaker Gianfranco Fini, who was a co-founder with Mr. Berlusconi of the People of Freedom party. In April Mr. Fini publicly accused Mr. Berlusconi of excluding him from the party's policy-making process. Then in late July, Mr. Berlusconi expelled Mr. Fini from the party, and Mr. Fini formed the new parliamentary group of 35 breakaway lawmakers.

In his address Wednesday, Mr. Berlusconi laid out his agenda for the rest of his time in office. This could be as long as 2013, by when the current parliament has to be dissolved for a general election. He received applause as he pledged to reduce the tax burden on Italians and continue his crackdown on illegal immigration.

Some lawmakers groaned, however, when Mr. Berlusconi touched on the more controversial points in his agenda. These included plans to decentralize public spending, which would allow more tax revenue to remain in Italy's wealthy northern regions.

Mr. Fini and his allies have said the plan would leave Italy's poorer south underfunded and at the mercy of organized crime.

—Margherita Stancati contributed to this article.

Labour's new leader loses aid of brother

BY ALISTAIR MACDONALD

Ending days of speculation and adding another chapter to a British political family drama, David Miliband said he won't join his brother in the newly elected leadership of the opposition Labour Party.

On Saturday, Mr. Miliband, the former foreign secretary, lost the party's leadership contest by 1.3 percentage points to his younger brother after trade unions came out in force to back Ed Miliband.

"The party needs a fresh start from its new leader, and I think that is more likely to be achieved if I make a fresh start," the 45-year-old David Miliband said in a letter to the chairman of his constituency Labour Party.

Mr. Miliband, who was the favorite entering the vote, said his 40-year-old brother needs to lead without the distraction of press speculation about splits between the pair.

"I genuinely fear perpetual, distracting and destructive attempts to find division where there is none and splits where they don't exist, all to the detriment of the party's cause," his letter said.

His decision to step out of the limelight will be greeted with dismay by parts of the Labour Party, where he was seen as the party's most promising talent and heir apparent to the New Labour movement that governed the U.K. for 13 years until losing the general election earlier this year.

Supporters of the elder Miliband concede that the surprising nature of the younger brother's win would have made it difficult to have both Milibands on the front bench. "It is a big loss to the party, but it was the right decision because it provides Ed with space," said Phil Wilson, a Labour lawmaker and David Miliband supporter.

Mr. Miliband, who will remain a constituency member of Parliament, won more backing from the party's lawmakers and membership than Ed. Opinion polls show that David is more popular than his brother with the broader public.

His departure has left members of the ruling Conservative Party gloating. The Tories see Ed as a less formidable foe than his more seasoned brother.

Many critics will likely argue that Mr. Miliband's move to the back benches is evidence that he lacks the courage of his convictions.

For many people, David Miliband will always be connected with his failure to challenge Prime Minister Gordon Brown, who proved unpopular with the public and a divisive presence within his own party.

Mr. Miliband contemplated running against Mr. Brown on a number of occasions, but backed off each time.

Once Labour lost the general election and Mr. Brown stepped aside, David Miliband was expected to finally grab his chance.

But he was also viewed as being tied closely to former Prime Minister Tony Blair and some of Mr. Blair's unpopular policies, notably the Iraq war.

"This is now Ed's party to lead," Mr. Miliband said Wednesday.

European police probe terror plot

European police are searching for a suspected hit team believed to be operating in Europe, and possibly planning a shooting spree in an urban center, according to a senior intelligence official.

*By **David Crawford** in Berlin, **Siobhan Gorman** in Washington and **Stephen Fidler** in Brussels*

The investigation, driven by U.S. intelligence, is focusing on a man of unknown age and background known only as "Mauritani," the official said.

The threat reports are too broad for specific action, intelligence officials say, although the strongest intelligence suggests that the group may be preparing an attack against an unprotected target or targets in the U.K., France or Germany.

U.S. and European counterterrorism officials have been investigating the suspected plot since August, when they began to intercept communications involving al Qaeda militants in Pakistan, officials said. In an effort to disrupt the emerging plot, the Central Intelligence Agency stepped up its drone attacks in Pakistan. September has seen the highest monthly count of drone strikes in six years.

In the U.K., Prime Minister David Cameron was told of the potential plot a few weeks ago, according to a person familiar with the matter.

Officials on both sides of the Atlantic have been piecing together the plot, which is believed to be styled on the armed commando attacks that killed more than 160 people in Mumbai in 2008, but many details remain unknown.

European officials say the plot was believed to be in the early planning stages and U.S. and European counterterrorism officials continue to probe it.

"We're still concerned about the threat," said one U.S. counterterrorism official. "We're not backing down." A European official said, "This is an ongoing operation. We're not going to comment on it." He added, "It would have been better if it wasn't out in the public domain."

Asked Wednesday about the plot, Secretary of State Hillary Clinton said speaking about intelligence reports would undermine operations. She added, "As we have repeatedly said, we know that al Qaeda and its network of terrorists wishes to attack both European and U.S. targets."

Mrs. Clinton said the U.S. is working closely with its European allies to disrupt terrorist plots.

Although details of any attack plans are unknown, European security officials fear an attack against crowds of people in an urban center which could lead to a large number of casualties.

Due to the lack of specific information, security officials are reviewing previous attacks that could stand as a model for a new attack in Europe. In November 2008, a group of terrorists armed with light weapons killed more than 160 people in Mumbai, India. Officials in both India and Pakistan have blamed Muslim extremists in Pakistan for planning and participating in the attack.

The intelligence about the current plot is so broad in nature, "we can't do anything with it," the intelligence official said, yet the suspected threat is so great, "we have to pull out all the stops to prevent an attack," the intelligence official said.

Because of the suspect's name, European intelligence officials suspect Mauritani, who is suspected to be the hit team leader, may originally be from somewhere in North Africa, although no reliable information is available, the official said. One focus of the intelligence operation is to identify the languages that the members of the hit team speak. French and Spanish are considered possible in addition to Arabic, the official said.

—Alistair MacDonald in London contributed to this article.

EUROPE NEWS

Reuters (top left); Associated Press (bottom left); Agence France-Presse/Getty Images (right)

Civil Guard officers, top left, deployed at a burning barricade set up by demonstrators in northern Spain on Wednesday; below, police at a Madrid bus depot; right, protesters clash with police in Barcelona.

