DJIA 10378.83 ▼ 2.49% Nasdaq 2208.63 ▼ 3.01% Stoxx Eur 600 254.68 ▼ 2.02% FTSE 100 5245.21 ▼ 2.44% DAX 6154.07 ▼ 2.10% CAC 40 3628.29 ▼ 2.74% Euro 1.2899 ▼ 1.45% Pound 1.5662 ▼ 0.50%

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THE WALL STREET JOURNAL.

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Investors dash for the lifeboats

Investors sprinted toward safety Wednesday as fears about a global economic slowdown intensified, driving the yen briefly to a 15-year high

By Alex Frangos, Andrew Monahan and Dave Kansas

against the dollar and sending stock prices sharply lower.

Despite the momentary high for the yen, both the Japanese currency and the U.S. currency benefited from the flight from riskier investments. The two currencies gained more than 2% against the euro, and the dollar rose more than 1% against the pound. Along with the dollar and yen, U.S. Treasurys, German Bunds and U.K. gilts, all classic safety plays, jumped. Gold popped above $1,200 an ounce before edging back.

Much of the recent good economic news in the euro zone, the U.K. and Japan has stemmed from strong export data. But with China showing increasing signs of slowing and the U.S. Federal Reserve digging once more into its emergency tool kit to goose an uneven U.S. recovery, the prospect of robust export-driven growth seems less strong than it did just a few weeks ago.

That shift in sentiment has, in turn, prompted a broad flight to safety in the financial markets and a retreat from stocks and other riskier assets. On Wednesday, the Stoxx Europe 600 lost 2%, and the large European markets were all off more than 2%. In the U.S., the Dow Jones Industrial Average slid 265.42 points, or 2.5%, to 10378.83, falling into negative territory for the year. The Nikkei Stock Average dropped 2.7% in Japan.

Underscoring the market jitters, credit-default insurance among periphery euro-zone countries continued to rise sharply, renewing fears about the fiscal health of the euro-zone. Since Aug. 3, sovereign-debt default insurance costs have risen 37% for Ireland, 36% for Italy, 24% for Portugal and 20% for Spain, according to data provider Markit.

With government-bond yields, which move in the opposite direction of their price, dropping to another round of lows and the specter of deflation rising, chatter about a replay of Japan's so-called lost decades for Western Europe and the U.S. economies has resurfaced with greater intensity.

"The comparisons to Ja-

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Agence France-Presse/Getty Images

Flood survivors leap to catch water bottles distributed by Pakistani military helicopter in Bssera village near Muzaffargarh on Wednesday. Pakistan's authorities issued fresh flood warnings putting parts of Punjab and Sindh on alert and calling on foreign donors to step up efforts to contain the country's worst humanitarian disaster.

U.N. issues $459 million flood appeal

The United Nations appealed on Wednesday for $459 million to provide immediate help to millions of flood victims in Pakistan.

It said "the worst monsoon-related floods in living memory" have affected more than 14 million people and at least six or seven million require immediate assistance including food, clean water, shelter and medical care. More than 1,200 people have died and at least 288,000 homes have been damaged or destroyed in the flooding.

U.N. humanitarian chief John Holmes said the appeal would cover an immediate relief period of up to 90 days.

—Associated Press

The Quirk

Hats: A new generation brims with anxiety over etiquette. Page 29

World Watch

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

Editorial & Opinion

Jamie Whyte on what Ed Balls doesn't know about apartheid. Page 13

China closes a loophole that let banks lend more

By Dinny McMahon

BEIJING—China ordered its banks to put billions of dollars in repackaged loans back onto their balance sheets, terminating a practice that had the potential to conceal credit risks and enabled banks to lend more.

The move comes as regulators seek stricter oversight of lending and try to identify unchecked credit dangers, following a surge in economic-stimulus lending.

The China Banking Regulatory Commission told banks that loans they had sold to trust companies—an investment vehicle unique to China—must appear on the banks' books by the end of next year. The ruling follows a notice from the regulator in July calling a halt to cooperation between banks and trusts.

The amount that banks in China can lend is governed by capital ratios—the more capital, the more room to lend. Many Chinese banks that have used up their lending quotas have sold loans to trust companies, which repackaged them as investment products, before buying them back at a later date.

Analysts said the regulator's move was positive for transparency. "If left unchecked, such trust-loan wealth-management products could be at the risk of becoming unregulated, underdisclosed credit and a source of provisioned credit expansion," Goldman Sachs said in a note.

Chinese banks have been using trust companies in a similar way to how Western banks used special-purpose vehicles to move subprime loans off their books and repackage them as saleable assets. That practice backfired during the financial crisis when the banks were forced to bring billions of dollars of assets back onto their books.

Chinese financial institutions have come up with innovative ways to get around strict regulations, resulting in

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PAGE TWO

Global imbalance not about to change

[Agenda]

By Patience Wheatcroft

Two new statistics encapsulate the problems that continue to overshadow the world economy. In July, China's trade surplus reached an 18-month high of $28.7 billion, as its exports soared more than 38% higher than a year earlier. In contrast, the U.S. unveiled Wednesday its trade figures for June: exports down and a deficit up 18.8% to almost $50 billion.

Those numbers sum up the global imbalances that had been building up before the financial crisis and persist today, despite much hand wringing by Western politicians. The Chinese have paid lip service, but little else, to U.S. demands that they should revalue their currency upwards. They are in no hurry to make their exports more expensive. Nor, despite an enthusiasm for luxury labels, are they about to reverse an ingrained savings habit and splurge a much greater proportion of their new wealth on Western goods and services.

The suspicion that this scenario is unlikely to change significantly leads economist Charles Dumas to a depressing conclusion in his new book, "Globalisation Fractures." He suggests that the real culprits in the crisis were not the bankers, for "bankers will be bankers," but the savings-glut countries—China, Japan and Germany—and he sees little prospect of them radically altering their behavior. He warns that "In this case, a modest and relatively short world economic recovery will be followed by a relapse into renewed crisis or crises, with an eventual satisfactory outcome far from certain."

The head of the world service at consultancy **Lombard Street Research**, Dumas offers little scope for optimism in his analysis of the situation. He argues that it will be easier for the spending countries to change their ways than for the savings countries to do so. He thinks it may be conceptually impossible for China's current rulers to relax government control over citizens sufficiently for consumption to become the driver of the economy. Certainly the once popular view that increased wealth would hasten the arrival of democracy in China is no longer much heard.

Agence France-Presse/Getty Images

Workers at another new shopping mall that opened in Beijing on Tuesday.

Despite an enthusiasm for luxury labels, the Chinese are not about to change an ingrained savings habit.

If the saver countries do not change, then the spenders will have to curb consumption, with lower real exchange rates forcing down imports. Government bail outs have delayed the pain that this implies but falling consumer confidence surveys indicate a growing awareness of what lies ahead.