Europeans strike, protest over cuts

A strike halted much of Spain's industry as hundreds of thousands of workers across Europe hit the streets to protest government spending cuts.

*By **Jonathan House** in Madrid and **John W. Miller** in Brussels*

The pushback from workers came even as France and Portugal worked on new austerity budgets and the European Commission proposed new fiscal controls for member states to shrink the region's large deficits.

The protests show workers' frustration at wide-reaching cutbacks but may have little effect: Financial markets have shown little appetite for continuing financing large deficits in countries around the region.

In Spain, the largest union, Comisiones Obreras, calculated that around 10 million, or just over 50% of Spanish workers walked off their jobs in the first nationwide strike in eight years. Unions are challenging draconian budget cuts and a labor-market overhaul by Prime Minister José Luis Rodríguez Zapatero, measures widely viewed as essential to cut a double-digit budget deficit and reduce a 20% unemployment rate.

"The strike has been an undoubted success," Comisiones Obreras leader Ignacio Toxo said.

Spain's government sought to play down the strike's impact, though without unduly antagonizing unions. Labor Minister Celestino Corbacho said the action had a "moderate" impact, but declined to give an estimate for overall worker participation. He said there was a wide variance among industries with nearly 100% of auto workers walking off the job, for example, compared to just 10% in the retail sector.

Mr. Corbacho hailed the relatively peaceful tone of the strike, and said that people who wanted to work were able to do so, though he admitted that there had been a few "incidents." In one of these, a policeman fired several shots into the air in a confrontation with picketers outside a facility of CASA, a unit of **European Aeronautic Defence & Space** Co., just south of Madrid. The police department has opened an investigation, Mr. Corbacho said.

In the center of the Spanish capital, many shops were closed and groups of picketers roamed chanting, "No reforms! General strike!" Some gathered in front of open shops, shouting "Fascists!" at those working inside.

A few kilometers to the north, the streets of Madrid's financial district weren't greatly affected by the strike, with many people going to and from their offices and with most stores open. Outside metro and railway station Nuevos Ministerios, 50 or so flag-waving metro workers gathered at the entrance, but were quickly ushered away by police.

Outside Spain, protests against austerity measures were centered in Brussels, where an estimated 50,000 to 100,000 workers descended on the seat of European Union government. Crowds packed with the bright colors of trade unions from all over Europe snaked through the neighborhood housing the EU buildings, ending up at the stately Parc du Cinquantenaire, where they attended a rally and rock concert. A big display screen said "No to Austerity" in several languages.

Workers were mostly from the public sector, though some private-sector workers also participated. A group of 100 workers from beer giant **Anheuser-Busch InBev** NV showed up, one of them waving a giant red flag emblazoned with the logo of the beer Stella Artois. "The companies and the governments are both the criminals of the crisis," said 50-year-old Pascal Ghoos, who works in the factory that makes Hoegaarden white beer. His company is mulling further job cuts.

Participants said they were gearing up for a season of protest. "We're marching against future cuts in public services," said Lorraine Monk, a college sociology teacher from London. After Brussels, the next event would be a demonstration in London on Nov. 10, Mrs. Monk said.

The march was organized by the European Trade Union Confederation. It had a specific policy goal. The European Commission, the EU's executive arm, is currently debating how vigorously to enforce the Stability and Growth Pact, a treaty that limits the budget deficits countries are allowed to run. The commission on Wednesday proposed legislation that would give it the authority to impose sanctions on euro-area governments for their budget excesses that could only be reversed by a supermajority of EU nations.

Unions, on the other hand, want the commission to be lenient in order to protect European jobs. The official slogan on Wednesday: "No to austerity, priority to jobs and growth."

Similar marches took place in other European capitals, including Lisbon and Athens.

Even without further EU controls, most countries in the region have little room for fiscal maneuvering. Mr. Zapatero's government, under the threat of rocketing borrowing costs, is locked into its plans to cut Spain's budget deficit by nearly half to 6% of gross domestic product in 2011, and by half again in 2013, to bring it in line with the 3%-of-GDP limit for euro-zone countries.

José Pérez, a gardener and Comisiones Obreras member, admitted it would be difficult for the government to backtrack on its austerity measures or labor-market overhaul. "We have long-term goals," he said, in reference to coming debates over pensions and other reforms.

Any deviation from plans to overhaul archaic labor laws in a country with a 20% unemployment rate—twice the EU average—could spook investors. Highlighting this risk, the time is nearing for Moody's Investors Service Inc. to make a decision on whether to downgrade Spain, having put the country's rating under review at the end of June. At the time, it said it would make a decision within three months.

Portugal, whose borrowing costs have soared to levels not seen since the creation of the euro, is under even more pressure than Spain to put its finances on solid footing. The minority government of Socialist Prime Minister José Socrates has been pushed against the ropes by the chief opposition party's refusal to back tax increases in the 2011 budget. Government and opposition officials were huddled in meetings Wednesday to try to resolve the impasse.

France, though in a stronger position than Spain or Portugal, on Wednesday presented a 2011 budget that marks the end of stimulus measures and a freeze in the value of state spending. Finance Minister Christine Lagarde and Budget Minister François Baroin said the effort, which will cut the public deficit to 6% of GDP next year from a record 7.7% of GDP this year based on a projected 2% growth in output for 2011, is unprecedented.

Germany and a few other major European economies are set to begin cutting their deficits next year, deepening cuts across the region further.

—Daniel de la Puente in Madrid, Nathalie Boschat in Paris and Bernd Radowitz in Lisbon contributed to this article.

EU proposes penalties for budget excesses

By Matthew Dalton

BRUSSELS—The European Commission Wednesday proposed legislation that would strengthen its control over the economic policies of European Union member states, a key part of EU overhauls aimed at preventing the problems that sparked Europe's sovereign-debt crisis earlier this year.

The commission, the EU's executive arm, is seeking greater responsibility for monitoring public finances and macroeconomic conditions in the national governments. It also wants new and stronger powers to recommend policy changes, such as cuts in public spending or overall wages, where a threat to public finances and the economy is seen. Euro-zone countries flouting the commission's recommendations would face fines, under the proposal released Wednesday, though EU officials said they are working on additional legislation that would set fines for all EU nations.

The commission's legislation would give it the authority to impose sanctions on euro-area governments for their budget excesses that could only be reversed by a supermajority of EU nations.

The idea is to prevent EU nations from interfering with enforcement of the bloc's budget rules, which call for governments to keep their budget deficits below 3% of annual gross domestic product and their total debt below 60% of GDP.

In 2003, the commission decided to sanction France and Germany for violating the rules, but finance ministers blocked the move, an episode that observers say undermined the commission's ability to penalize countries for poorly run public finances.

The commission's proposals drew immediate questions from some EU governments. French Finance Minister Christine Lagarde said that "France is in favor of strengthening the growth and stability pact but not to the point where all political intervention disappears."

Wednesday's legislation would allow the commission to impose fines of up to 0.2% of GDP for a euro-area country that repeatedly ignores recommendations to fix its budget problems. The legislation also places a new focus on total debt; any EU nation with debt above the 60%-of-GDP limit would have to cut its excess by 5% each year.

The commission is also seeking new responsibility for monitoring macroeconomic imbalances in EU countries and the power to fine euro-zone states, up to 0.1% of GDP, that don't follow its recommendations for correcting these imbalances. The commission would monitor a host of economic variables—labor costs, real-estate prices, the current-account balance—to determine whether a country is losing economic competitiveness relative to other countries in the euro zone.

Some criticized the idea, saying that the factors determining economic competitiveness often lie outside government control.

—Nathalie Boschat contributed to this article.

EUROPE NEWS

Strikes across Europe

Reuters (Brussels); EPA (Naples); Agence France-Presse/Getty Images (Warsaw); Associated Press (Elefsina)

Demonstrators in Brussels portray France's Nicolas Sarkozy and Carla Bruni; riot police and protesters in Naples, Italy; a rainy march in Warsaw; a truck-driver protest in Elefsina, near Athens

Britons grow more downbeat on economy

BY PAUL HANNON

LONDON—U.K. consumers became more pessimistic about the outlook for the economy and their personal financial prospects during September, resulting in the sixth decline in confidence in seven months.

Polling firm GfK NOP Thursday said its headline measure of consumer confidence fell to minus-20 this month from minus-18 in August, a larger drop than the decline to minus-19 forecast by economists.

The relapse will come as a disappointment to the government, which announced a series of austerity measures in June. Confidence had weakened during campaigning ahead of the May 6 election, which focused on the public sector's hefty budget deficit and the likely need for spending cuts and tax increases.

Consumer sentiment continued to weaken immediately after the budget, but staged its first rise in August, fueling hopes that greater certainty about the scale of cutbacks and their likely distribution had addressed the worst fears.

But opposition politicians, labor unions and some economists have warned that those spending cuts and tax hikes could push the U.K. back into recession if consumers and businesses curb their spending. Those warnings appear to have struck a chord with consumers.

"September's slump suggests the rise in consumer confidence in August was a false dawn," said Nick Moon, managing director of GfK NOP. "Besides the trough in July, probably caused by the emergency budget, this month's figure is the lowest confidence has been for the past year. I think we could be about to find out if the money markets are more worried about double-dip recession than they are about the size of the U.K. deficit."

U.K. consumers were surveyed on behalf of the European Commission between Sept. 3 and Sept. 12. The commission on Wednesday released its own measure of consumer confidence for the U.K., recording a decline to minus-17 from minus-13.

GfK's measure of consumers' expectations for the economy over the next 12 months fell to minus-19 in September from minus-14 in August, while its measure of expectations for their personal financial outlook fell to minus-5 from minus-3.

ECB official says periphery's woe doesn't sway central-bank policy

BY BRIAN BLACKSTONE

LAIBACH, Slovenia—The European Central Bank won't set policies solely for the sake of its vulnerable member countries, a top official signaled, saying the central bank bases decisions on the 16-member bloc as a whole, not nations on the extremes.

"We at the ECB deal with eurozone averages," Bank of Slovenia Governor Marko Kranjec said in an interview at his office in the Slovenian capital.

"National differences are a question that influences the averages, but we are never discussing the differences in growth rates and policies in the euro-area countries," he said.

ECB President Trichet dismisses growth gaps as normal for a large economic region—not unlike statewide differences in economic performance in the U.S.

Mr. Kranjec sits on the ECB's policy-setting board. Though one of the euro zone's smallest countries, Slovenia's status has risen since the fiscal crisis. Unlike others on the periphery such as Greece, Ireland and Portugal, Slovenia has weathered the recession with its finances largely intact, making it a model for future euro entrants in Eastern Europe.

Mr. Kranjec's comments suggest the ECB is loath to alter its monetary strategy for struggling countries in Europe's periphery. Countries such as Greece, Ireland and Portugal at the center of the euro zone's fiscal crisis only account for about 6% of the bloc's GDP combined, meaning even deep downturns wouldn't affect the regional average much for growth or inflation.

Inflation risks remain in the euro zone, Mr. Kranjec warned, an assessment shared by his ECB colleagues but at odds with central banks in the U.S. and Japan that worry about inflation being too low. Mr. Kranjec cites higher commodity, oil and food prices, and "the danger of a worse-than-expected fiscal situation" as pointing to "an upside risk to inflation expectations."

The ECB warned Wednesday that despite signs of economic improvement, the outlook for Europe's banks "is still surrounded by some degree of uncertainty" from rising high unemployment and worries over credit risk in some countries.

The euro zone exited a deep recession one year ago, and the recovery gained steam last quarter with the region growing at a four-year high rate of nearly 4%. But that growth masks a yawning divide. Germany's economy jumped 9% last quarter, at an annualized rate, and Slovenia's—which like others in the former Eastern bloc is closely linked to Germany—grew more than 4%. By contrast, Greece contracted nearly 6%, and Ireland's GDP fell at close to a 5% rate.

Others at the ECB, including President Jean-Claude Trichet, dismiss those growth gaps as a normal feature of a large economic region—not unlike statewide differences in economic performance within the U.S. As the economy recovers, the ECB is slowly unwinding emergency lending programs set up at the start of the crisis, and remarks Tuesday from ECB board member Jürgen Stark suggest that process will continue.