If the future looks gloomy for what Dumas terms "the Anglo-Saxon world," he has virtually consigned the "Club Med" countries to the compartment marked "lost cause." Excessive deficits, high unemployment and high labor costs combine to make Portugal, Italy, Greece and Spain, along with Ireland, the sick men of Europe. Membership of the single currency has hampered their ability to deal with their problems via devaluation and Mr. Dumas takes the view that a likely outcome is the splitting up of the euro zone, although there may be another couple of crises to be endured first.

On this basis, the spectre of a "double dip" recession that is currently troubling some commentators could metamorphose into a triple dip or worse. The Governor of the Bank of England, Mervyn King, tried to allay the worst fears on Wednesday when he coupled reduced growth forecasts with the news that the potential downside looked less bad than it had three months ago, but that was not enough to calm markets.

Introducing the quarterly Inflation Report from the Bank's Monetary Policy Committee, the Governor had to concede that the growth forecasts made only in June now looked over-optimistic. Even lowered to a top rate of 3% rather than 3.6% next year, they are still way ahead of those produced by the Office of Budget Responsibility, the independent forecasting unit which has been established by the U.K.'s coalition government.

Mr. King seemed relatively relaxed about the inflation forecasts, despite them being ahead of the 2% target. He takes the view that once the VAT increase imposed by the emergency Budget in October has been absorbed at the end of next year, inflation will get back on track.

But the message that the markets took from his reference to a "choppy recovery" was that there were dangerous squalls ahead. That is certainly what Mr. Dumas perceives.

The attraction of going private

Private equity is increasingly the destination of choice for those giving up big jobs in the public company arena. While being subjected to the demands of investors and the media, having their remuneration packages scrutinised and their share prices pummeled, executives look longingly at life in the private sector. Lord Davies of Abersoch is the latest to join them in moving into private equity.

The former chief executive then chairman of Standard Chartered ventured even further into the limelight before making his move, spending time as the U.K.'s trade minister and traveling the world trying to drum up business for Britain. But with a change of government, he was keen to get back into business himself. **Corsair Capital** is his berth of choice and it looks a neat fit, specializing in the financial services sector. Standard Chartered has a long-standing relationship with Corsair as an investor in some of its deals and Davies had been on its advisory board.

He will be a full-time equity partner but, being an energetic type, will also fit a chairmanship and a couple of non-executive directorships into his portfolio. He will also continue to examine, on the U.K. government's behalf, why there are so few women on U.K. company boards. His belief that a female contingent has a positive effect on company dynamics could mean that Corsair companies will soon be hunting female directors.

What's News

■ **The BOE's King signaled** that he is more worried about the U.K.'s bumpy recovery than its high rate of inflation, sparking speculation that if the economy begins to falter, the central bank will resume juicing it with freshly printed cash. 5

■ **The U.S. trade deficit** jumped 19% in June to $49.9 billion, raising concerns that the economic recovery is losing steam faster than previously thought. 6

■ **The IEA cautioned** that world oil demand could take a substantial hit should economic growth falter. 4

■ **A judge ordered** Italian billionaire and Fastweb founder Silvio Scaglia to stand trial on charges related to an alleged money-laundering and tax-fraud scheme. 17

■ **AIG agreed to sell** 80% of its subprime-lending arm to Fortress Investment Group, freeing itself from the unit's $17 billion in debt. 23

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Putting an only child in touch with sibling rivalry. 27

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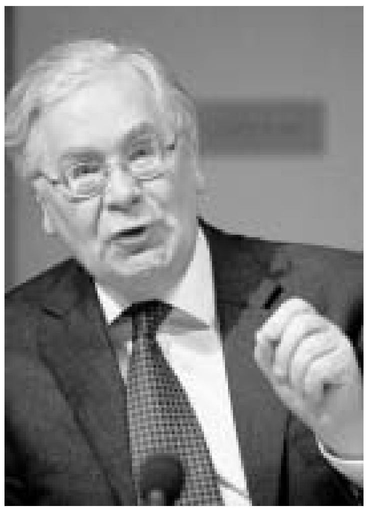
'Inflationistas are getting carried away with talk that the rising cost of food will result in another food price scare.'

Continuing coverage



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Question of the day

Vote and discuss: How worried are you about higher prices of food?

Vote online and share your thoughts with other readers at **wsj.com/polls**

Previous results

Q: Do wireless systems need different 'net neutrality' standards than wired communication?

Yes **18%**

No **82%**

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NEWS

Find suggests earlier date for tools

By Robert Lee Hotz

An international research team working in Ethiopia has unearthed what it considers the earliest known traces of the use of stone tools, potentially pushing back the advent of technology by nearly a million years to a time before the evolution of the human family.

The researchers, however, didn't discover any actual stone tools or direct links to the long-extinct creatures that may have wielded them, and several specialists in human origins were skeptical of the claim.

The discovery, made public in the British journal Nature on Wednesday, consists of two fossil animal bones dating to about 3.4 million years ago and etched with distinctive V-shaped grooves. Primordial butchers using sharp stones to fillet a carcass in ancient East Africa made the marks, the researchers said.

"It pushes back tool use almost a million years," said archaeologist Shannon McPherron at the Max Planck Institute for Evolutionary Anthropology in Leipzig, Germany, who discovered the bones last year at Dikika, about 300 miles from Addis Ababa.

If confirmed by more fieldwork, the distinctive marks herald the first appearance of a basic impulse to innovate that, in time, led from the development of stone tools to the invention of cordless screwdrivers, nuclear weapons and the Internet, researchers say.

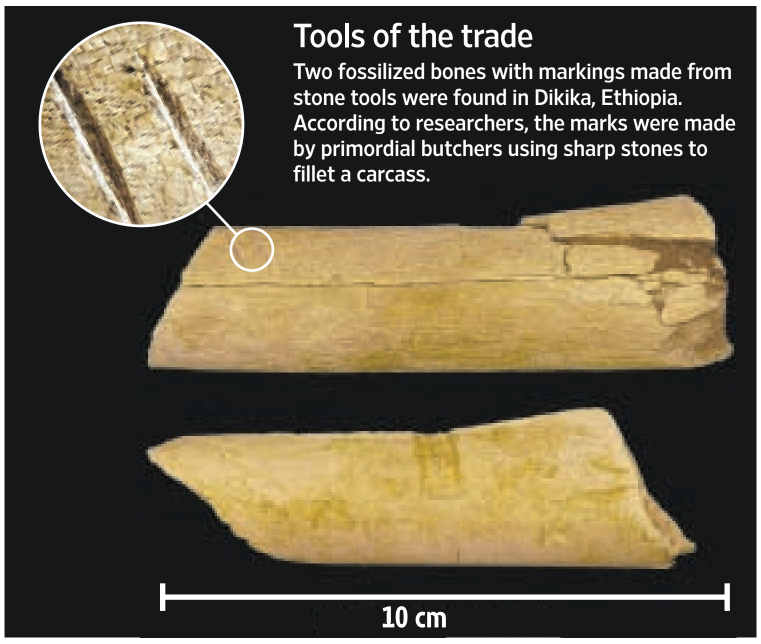
"All the sophisticated technology we have today is because this early ancestor decided to pick up a stone and use it as a tool," said anthropologist Zeresenay Alemseged at the California Academy of Sciences, who oversees research at the Dikika site.

Until now, the oldest known stone tools dated to about 2.5 million years ago. Those implements, of which thousands were found in East Africa, are thought to be the work of an early human species. The older find announced Wednesday, however, predates the evolution of the human family, known as the genus Homo, and raises new questions about the role of tools in spurring human evolution. They may have initiated a shift in pre-humans' diet, which in turn may have aided the development of larger brains.

"To see this change in behavior shifted so far back in time is surprising," said anthropologist David Braun at the University of Cape Town in South Africa.

Agence France-Presse/Getty Images

Anthropologist Zeresenay Alemseged excavates a 3.4-million-year-old rhinoceros fossil at Dikika, Ethiopia, where the discovery of grooved animal bones suggests early tool use.



Dr. McPherron and his colleagues found the two scratched bones just a few hundred yards from the spot where a decade ago the researchers discovered the oldest known skeleton of a child—a juvenile female from a pre-human species called Australopithecus afarensis, the same species as the iconic fossil "Lucy." It is the first suggestion that this small-brained species, which thrived in Africa for almost a million years, may have used tools or eaten meat.

Although the evidence is scant, several experts in human evolution found it persuasive.

"I find it plausible," said paleoanthropologist John Harris, an authority on early stone tools at Rutgers University, who wasn't involved in the work. Modern monkeys and chimpanzees often use tools to aid their search for food, he said. They pound nuts with rocks and probe for insects with sticks fashioned for the purpose. The early ape-like species that roamed the grasslands and wooded glades of early Africa before the evolution of the human family may have been no less handy.

"It argues strongly that there may have been tool use much earlier in our history," Dr. Harris said.

Other experts, however, dismissed the find. "It is an extraordinary claim, but the evidence is weak and ambiguous," said anthropologist Tim White at the University of California at Berkeley. "We should be extremely skeptical."

Instead, prehistoric crocodiles could have made the tool-like marks as they gnawed flesh from the bones, or passing herds may have trampled the remains underfoot. "Researchers who study bone-surface modifications from archeological sites have shown that fresh bones trampled by animals can create marks that mimic stone-tool cut marks," said Indiana University anthropologist Sileshi Semaw.

In an effort to dispel such doubts, Curtis Marean at Arizona State University's Institute of Human Origins, who has made a specialty of studying such bone marks, analyzed the specimens.

By examining the regularity and surface of the marks, he says he has eliminated the possibility that they could have been made by teeth or by hooves.

"I am as confident as possible that those are stone-tool-inflicted marks on those two bone fragments," said Dr. Marean. "I have no doubts."

Drug-resistant 'superbug' spurs warning

By Shirley S. Wang And Katherine Hobson

Some bacteria in south Asia have learned a new way to inactivate the antibiotics that usually kill them, according to a new study, raising concerns about a novel wave of drug-resistant "superbugs" that travelers could spread world-wide.

The study, published Tuesday in the journal Lancet Infectious Diseases, found the presence of a new gene called NDM-1 that gives certain kinds of bacteria the ability to produce a chemical that renders many antibiotics useless. The newly equipped superbugs were found in 180 patient samples from Pakistan and India, as well as in the U.K. in samples from patients who had had surgery in India.

In the first six months of this year, NDM-1 cases were identified in the U.S. for the first time, according to the U.S. Centers for Disease Control and Prevention. All three of the patients had received recent medical care in India.

Public health officials have been concerned about superbugs, particularly one type prevalent in hospitals known as methicillin-resistant Staphylococcus aureus, or MRSA, because they can kill patients.

Between 1999 and 2005, some 278,203 patients in the U.S. were hospitalized for MRSA-related infections, according to national data on hospital discharges. The indiscriminate use of antibiotics has been blamed as the main factor responsible for the rise of antibiotic-resistant bacteria.

The emergence of antibiotic-resistant bacteria is common, but raises concerns when the new superbugs cause disease, according to Victor Nizet, a professor of pediatrics and pharmacy at the University of California, San Diego, who does research on bacterial infections. He wasn't involved with the study.

Infection by bugs with this new gene doesn't seem to be deadly for patients, but can cause urinary-tract infections and could be serious for those who have already been weakened by surgery or are particularly young or elderly. Moreover, the infections could be difficult to treat because they would be resistant to the most commonly used antibiotics, according to Dr. Nizet.

The NDM-1 gene is found in bacteria that normally live in the gut, such as E. coli, which come from a different family than MRSA. The gene can easily jump to other bacteria in the digestive tract, said Dr. Nizet. With the gene, the bacteria can render useless the entire family of antibiotics that includes penicillin and related synthetic antibiotics.

It's unclear how common these bugs are, what the likelihood is of contracting this type of infection from hospitals in the countries in which it has been found, or how easily the bugs could be transmitted across countries by travelers, said Johann Pitout, a University of Calgary medical microbiologist who wrote an editorial accompanying the study.

"If you're traveling to India and get admitted to the hospital, then come [home] and are admitted there," you should tell health-care workers about your previous hospital experience, said Dr. Pitout.

A spokeswoman for the U.K.'s Health Protection Agency said 50 cases of the new bug were reported in the U.K. between 2007 and 2009. How many of those were fatal is unknown. So far, most of the cases are in people returning from India and Pakistan, she said. There aren't yet signs that the bug is spreading inside the U.K., though the fact that the bug is widespread in India is a cause of concern, she said.

—Jeanne Whalen contributed to this article.

EUROPE NEWS

Russia fires scorch Chernobyl area

By Richard Boudreaux

MOSCOW—Russian officials acknowledged Wednesday that wildfires had scorched 3,900 hectares of forests contaminated by the 1986 Chernobyl nuclear disaster. But they said most of the fires had been extinguished and no evidence of spreading radiation had turned up.

In Moscow early Wednesday morning, a thunderstorm set off partying in the streets by groups of young people celebrating the lifting of choking smog in the city. But the heat wave continued.

The country has been grappling for weeks with record-high temperatures, deadly fires, noxious smog, and a crop-destroying drought. On Friday the emergency situations minister, Sergei Shoigu, highlighted the radiation threat, saying firefighters were trying to keep flames out of the Chernobyl fallout zone in western Russia.

The environmental group Greenpeace Russia warned Tuesday that several fires had reached part of the zone, the Bryansk region, and that wind-borne smoke could carry radioactive particles far afield. The federal forest protection agency confirmed that several fires had erupted in Bryansk since Friday but said "most of them" had been put out.

Forested areas of western Russia were contaminated on April 26, 1986, when one of the Chernobyl plant's nuclear reactors exploded, in what was then the Soviet republic of Ukraine. Scientists have known for years that fires in those areas could spread radioactive materials in small amounts.