But some in the financial markets fear that the ECB's one-size-fits-all monetary policy is ill-equipped to deal with the mix of economic contraction, bank crises and fiscal tightening confronting Europe's southern fringe and Ireland. Commercial banks in those countries remain dependent on unlimited ECB loans for funding, which an ECB report Wednesday said "remains a source of concern." That could make it hard for the ECB to fully eliminate crisis programs including unlimited one-month and three-month loans at low rates next year. The central bank urged that problem banks be dealt with "comprehensively and decisively."

ECB officials insist that Ireland, Greece and others pursue aggressive austerity measures to slash their double-digit budget deficits. Many analysts worry those efforts deepen the downturns in those countries, making it even harder to generate tax revenues.

European Pressphoto Agency

Marko Kranjec, a member of the ECB's policy-setting board, seen in 2007.

Those concerns have prompted a sharp rise in government bond yields in Portugal and Ireland in recent weeks, pushing the spread over safe German equivalents to record highs. "If the market assessment is correct I cannot say," Mr. Kranjec says, referring to the rise in spreads.

Meanwhile, Wednesday, a top U.S. Treasury official urged Europeans to tread carefully on fiscal belt-tightening, warning that ensuring economic recovery must remain the top priority for governments.

The remarks, delivered in Germany by U.S. Treasury Undersecretary for International Affairs Lael Brainard, are a precursor to what is likely to be a vigorous debate when global finance officials gather next week in Washington for annual meetings of the International Monetary Fund.

Americans and Europeans are divided on whether stimulus or austerity is the best path for growth in the midst of a fragile global recovery, with the U.S. urging continued stimulus and Europe already moving in the direction of tax increases and spending cuts.

"In an environment of weak global demand and low inflation, ensuring a lasting recovery must remain the paramount objective," Ms. Brainard told university students in Frankfurt on Wednesday. She also repeated Treasury's longstanding demand that China move toward greater exchange-rate flexibility.

Ms. Brainard was in Germany meeting with senior EU officials and economists.

The ECB's Mr. Kranjec backs the central bank's view that fiscal austerity is the best way to achieve growth by improving confidence. Rising public debt since 2007 "has been a considerable problem for long-term confidence in sovereign solvency in some countries not only on this side of the Atlantic but also on the other side, including the U.S.," he says.

Slovenia, which is situated south of Austria and east of Italy, is one of the euro zone's newest and smallest members, with a population of just two million. At €35 billion, its gross domestic product comprises 0.4% of the euro zone.

But the debt crisis crippling Greece, Ireland and others has shown that imbalances in small countries can have a wide effect.

Slovenia's export-dependent economy was hit hard by the recession, shrinking 8% last year. Mr. Kranjec expects Slovenia to grow 1.1% this year before accelerating to 1.9% in 2011 and 2.9% in 2012.

As a producer of components, spare parts and low-technology manufacturing, Slovenia is closely tied to Germany's industrial engine. "Germany posted very good growth in the second quarter, but it is already obvious that this growth may not be sustained and it will start to decelerate," Mr. Kranjec says.

The men who would be Rahm

By John D. McKinnon

The candidates being considered by President Barack Obama to succeed Rahm Emanuel as his chief of staff are a mix of White House veterans and Capitol Hill alumni, polished bureaucrats and hardened political operatives.

But the final decision could, in part, be up to voters, say some people close to the administration.

If Republicans win enough seats in Congress in November, the administration could consider outsiders not now in the mix who might be better suited for that potentially combustible political environment.

For now, several people with ties to the administration believe Mr. Obama will settle on his longtime close aide, Pete Rouse, to become chief of staff on an interim basis.

Mr. Rouse was the president's Senate chief of staff and now serves as a senior White House adviser.

Mr. Rouse went to work for Mr. Obama after his old boss, former Senate Majority Leader Tom Daschle of South Dakota, was defeated for re-election in 2004. Mr. Rouse also could wind up with the permanent job, Democrats say.

Mr. Obama also is thought to be giving serious consideration to a number of current administration officials, including Ron Klain, chief of staff to Vice President Joe Biden; Tom Donilon, a deputy national-security adviser and veteran of prior Democratic administrations; and Phil Schiliro, a White House legislative aide who is a former top staffer to Rep. Henry Waxman (D., Calif.).

The one characteristic shared by the current roster of candidates is that all are administration insiders, suggesting Mr. Obama for now is discounting the view of some critics that his team has been too insular. The White House didn't comment.

Also thought to be on the White House list are allies such as Mr. Daschle, as well as John Podesta, a onetime chief of staff to President Bill Clinton. Mr. Daschle said Tuesday that he wasn't interested in the job, and a person close to Mr. Podesta said he also wasn't interested.

The chief of staff is the aide who is closest to the president on a daily basis, and the choice can be a crucial one in determining how an administration functions.

A big consideration for Mr. Obama will be what role he envisions for his chief of staff as he begins running for re-election next year. If Republicans take over one or both chambers of Congress, the pace of legislation could slow, compared with the past couple of years.

But such an outcome would also give the administration more opportunities to dramatize differences with Republicans on issues such as taxes and spending.

It might also lead to more use of executive-branch powers to advance administration goals. In that case, he might well turn to a candidate with a lot of experience in the executive branch.

Associated Press

Rahm Emanuel has a word with President Obama as they watch the U.S.-Ghana World Cup match during the G20 summit in Toronto in June.

From White House perch to just one of the crowd in Chicago race

By Douglas Belkin

CHICAGO—Rahm Emanuel, the White House chief of staff who has one eye on the exit, has made scores of calls to Chicago politicians, businessmen and labor leaders to clear a place at the starting line in the race to succeed Mayor Richard M. Daley.

People close to Mr. Emanuel say he might resign from his current job as soon as Friday, though according to Rep. Danny Davis, family concerns are giving him pause. Said the Illinois Democrat, who met with Mr. Emanuel last week—and who may run himself: "I got the impression he's very close to announcing. Much of our conversation centered around the likelihood that he would run."

Three weeks after Mr. Daley announced he wouldn't seek a seventh term, the scrum of would-be mayors has grown. At least a dozen men and women—all Democrats—have indicated interest. A group of ministers has taken a straw poll in an early bid to unify around an African-American candidate. City Clerk Miguel del Valle has aired the first television ad, and Tom Dart, the popular Irish-American sheriff of Cook County, is building his own coalition.

Other potential candidates include former Sen. Carol Moseley Braun, Rep. Luis Gutierrez, former Daley chief of staff Gery Chico, state Sen. James Meeks and a half-dozen city aldermen.

The free-for-all suggests how unsettled Chicago's political landscape has grown since Mr. Daley's surprise announcement. Mr. Daley has dominated politics here since he first became mayor in 1989.

Back then, the city was racially polarized and the Democratic machine—augmented by a history of political contracts and jobs—was a powerful force. In the past two decades, a series of federal investigations have hobbled that machine, while racial tensions have simmered down.

But even though the ward machines aren't as well-oiled, they could have an outsized effect because they still dominate city politics and the campaign will be short. Candidates must file petitions by Nov. 22 for a Feb. 22 general election.

Despite his national fame, Emanuel would bring big political vulnerabilities to the famously tribal city.

Thanks to his nationally known name and his seven-figure campaign fund, Mr. Emanuel would be the man to beat, at least according to the buzz in Washington. But 600 miles away in this famously tribal city, he also would bring a significant set of political vulnerabilities.

Mr. Emanuel, 50 years old, was raised in the suburbs and, though he represented the North Side in Congress for three terms, has relatively weak ties to the city and a limited natural constituency. During his tenure in the Obama administration, he has alienated progressives, unions and even some in the Jewish community—of which he is a part.

"I think he's been built up by the media," said Merv Sims, who lives on the North Side and sells Streetwise newspapers downtown. "I'm not so sure he has the experience to run the city."

Labor leaders already have signaled their displeasure with Mr. Emanuel, who helped secure the North American Free Trade Agreement as a senior political adviser to President Bill Clinton. Though he has more than $1 million in his political war chest from his congressional stint, the short campaign could dull that edge and make business and ethnic coalitions more important.

The single-largest coalition in Chicago could come from the African-American community. Mr. Davis, an African-American who ran for mayor in 1991, said he would do so again only if he was selected by a coalition of blacks from the South and West sides. "If they do not," he said, "I will support whoever they do select."

Mr. Meeks, who finished first among 16 candidates in a straw poll of 100 ministers, could be that candidate. He built a congregation that claims 20,000 members and has ties in Springfield, the state capital, where he serves as a state senator.

Mr. Dart, one local favorite, was named by Time magazine as one of the most influential people of 2009. A former state senator, he has earned widespread praise for suing Craigslist to prevent the website from running ads soliciting prostitution and for refusing to send deputies to evict tenants who had paid their rent, but whose landlords' properties were being foreclosed.

In a poll taken a week after Mr. Daley's announcement, Mr. Emanuel placed fifth behind Mr. Dart, Mr. Meeks, Mr. Gutierrez and Rep. Jesse Jackson Jr. Mr. Jackson isn't expected to run.

Another key question is what role Mr. Daley might play. The mayor has said publicly that he would leave the decision to voters, but any hint of endorsement either from either him or the next Illinois governor could carry weight. Mr. Daley has relationships with virtually every candidate; last week his brother, former U.S. Secretary of Commerce Bill Daley, said Mr. Chico was most qualified for the job.

But the mayor's mixed record means his endorsement could cut both ways. He is widely seen as having helped stoke economic revival and development in Chicago, for fostering major building projects such as Millennium Park, and for taking over city schools in an early bid at reform.

Yet after 20 years in office, the mostly African-American South Side remains plagued by gun violence and weak schools. And the next city budget of $6 billion is underfunded by $655 million.

Mr. Daley papered over past deficits by selling off public assets such as toll roads and parking meters, the latter of which infuriated thousands of Chicagoans. With credit markets tight, such escape hatches may not be available to his successor.

Still, Mr. Daley won his last two re-election bids with more than 70% of the vote. Many consider him one of the few politicians strong enough to tame the city's competing interests.

"If he were running, I'd vote for him again," said Jan Arnopolin, a baker in Chicago. "But since he's not, I'll vote for Rahm. Chicago needs a guy who can get things done, and whether it's through intimidation or working both sides of the aisle, you've got to hand it to him, he can get things done."

U.S. NEWS

Recession-swelled rolls test community colleges

[Capital]

By David Wessel

Community colleges get their few moments in the White House limelight next week when President Barack Obama and the vice president's wife, Jill Biden, convene a community-college summit. It's another step toward giving the institutions, the Henny Youngmans of higher education, a bit more of the respect they deserve.

It's easy to see why the Obama administration, like its predecessors, gravitates to community colleges. With so much angst among workers whose jobs aren't coming back and workers with skills that don't match employers' needs, the 1,173 two-year, low-tuition institutions are a ready-made solution. "I've seen how these schools change my students' lives," says Mrs. Biden, who teaches reading and writing at Northern Virginia Community College. "People are going through tough times. They need to be retrained to get a job...or they can't afford to send their children to a four-year college."

For the colleges, Tuesday's summit is a consolation prize. A year ago, the president proposed pumping $12 billion over 10 years into community colleges as part of his campaign to boost the share of Americans with college degrees above those of all other countries by 2020. Congress instead approved $2 billion over four years for grants to colleges, to be used only for workers who lose jobs to imports, a restriction the White House hopes to undo.

Among the many issues on the agenda, two stand out: One, demand for the colleges' classes threatens to outstrip their capacity and funding. And, two, training students for jobs that don't exist is somewhere between disheartening and counterproductive.

When the job market goes down, community-college enrollments go up; when you can't find a job, school looks attractive. At Tarrant County College in Dallas/Fort Worth, enrollment this fall is up 11% over last fall, according to the American Association of Community Colleges. At Boston's Bunker Hill Community College, enrollment is up 12%; at Highline Community College in Des Moines, Wash., it's up 10.4%.

Because classroom space is scarce, classes at Central Arizona College routinely start at 7.30 a.m. and one Spanish class meets at 6 a.m., the newspaper Community College Times noted recently. Anne Arundel Community College in Maryland paved over nine of 12 tennis courts to make 140 more parking places.