The health risks are uncertain. Most of the fallout remains deep in the soil, scientists say, and the rest of it poses less of a threat than the carbon monoxide and other contaminants unleashed by this summer's fires. When wildfires swept Bryansk in 2002, the level of radioactive contamination in the smoke reaching nearby regions was very low, independent researchers say, and caused no reported harm.

Mr. Shoigu's ministry said Wednesday that testing in areas near Chernobyl had shown no spread of radiation. Radiation levels in the Moscow region were unchanged and within normal limits, according to the city's monitoring center.

Officials said testing would continue, and forest patrols were being increased in Bryansk. "There is a danger, but we are controlling the situation," said Vladimir Rozinkevich, chief of the Bryansk region's forestry protection service.

Public-safety authorities in Germany, Lithuania, Sweden, Finland and other nearby countries said the threat of smoke-borne radiation from Russia was insignificant, news agencies reported.

In Moscow early Wednesday morning, the storm's strong winds dispersed the smog that had been choking the city all month and brought the pollution index to safe levels. But the thermometer climbed to 35 degrees Celsius, prolonging a heat wave that city officials say has contributed to hundreds of deaths. Weather forecasters said the smoke could return Thursday.

The emergency-situations ministry said firefighters in central and western Russia were facing more than 600 blazes, but managed to reduce the area hit by nearly half, to 927 square kilometers. The government said 10,300 emergency workers are fighting the fires, which have killed 52 people, left almost 4,000 people homeless and are expected to cost Russia at least $15 billion, or 1% of its forecast gross domestic product this year.

Despite the shrinking flames, criticism of the government's response to the worst forest fires in the country's history mounted, with several newspapers accusing Prime Minister Vladimir Putin of using the disaster to lift ratings. Business daily Vedomosti criticized Mr. Putin after state television showed him at the controls of firefighting aircraft.

Mr. Putin last week announced a ban on the export of grain after harvests were hit by drought and heat.

Ratings both for Mr. Putin and President Dmitry Medvedev have sagged in recent months. Support for the administration could slip further if the drought and higher global grain prices boost the cost of food in Russia, analysts said. The Federal Statistics Service said Wednesday that the price of wheat flour climbed 2.4% in the week ending Aug. 9, while buckwheat was up 7% from the previous and 51% since the end of last year.

—Ira Iosebashvili and William Mauldin contributed to this article.

European Pressphoto Agency

Polish firefighters sent to Russia to help battle wildfires take a lunch break Wednesday near the village of Ryabinovka, in the Ryazan region.

Turkey signals fiscal-reform delay

By Joe Parkinson

ISTANBUL—Turkey indicated Wednesday it will delay a key fiscal rule aiming to cut public debt and the budget deficit, sending the lira lower and pushing bond yields higher.

In comments broadcast by CNBC-e television, Industry Minister Nihat Ergun said the legislation would be postponed because some government ministries were opposed to the strict budget-deficit/gross-domestic-product ratio of 1%, adding that the government's targets for 5% economic growth and a 1% budget deficit within 10 years may be changed.

"Fiscal-rule legislation was postponed upon the objection of investor ministries," Mr. Ergun said.

The news came amid investor concerns that the ruling AK party government may launch a spending spree in the approach to next year's national elections to help it secure a third term.

At Standard & Poor's rating agency, which rates Turkey two notches below "investment grade," Frank Gill, S&P's director of European sovereign ratings, said, "To the extent that this means that authorities are delaying on tightening fiscal stance going into an election cycle, it is something of a concern.

"We're not alarmed—but we are watching the widening of the current-account deficit, and the extent to which the widening of the external deficit is being exacerbated by a loosening of the fiscal stance," Mr. Gill said.

Central-bank data underlined those concerns, showing Turkey's current-account deficit, a weak spot for the economy, widened to $3.337 billion in June from $2.202 billion in June 2009 as strong domestic demand growth increased the economy's dependence on external funding.

Economists cautioned against a definite change in fiscal-rule legislation until the Turkish prime minister makes a statement, but stressed the delay is aimed at giving policy makers budgetary flexibility ahead of national elections due next year.

"I guess the electoral calendar, with parliamentary elections due by July 2011, got the better of policy makers in the end," said Tim Ash, an economist at Royal Bank of Scotland in London.

"Clearly the mood music herein is that spending ministries want fiscal flexibility in the run-up to parliamentary elections, or at least they want to keep their options open and not to be constrained by a new fiscal rule," he said.

Economists said the delay is aimed at giving policy makers budgetary flexibility ahead of elections.

Turkey's fiscal-rule legislation, due for presentation to Parliament later this year, had been highlighted by some ratings agencies as a potential reason for lifting Turkey's sovereign-credit rating to "investment grade."

The government's signal that the fiscal rule will be postponed comes amid a raft of positive economic news.

Turkish stocks have been among the top gainers of any emerging market in 2010, rising 14% since the beginning of the year. Gross domestic product has risen 11.7% in the first quarter from a year earlier, when Turkey was still in a deep recession.

Even after adjusting for the base effects, Turkey's prospects remain among the brightest in the region, with most forecasts for 2010 growth pegged above 6%.

Still, analysts warn that potential political troubles cloud Turkey's economic outlook.

Turkish markets slid last week amid political wrangling between the government and the military, alongside concerns over the government's commitment to the fiscal rule.

IEA projection ties oil demand to growth levels

By Spencer Swartz

LONDON—The International Energy Agency Wednesday cautioned that world oil demand could take a substantial hit in the months ahead should economic growth falter.

"The short-term global economic outlook is highly uncertain, presenting significant downside risks to future oil demand growth," the Paris-based agency said.

The global economy is expected to grow 4.5% this year and 4.3% in 2011 but if growth rates were to fall about 30%, world demand would be expected to slide by 300,000 barrels a day this year and by 1.2 million barrels a day in 2011, the IEA said.

"We stand by our baseline assessment for a recovery in oil demand, but there remains a lot economic uncertainty in the short term and we recognize that," said David Fyfe, head of the IEA's oil markets team.

EUROPE NEWS

Pope says 2 bishops in coverup can't resign

By Margherita Stancati

ROME—Pope Benedict XVI rejected the resignation of two Irish bishops accused of covering up child sex abuse, undermining the campaign by Dublin's archbishop for greater accountability by the Catholic Church.

Auxiliary Bishops Eamonn Walsh and Raymond Field tendered their resignations in December, following allegations that they had mishandled complaints from victims of abuse. Their offers to resign came a month after a damning report into priestly abuse by the Irish government. The priests were working in the Archdiocese of Dublin, where Archbishop Diarmuid Martin has pushed for the Catholic Church to assume more responsibility over child-abuse cases.

But in a letter sent this week to officials in his archdiocese, Archbishop Martin said that the pope had refused to let bishops resign.

"Following the presentation of their resignations to Pope Benedict, it has been decided that Bishop Eamonn Walsh and Bishop Raymond Field will remain as auxiliary bishops," Archbishop Martin said in the letter.

Archdiocese of Dublin spokeswoman Maria Malone confirmed parts of the letter on Wednesday, but declined to give further details.