"In many ways, this is a great problem to have," Mrs. Biden says. But it is a problem. New York's community colleges stopped accepting applications Aug. 1 this year and last; admission was first-come, first-served. Over 1,000 students were turned away from LaGuardia Community College in Queens.

Tuition hasn't been increased; politicians say that would be a tax increase. "But we have a 4.5% decrease in public dollars against an 11%-plus increase in students," says Gail Mellow, LaGuardia's president. "We've cut tutoring, career counseling, computer access in open labs, library hours. We've refused to increase class size because we think that impacts quality of instruction."

The recession produced a wave of middle-class—or once middle-class—students, says James Jacobs, president of Macomb Community College outside Detroit. "Most obvious," he says, "are the large numbers of unemployed and displaced workers looking for skills so they can get sustainable work." At the same time, he adds, more cash-strapped parents see community colleges as a low-cost first step toward getting their children four-year degrees.

Serving the two sets of students is a stretch, but Mr. Jacobs sees another unwelcome side-effect. Without a strong commitment to serving low-income students and money to do so, he warns, "community colleges will find the mission of preserving the middle class will trump the demands of low-income students."

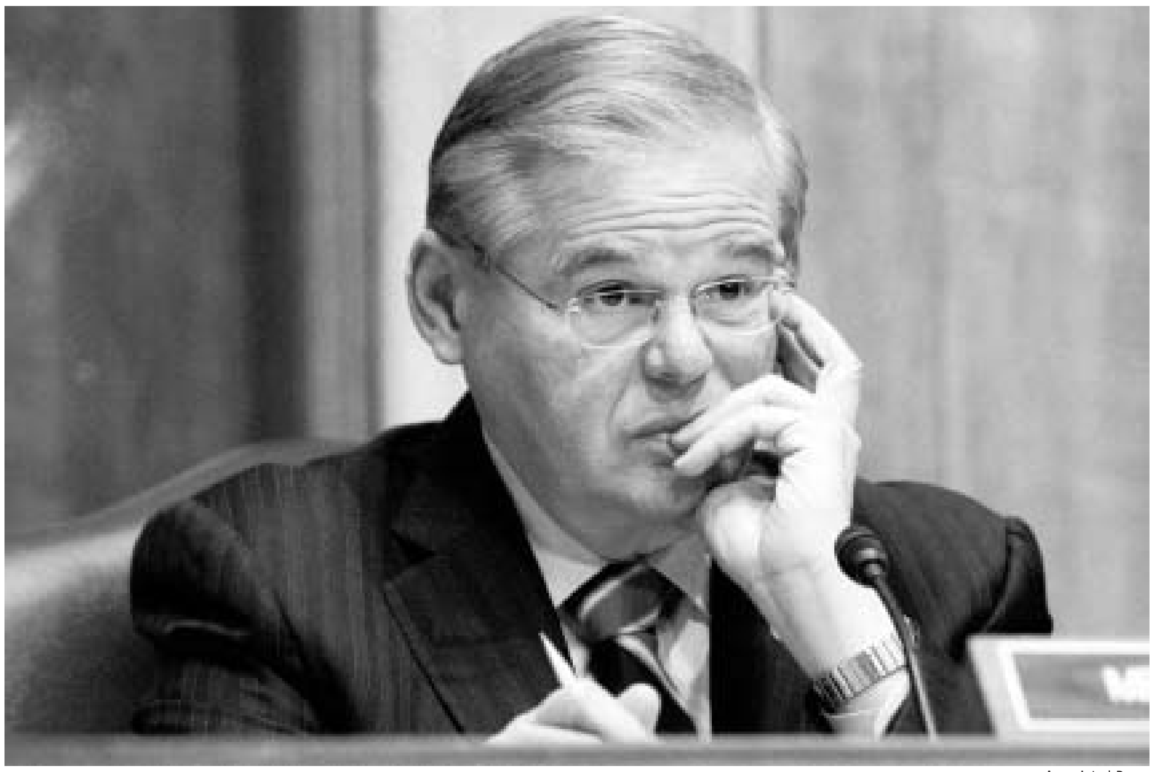
Then there's the problem of finding jobs in today's lousy economy for students who get trained, or retrained. That challenge is turning the best community colleges into economic-development agents in their communities. LaGuardia, for instance, recently graduated the first small-business owners to complete a program funded by a $500 million Goldman Sachs effort to help 10,000 small businesses.

After 10 sessions on Saturdays from 8.30 a.m. to 6 p.m. spread over 20 weeks, National Van Equipment Co., a Long Island City company that employs 23 people making blankets used by moving companies, has its first-ever growth plan.

"You practice your pitch. You figure out what your business strategy is going to be. You actually have a strategy!" says Rosalie Safier, who runs the company with her husband.

Diversifying into sound-muffling blankets and casket covers allowed the company to hold onto five jobs that would have evaporated when the spring-summer moving season ended, she says. And besides the coaching and classes on accounting, negotiation and marketing taught by faculty from LaGuardia and the University of Pennsylvania's Wharton School, she took a LaGuardia class on Excel, finally mastering the spreadsheet software.

Education isn't a quick remedy for America's economic ailments, even at quick-acting community colleges. It's a slow-release remedy. It is, as the president's economic adviser Lawrence Summers once put it, "the ultimate act of faith in the future."



Associated Press

Sen. Robert Menendez questioned the grounds for Abdel Baset Al-Megrahi's release at Wednesday's hearing.

U.S. says Scotland failed to heed Lockerbie request

By Paul Sonne

Scotland disregarded a U.S. request last year for "an independent and comprehensive medical exam" to determine whether the Lockerbie bomber was close enough to death to qualify for compassionate release from jail under Scottish guidelines, a Department of Justice official said Wednesday.

The statement, made by Deputy Assistant Attorney General Bruce Swartz, came in a long-awaited U.S. Senate hearing on the release of Abdel Baset Al-Megrahi, the only person convicted in the 1988 bombing of Pan Am Flight 103, which killed 270 people including 189 Americans. Scotland granted Mr. Megrahi so-called compassionate release in August 2009 on the grounds that he was suffering from terminal prostate cancer and had roughly three months to live.

But more than 13 months after the release, Mr. Megrahi remains alive in Libya, a situation that has raised questions about the three-month prognosis that set him free; the prognosis fulfilled a guideline that prisoners must satisfy to receive compassionate release for medical reasons in Scotland.

"The release on compassionate grounds was deeply, deeply flawed and perhaps even intentionally skewed to allow for al-Megrahi's release," Sen. Robert Menendez (D., N.J.), who chaired the committee, said in his opening remarks.

During the hearing, Mr. Swartz said Attorney General Eric Holder told Scottish Justice Minister Kenny MacAskill that the U.S. disagreed vehemently with any decision to release Mr. Megrahi from jail.

The U.S. also told Scotland that, in the event that Scotland decided to release Mr. Megrahi anyway, the convict should first undergo an "independent and comprehensive medical exam establishing that he had three months to live," Mr. Swartz said. He also said the U.S. advised Scotland to keep Mr. Megrahi in Scotland in the event of a compassionate release instead of sending him home to Libya.

"As you know, sadly, neither condition was met," Mr. Swartz said.

Nancy McEldowney, principal deputy assistant secretary at the U.S. Department of State, also appeared to say the State Department had uncovered no evidence that oil company **BP** PLC influenced the release of Mr. Megrahi. BP has often been publicly accused of playing a role because it pushed for a prisoner-transfer agreement between the U.K. and Libya that could have helped Mr. Megrahi win his freedom. But Mr. Megrahi wasn't released as a result of the agreement, rendering the point moot.

"We have examined all available State Department records and have not identified any materials, beyond publicly available statements and correspondence, concerning attempts by BP or other companies to influence matters," she said.

During the hearing, prostate-cancer experts James Mohler and Oliver Sartor testified that the three-month prognosis that secured Mr. Megrahi's release made no sense, given that the convicted bomber was considering starting chemotherapy for the first time around the time of his release.

"There is no conceivable way that a cancer specialist or anyone familiar with the treatment of prostate cancer could have given Mr. Megrahi a three-month survival prognosis," Dr. Mohler said.

Ms. McEldowney and Sen. Menendez reiterated calls for Scotland to release the full medical documents that led to the prognosis. "The only medical report relevant to the Cabinet Secretary's decision was the report of Dr. Andrew Fraser, which has already been published by the Scottish Government," a Scottish government spokeswoman said Wednesday.

Rift over tax breaks widens

By John D. McKinnon

Forty-seven House Democrats have signed a letter to Speaker Nancy Pelosi urging that tax rates on capital gains and dividends be maintained at the current level of up to 15% for all earners.

It's the latest sign of widening divisions among Democrats over plans by the party leadership and President Barack Obama to allow Bush-era tax breaks to expire for higher earners.

Many centrist Democrats in the House and Senate have objected, saying raising any taxes could harm job creation and slow economic recovery. The letter urging extension of the tax breaks for dividends and capital gains joins another letter to Mrs. Pelosi, signed earlier this month by 31 House Democrats, that called for a temporary extension of all the tax breaks for ordinary income.

The Senate last week abandoned its plan to vote on a partial extension of the breaks, amid complaints from vulnerable incumbents that it could hurt their chances at re-election.

House Democratic leaders have given conflicting signals in recent days, but they appear unlikely to seek a floor vote on extending just some of the tax breaks before Congress adjourns this week to campaign ahead of the elections.

Democratic leaders have said they won't let the middle-class tax breaks expire, a pledge Mrs. Pelosi's office reiterated Tuesday.

The delay in holding a vote potentially sets up a clash over taxes in Congress's lame-duck session following the election. There, pressure to reach a quick compromise could lead to Congress extending all current tax levels—at least for a year or two.

WORLD NEWS

Games planners trade blame

By Geeta Anand
And Amol Sharma

NEW DELHI—The local organizers of the Commonwealth Games were warned as early as November 2006 that India was severely behind in its preparations to host the athletic event, but the Indian government and event organizers consistently denied there was a problem.

The warnings came primarily from the Commonwealth Games Federation, the London-based organization that oversees the Games. But rather than heed the warnings, the chairman of the local Organizing Committee, Suresh Kalmadi, sought at one point to remove and deport the federation's representative in New Delhi, federation officials said.

In the past two weeks, India's global image has taken a beating amid chaotic scenes of its lack of preparedness for the Games, from the last-minute cleanup of filth at apartments for athletes in the Games Village to the collapse of a footbridge that injured 25.

But those problems were just the last in a long list of issues that have plagued the Games and caused years of friction between the federation and those responsible in New Delhi for the 54-nation event, which brings together countries in the British Commonwealth.

Now, the two sides are engaged in open recriminations even before the event begins Oct. 3. Mike Hooper, the federation's chief representative in New Delhi, told an Indian television station last week that the Indian organizers were entirely to blame for the fiasco. Mr. Kalmadi responded in a separate appearance on a local television channel that Mr. Hooper, a brusque New Zealander, "has been in India for the past four years and should have known what-all has been happening."

Spokesmen for Mr. Kalmadi couldn't be reached to comment. A spokesman for Mr. Hooper said he was unavailable to comment.

The federation, which has a staff of five, doesn't have direct authority over the local Organizing Committee; it can only cajole to ensure that the Games as a brand are protected, much as the International Olympic Committee deals with host nations for the Olympics.

Since late 2006, three years after Delhi won the bid to host the Games, federation officials have been prodding officials in India, often publicly. The federation's warnings were largely ignored, however—in part because of a personality clash between Mr. Hooper and Mr. Kalmadi, a career politician and head of India's Olympic Association.

Three years ago, federation members visiting India to view preparations found work hadn't started on some massive venues planned for sporting events. Of particular concern was the fact that the land to build the Games Village for athletes still hadn't been acquired, said a member of the federation's executive board. The board decided to take the unprecedented step of relocating Mr. Hooper to India's capital to try to push preparations along.

In 2008, a year after Mr. Hooper's arrival, a group of top federation officials toured the sites for the Games venues and village and issued a report to the federation's board and the local Organizing Committee, saying the country was significantly behind schedule.