The Vatican wouldn't confirm that it had rejected the resignations.

"The Vatican press office only comments when resignations are accepted, not when they are turned down," said Vatican spokesman Father Federico Lombardi. He added: "We do not deny Archbishop's Martin's words."

Archbishop Martin's letter said that the two auxiliary Dublin bishops would remain in the diocese and be "assigned revised responsibilities."

Archbishop Martin and the two auxiliary bishops weren't available for comment, Ms. Malone said.

When the Irish government first published its report last year, Pope Benedict said he shared "the outrage, betrayal and shame" felt by Irish Catholics.

The auxiliary bishops, offering to step down, said they hoped their resignation would bring "peace and reconciliation" to the survivors of child sex abuse.

The Vatican's rejection of the resignation offer comes as Pope Benedict faces pressure to discipline bishops across Europe. In most cases, the problem is failure to report abuse allegations, but in some cases bishops have been accused of acts of abuse themselves.

Since March, the pope has accepted the resignations of bishops from Ireland, Germany and Belgium. In June, the pope appointed a team of top Church officials to lead the Vatican's own investigation into the alleged sex-abuse coverups in Ireland.

Groups representing abuse victims have demanded greater accountability from the Vatican.

"This will be very upsetting to anyone who has experienced abuse as a result of the inaction," said Deirdre Kenny of the Irish group One in Four.

BOE lowers growth forecast, shrugs off high inflation rate

By Neil Shah

LONDON—Bank of England Governor Mervyn King signaled he is more worried about the U.K.'s bumpy recovery than its high rate of inflation, sparking speculation that if the economy begins to falter, the central bank will resume juicing it with freshly printed cash.

At a news conference on the Bank of England's latest quarterly economic forecast, Mr. King focused on the fragility of Britain's economy, while noting improvements since the bank's last report in May.

Mr. King also continued to play down the threat posed by Britain's high rate of inflation, which hit 3.2% in June, saying Britons aren't changing their spending patterns and that Britain's weak recovery will keep price pressures below the bank's optimal level in coming years.

"It will take several years before we can adjust back to anything that we can remotely call normal," Mr. King said. "What we're doing now is trying to generate a steady recovery."

The comments fueled speculation that the Bank might restart its program of pumping money into the financial system through bond purchases—a tool some call "quantitative easing"—if the British economy stumbles. Coming a day after the Federal Reserve moved to sustain its own quantitative-easing program, Mr. King's cautious stance reflects worries on both sides of the Atlantic about the global recovery.

After Mr. King's comments, the British pound slipped to $1.57 from around $1.5750, though it advanced against the euro amid broader market gyrations. Britain's benchmark FTSE-100 Index fell 2.4% Wednesday, while prices of U.K. government bonds, or gilts, shot higher as traders speculated that the bank may end up buying more government securities, after stopping such purchases in February. That, along with worries about the global economy, pushed British government-bond yields to their lowest levels since March 2009.

In its report, the Bank of England cut its forecast for average growth in Britain over the next few years to about 3% from roughly 3.4% in May—an outlook that some observers consider rosy. That, in turn, led Bank of England economists to lower their forecast for Britain's inflation rate in two years' time to around 1.5%—well below the central bank's 2% ideal target. Far from fretting over high inflation, the bank's economists are worried about price pressures being too low in the longer term—and treating Britain's current 3.2% rate as a temporary phenomenon.

The bank did, however, revise its forecast for inflation in the near term, saying it will stay above its target for longer because of a looming sales-tax increase.

"They seem to be getting more dovish despite inflation continuing to surprise to the upside and growth coming in stronger than expected," said Azad Zangana, European economist at Schroders Investment Management in London. "It's the lack of reassessment of inflation that was the surprise."

Britain's monetary policy makers face a tough time, given the country's murky economic outlook. The U.K. jolted economists by picking up momentum last quarter, expanding at a 4.5% annualized rate that beat the U.S.'s 2.4% rate.

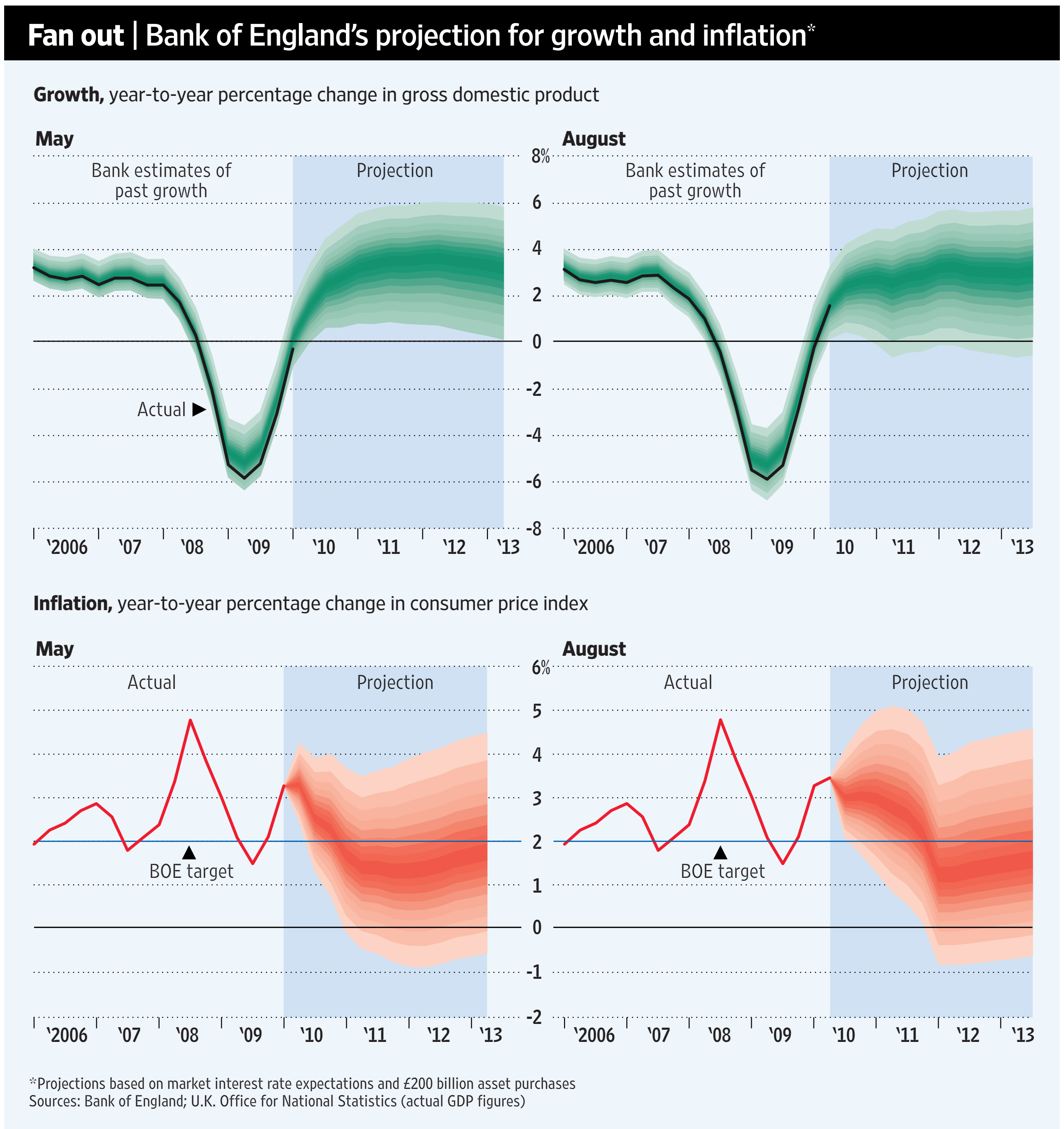
During that period, British exports surged in June, while signs of a stronger-than-expected recovery in the 16-nation euro zone—Britain's biggest trading partner—bode well for the U.K. But recent figures from Britain's housing, manufacturing and services sectors suggest things could slow down later this year.