Getty Images

European Pressphoto Agency

Workers sweep near Jawaharlal Nehru Stadium on Wednesday, above, while Indian Sports Minister M.S. Gill, right, holds a vuvuzela next to Organizing Committee Chief Suresh Kalmadi, center, at the Games Village.

The same year, federation officials articulated concerns about the delays to Indian politicians at the summer Olympics in Beijing. M.S. Gill, India's sports minister, asked federation officials if they had seen the hit film "Monsoon Wedding"—a movie about how a wedding is put together at the last minute in terrible conditions—suggesting that planning that started as chaotic would come together in the end, according to a member of the executive board of the Games Federation who was present during the exchange.

A spokesman for Mr. Gill said he couldn't be reached. He made the same comment about the film publicly in the past year.

In October 2009, three busloads of Commonwealth delegates spent five days touring Games venues. At the conclusion, Commonwealth Games Federation President Michael Fennell held a news conference in which he again sounded an alarm that India was significantly behind in preparing for the games.

"With two years to go for the Delhi Games, I said to the Organizing Committee that time was not their friend. With one year to go, I now say that time is your enemy, but together we can defeat it," he said.

India's organizers were furious at what they felt were lectures by the foreigners, said officials involved in Games planning. They took issue with Mr. Hooper's direct style in meetings, finding it offensive when Mr. Hooper used words like "nonsense" to express his displeasure with Indian officials, a person familiar with meetings between the two sides said. But Mr. Hooper's supporters say his blunt, tenacious approach is the only reason the Games are happening at all. Through a spokesman, Mr. Hooper declined to comment.

In mid-October of that year, Mr. Kalmadi demanded that the federation recall Mr. Hooper.

Mr. Hooper defended himself vigorously and the federation stood by him. Later that month in London, when the Queen's Baton Relay was launched—a ritual similar to the Olympic torch—Messrs. Kalmadi and Fennell patched things up, agreeing that Mr. Hooper would stay on, said people familiar with the situation.

The federation hoped the dust-up would be a wake-up call for New Delhi to press ahead quickly with construction to finish it by the end of March, the target deadline. But the sense of urgency wore out quickly.

When federation officials visited India in May, they found many unfinished venues, and they were angered by a presentation in which pictures made the sporting venues look completed, noting that the picture of the swimming complex showed tiles in the pool when there were none, according to a federation member present.

As a new deadline of Aug. 1 approached, the local organizers started inaugurating venues that weren't totally done, including a weightlifting venue that was springing bad leaks amid the early monsoons. "The venues aren't complete, despite what [Indian officials] say," Mr. Hooper said in an interview Aug. 5.

With growing anxiety in India that the Games would be a catastrophe, Prime Minister Manmohan Singh stepped in and assigned top ministers to oversee venues. He asked officials to "redouble" their building efforts. To some degree, it paid off. Jawaharlal Nehru Stadium, the main track-and-field complex, and several other venues that were questionable, including the swimming complex, were completed and have garnered praise.

Federation inspectors said they didn't see problems coming at the Village—which they once predicted would be the "best ever"—because Indian officials had been giving them misleading tours, showing off only finished, clean apartments rather than those that weren't completed or where construction workers had left behind a huge mess. In mid-September, representatives from Scotland inspected the Games Village apartments reserved for them and found them filthy, with broken plumbing and dirty footprints on beds. A team spokesman said Scotland warned India's officials that the country wouldn't send its athletes if conditions didn't improve.

Scottish officials said the Indian response was slow, so they distributed photos of the apartments to the international media. Indian authorities responded with feverish efforts to clean up the Village in the final days before athletes were to arrive. The Scottish team was moved to a separate, somewhat cleaner, apartment block.

"As far as we're concerned, everything's OK now, but we want to make sure the situation is the same for all countries," the Scottish spokesman said. Sharad Rao, legal adviser to the Games Federation, said it was sad to see India's predicament because the country's support for the Games was in many ways "unprecedented."

"No other country has poured more money into the games," he said, "and so it was disappointing and shocking for it not to be ready in the end."

Iranian rial falls, amid effects from sanctions

A Wall Street Journal Roundup

TEHRAN—The Iranian rial has plummeted more than 10% against the dollar this week with some foreign-exchange dealers halting dollar sales altogether, a sign that international sanctions may be sapping the country's economy of hard currency.

Meanwhile, the U.S. Treasury unveiled fresh sanctions against eight Iranian officials for their alleged involvement in human-rights abuses in the wake of last year's contested presidential elections here.

The new sanctions and the foreign-exchange volatility come as Tehran's gold bazaar remained closed for a fifth day, according to state media. Merchants in Tehran's bazaar—a pillar of Iran's economy because of its influence over international trade into and out of Iran—have been squabbling with the government for months over implementing a value-added tax.

Merchants shut swaths of the bazaar in the summer, but eventually agreed to a compromise with the government.

The new flare-up among gold merchants represents another embarrassment to President Mahmoud Ahmadinejad, whose economic policies have long been under siege, even from political allies.

In Tehran, the dollar was fetching 12,200 Iranian rials on Wednesday, up from 10,850 on Monday, according to the Mehrs news agency. Some dealers had stopped selling dollars completely, according to Reuters.

The central-bank governor and the country's finance minister suggested Wednesday the state would intervene to stabilize the currency. Iran maintains a loose and informal peg to major world currencies. The central bank sells certain foreign currencies at set prices to traders each day to manage rates.

"I assure you from [Thursday] the dollar will be offered at a much lower price," the central bank's governor, Mahmoud Bahmani, told Iran's official students' news agency ISNA.

Iran's finance minister, Shammeddin Hosseini, told state radio Wednesday the government may intervene to halt the slide, according to the Associated Press.

It isn't clear what exactly triggered the foreign-exchange turbulence. An absence of dollars, traded frequently in Iran, could be a sign that international sanctions, particularly those enacted by Washington, have limited the flow of dollars into Iran, pushing up the price of the greenback.

Officials didn't give an explanation for the sharp selloff, and they suggested the rout was an unjustified panic connected with global markets.

"Part of the price hike was real, but the other part was unreal and the central bank will intervene to curb this false price hike," Mr. Bahmani said.

Iran has been monitoring exchange rates for some time. The government has previously restricted cash withdrawals and ordered banks and exchange traders to report hard-currency transactions.