The new U.K. government is embarking on more than £100 billion of spending cuts and tax measures that will hurt consumers' willingness to spend and drain cash from the economy.

Economists say Mr. King and his colleagues on the nine-member Monetary Policy Committee are trying to keep their option open, especially amid doubts about the recovery in the U.S., another key British trading partner.

According to Simon Ward, an economist at Henderson Global Investors, the bank "may face a rendezvous with reality later this year as the economy defies double-dip pessimism and a continued inflation overshoot leads to a further 'un-anchoring' of inflationary expectations."

—Natasha Brereton contributed to this article.



Swedish finances take big role in election

By Johan Anderberg

STOCKHOLM—Sweden's strong finances will be a central theme for the ruling center-right coalition as the countdown to the country's general election starts in earnest this weekend, Finance Minister Anders Borg said Wednesday. The coalition is seeking a second four-year term in September's vote.

"We have proved we can steer the country through a recession," Mr. Borg said in an interview.

Sweden's economy grew 3.7% in the second quarter, according to preliminary estimates, boosted by domestic demand and increasing exports. The growth is well above its neighbors' and is a major selling point for the incumbent Moderate Party-led coalition government when voters go to the polls Sept. 19.

Mr. Borg said the government's own forecast is likely to be revised upward from a July projection of 3.3% growth for 2010.

Mr. Borg and Prime Minister Fredrik Reinfeldt's coalition leads in polls as campaigning gets under way, but history suggests it will be a close call. Only once in more than 75 years has a government other than the Social Democrats retained power in a Swedish election.

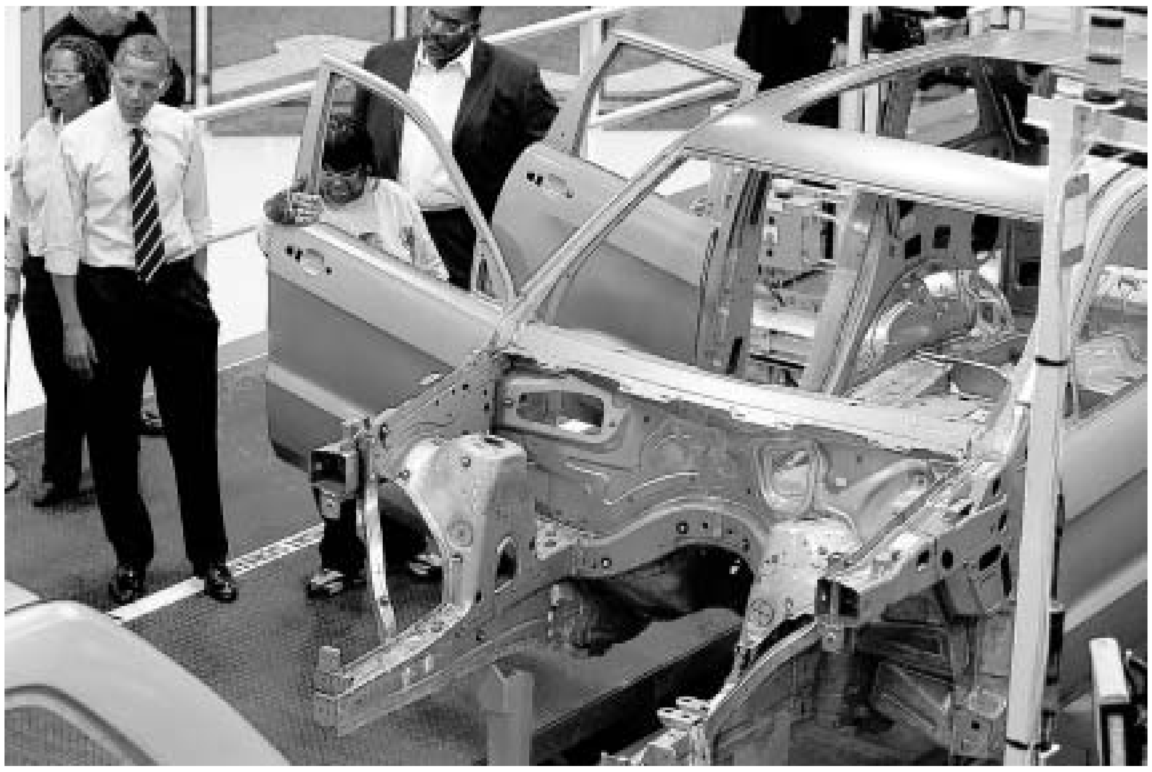
The growing support for the Moderates—48.6%, compared with 46.7% for a Social Democrat-led coalition—comes amid worries about Europe's economic health. Mr. Reinfeldt and Social Democrat leader Mona Sahlin are scheduled to kick off the election campaign this weekend. The manifestos will be released in coming weeks, but no lofty promises are expected: Swedish voters have in the past prioritized strong government finances.

As part of the strengthening process, Mr. Borg said he plans to restart the country's asset-disposal plan. Sweden had planned to sell more than 200 billion Swedish kronor ($28 billion) in state-owned assets, but the financial crisis halted the process as valuations fell.

U.S. NEWS

Trade gap signals weaker growth

By Sudeep Reddy
And Emmeline Zhao



Reuters

U.S. President Obama at a Chrysler auto plant near Detroit in July. Auto imports grew in June as overall exports sagged.

The U.S. ran a surprisingly large trade deficit in June, raising concerns that the economic recovery is losing steam faster than previously thought.

The trade gap rose 19% to $49.9 billion, the widest deficit since the financial crisis hit in October 2008, the Commerce Department reported Wednesday.

Imports jumped 3%, driven largely by strong U.S. demand for foreign-made consumer goods such as iPads and flat-screen TVs, while exports fell 1.3% as American producers sent fewer capital goods overseas.

The larger-than-expected deficit, combined with a previously reported drop in factory inventories, led economists to sharply lower their estimates of the amount of goods and services produced on U.S. soil in the second quarter. They now believe U.S. gross domestic product grew at an inflation-adjusted, annualized rate of around 1% in the quarter.

The Commerce Department in late July estimated growth at 2.4% but is scheduled to revise that estimate later this month.

"It just seems like the economy is losing momentum as the year progresses," said Kevin Cummins, an economist at UBS, which now estimates second-quarter growth at 1.25%.

Rising imports can be a sign that consumer spending is holding up. But the fact that consumers are mostly buying relatively inexpensive, imported goods promises little fuel for boosting domestic output.

"A lot of the pickup in demand will go toward imported goods rather than domestically produced goods," said economist Michael Moran of Daiwa Capital Markets.

The growth in imports could renew pressure on policy makers to take a tougher stand on China's currency practices.

U.S. officials have been pressing Beijing to allow a faster appreciation of the yuan, which they say has been kept artificially low to boost sales of Chinese products overseas. China has taken some initial steps to let its currency rise.

The strongest growth in U.S. imports came in consumer goods, which rose 7.8%, and autos, which gained 6.6%. Computer and electronics products, a category that includes such imported items as Apple Computer Inc.'s iPad, rose $3.4 billion to $29.2 billion in June from May. Apple reported last month that it had sold 3.3 million iPads, largely in the U.S., since the product was launched in April.

U.S. consumers appear to be concentrating their purchases on imported tech gadgets, rather than on furniture and other items than tend to be more domestically produced.

Rick Carr, who installs home-entertainment systems in Connecticut, said he was installing two to three systems a week—a significant increase from last year. He said about 95% of the products he used, from stereo systems to televisions, were from China, Japan and Korea.

Trade could remain a drag on the U.S. economy in the second half of the year as growth around the world remains weak.

The dollar has weakened somewhat since June as U.S. economic outlook weakened, a move that in the long run could boost U.S. exports and make imports pricier.

But in the short run, foreign producers tend to absorb the effect of a declining dollar through lower margins, keeping American demand for their products high.

"The lags between currency changes and the economy are very long," said Daiwa's Mr. Moran. So far, "the changes in the dollar in the big scheme of things have not been very large."

Employers made hires at slower pace during June

By Mark Whitehouse

Employers filled available jobs at a slower pace in June, in a development that could further complicate the U.S.'s battle with long-term unemployment.

The Labor Department reported Wednesday that nonfarm employers made 4.3 million new hires in June, down 7% from May. That left them with 2.9 million job openings at the end of June, unchanged from May.

The June data highlight a growing disconnect in the labor market. Employers are being unusually slow to fill positions—a problematic trend at a time when 4.3% of the labor force has been out of work for more than six months. As of June, job openings were up 26% from mid-2009, when the economy bottomed out. New hires rose only 5% over the same period.

"It's troubling," said Henry Mo, an economist at Credit Suisse in New York. "We need employers to hire more boldly to make the recovery self-sustaining, but we're not getting there."

'We need employers to hire more boldly to make the recovery self-sustaining, but we're not getting there.'

Economists, employers and job seekers offer a litany of reasons for the disconnect. Extended unemployment benefits can make people less willing to take whatever jobs are available. Some companies might try to lowball salaries. Many of the unemployed don't have the skills companies require. Housing troubles can prevent people from moving for work.

Another part of the problem, said Jeff Joerres, chief executive of staffing firm Manpower, could be companies' renewed uncertainty about the economic outlook. "It's not uncommon for us to get the right person for the job and the companies still drag their feet for a month or more, just to try to get better visibility for the future and to save another month of expense," he said.

Mr. Joerres also notes that he has seen many companies reorganizing their activities and investing in technology to boost productivity, an effort that is changing the kinds of employees they need. It can add to demand for the scarce highly skilled workers who can implement the changes, but it also allows companies to lower the requirements—and salaries—for jobs in increasingly automated warehouses and offices.

Overall, the competition for available jobs remained intense in June. The number of job seekers for each opening stood at about five, down from a peak of more than six last November, but still well above the longer-term average of 2.6. Meanwhile, companies discharged people at a slightly higher rate: They laid off 1.6% of all employees in June, up from 1.5% in May.

Workers also remained wary of leaving jobs. Some 1.5% of all employees quit their jobs in June, well below the longer-term 2% average.

Picture darkens for Americans, poll finds

By Peter Wallsten

Americans are growing more pessimistic about the economy and the war effort in Afghanistan, and are losing faith that Democrats have better solutions than Republicans, according to a new Wall Street Journal/NBC News poll.

But the gloom appears all-encompassing: Just 24% express positive feelings about the Republican Party, a new low in the survey's 21-year history. Democrats are only slightly more popular.

Undergirding it all, nearly two-thirds of Americans believe that the U.S. economy has yet to hit bottom, sharply higher than the slight majority who felt that way in January.

The results foreshadow a bad picture for Democrats in the November midterm election, though it remains hard to gauge whether voters' souring mood will result in enough losses for the party to push the GOP into power in the House or Senate.

"Even with Republicans having low numbers, they are the opposition party and are going to benefit from people saying, 'We're ticked off and we want a change,' " said Republican pollster Bill McInturff, who conducts the survey with Democratic pollster Peter Hart. "The way you vote your discontent is to say you're going to vote Republican."

Mr. Hart, referring to the now-famous flight attendant who quit this week after an altercation with a passenger, said 2010 is shaping up as the "JetBlue election."

"Everyone is frustrated," Mr. Hart said. "Everyone's hurling invective, and they're all taking the emergency exit."

Americans are split on President Barack Obama's job performance, with 47% approving and 48% disapproving. But a majority disapprove of his performance on the economy. And six in 10, including 83% of independents and a quarter of Democrats, say they are only somewhat confident or not at all confident that he has the right policies to improve the economy.

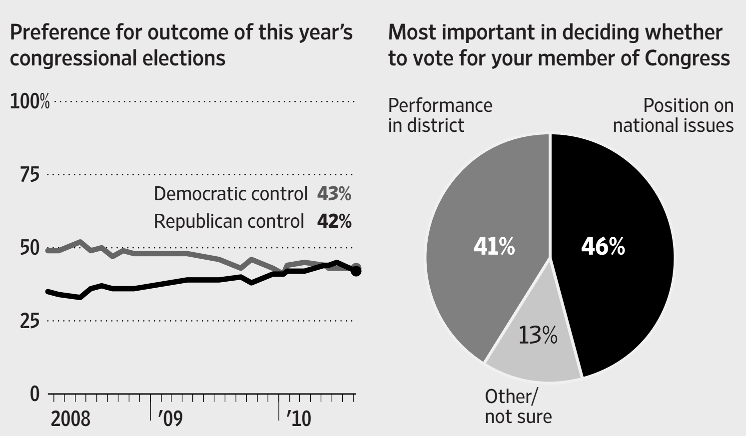
The survey suggests that Democrats should expect little appreciation from voters for legislative achievements such as overhauling the health-care and financial systems. Six in 10 Americans rated Congress's performance this year as below average or one of the worst. Clear majorities say the Obama administration fell short on the economy, health care, Wall Street oversight, spending, and even Mr. Obama's signature pledge to change business as usual in Washington.

"The Republicans don't have a message as to why people should vote for them, but it's pretty clear why you shouldn't vote for the Democrats, said poll respondent Tim Krsak, 33 years old, a lawyer from Indianapolis and political independent who has been unemployed since January.

On the Afghanistan war, 68% of Americans now feel less confident that the war will come to a successful conclusion. Just 44% approve of the president's job on Afghanistan—down from a majority who approved in March. Voters appear evenly split on which party they hope will retain control of Congress after November. But Republicans retain an advantage among those who may be more likely to turn out.

—Eliza Gray contributed to this article.

Mood of the electorate



Note: Results are among registered voters *Half sample
Source: WSJ/NBC News telephone polls; margin of error for August 2010 full sample: +/–3.1 pct. pts.

WORLD NEWS

Iran curbs liquefied-gas ambitions

Officials suspend plans for two LNG projects as sanctions have international energy companies in retreat

By Benoît Faucon
And Spencer Swartz

LONDON—Iran is greatly curbing its once-lofty ambitions to become a major liquefied natural-gas exporter, a reversal that energy executives and analysts tie to the country's difficulty accessing Western technology amid fresh international sanctions.

In several recent interviews with state-controlled outlets, Iranian energy officials have said they have suspended two of the country's big LNG projects. Tehran said it is shifting its focus to building more gas pipelines.

Iran's energy industry has long been hobbled by sanctions, a lack of foreign and domestic investment and technical challenges. Energy analysts have, in particular, viewed Iran's timetable for becoming a major LNG power skeptically. Still, Tehran's recent public statements about the program mark a significant shift for a government that has for years trumpeted its intention to create a significant LNG industry.

While officials haven't publicly cited sanctions for the suspensions, the moves come as foreign energy companies retreat from plans to work with Iran. The LNG pullback could be an early indication that a series of new international sanctions—in particular those recently enacted by the European Union—are starting to bite, industry executives and analysts say.

Separately, **Toyota Motor** Corp. said Wednesday it had suspended car exports to Iran.

Iran is home to the world's second-largest gas reserves, behind Russia. But its natural-gas exports are minor compared with those of Russia or Canada, and take place only by pipeline. Iran could tap more markets and gain better bargaining power by selling LNG, a super-cooled natural gas that can be shipped by across the world by tanker.

Iran, which currently exports natural gas by pipeline, could tap more markets and gain better bargaining power with LNG, which can be moved across the world by tanker.

Iran doesn't currently ship any LNG. But it has boasted it could one day export as much as 90 billion cubic meters per year, just short of the 105 billion cubic meters that Qatar, the world's largest LNG exporter, plans to ship this year.

Iran's LNG plans have been key to Tehran's long-term goal of diversifying away from its aging oil fields as a source of export revenue.

In interviews with the Iranian oil ministry website, Shana, published Saturday and Monday, top Iranian oil officials said they would suspend the Persian LNG and Pars LNG projects. Both were being developed to take advantage of gas from one of the world's largest gas fields, which Iran calls South Pars and shares with Qatar in the Persian Gulf.

In the Saturday interview, Ahmed Ghalebani, managing director of the **National Iranian Oil** Co., didn't cite sanctions when he said the national energy company was scrapping some LNG plans. He said the projects were too costly and complex and that Iran would instead build more pipelines.

Iran's decision-making could have been influenced by the current cyclical glut in the LNG market that has depressed prices. But one Iranian gas official familiar with the projects said the most recent round of sanctions enacted by the EU, some of which target Iran's energy sector, played a role.

The measures effectively prevent big European energy companies from playing a significant role in Iran. They also appear to make it harder for Iran to gain niche LNG technology through licensing arrangements from smaller European companies, analysts said.

"Sanctions are one of the reasons," the Iranian official said.

Western companies, once eager to get in on Iranian energy development, have pulled back sharply amid Tehran's recent standoff with the West over its nuclear program. **Repsol YPF** SA and **Royal Dutch Shell** PLC had been in talks to enter the Persian LNG project as foreign investors.

In June, Repsol dropped out of the discussions. At the time, Iran said it had contracted the gas development work to domestic companies.

A spokesman for Repsol said the company's pullout was driven by "a portfolio decision" to focus elsewhere. Shell declined to comment.

Associated Press

A worker walking on the grounds of a partially built facility at Iran's giant South Pars gas field in July. Officials have said they will suspend activity at the Pars LNG project.

Gas titans

Top 10 countries in 2009 for proven natural-gas reserves and liquefied-natural-gas exports.

By gas reserves, in trillions of cubic feet		By LNG exports, in billions of cubic meters	
Russia	1,567.1	Qatar	49.44
Iran	1,045.7	Malaysia	29.53
Qatar	895.8	Indonesia	26.00
Turkmenistan	286.2	Australia	24.24
Saudi Arabia	279.7	Algeria	20.90
U.S.	244.7	Trinidad and Tobago	19.74
United Arab Emirates	227.1	Nigeria	15.99
Venezuela	200.1	Egypt	12.82
Nigeria	185.4	Oman	11.54
Algeria	159.1	Brunei	8.81

Source: BP Statistical Review of World Energy

Total SA of France, which had been in talks to help develop Pars LNG, has put off committing to invest, citing sanctions in the past. The company declined to comment.

Germany's **Linde** AG has sold LNG technologies to another Iranian LNG project, which is nearing completion. But a spokesman said Wednesday that "given the current political environment, we do not consider new business opportunities in Iran." He didn't cite sanctions as a reason for the decision. It's unclear whether Linde was bidding for work related to the two suspended projects.

Mehdi Varzi, president of a U.K.-based energy consultancy and a former Iranian oil official, said the new European sanctions effectively make the LNG projects unfeasible. Even independent European consultants appear to be barred from providing services to Iran's oil and gas sector, he said.

Western companies have a stranglehold on LNG technology. That makes it difficult for countries not enforcing tough sanctions—like China—to fill the gap, Mr. Varzi said. The two suspended LNG projects can't start "until the overall resolution of the nuclear issue," he said.

NIOC's Mr. Ghalebani and representatives at Pars LNG couldn't be reached. Officials at Persian LNG didn't return a request for comment.

Last month, the engineering subsidiary of Iran's **Revolutionary Guard Corps** said it would pull out of two other South Pars gas-development projects unrelated to LNG. The unit was a target of new United Nations sanctions, and the move could have been an effort to protect the project—or foreign partners—from falling afoul of the new measures.

Mr. Ghalebani said the country wouldn't abandon LNG projects altogether. Another large project, Iran LNG, is nearing completion and is expected to go online in 2012.

Western officials, meanwhile, have been on the lookout for signs that new U.N., U.S. and EU measures enacted in recent weeks are having any effect. Iranian officials and businessmen and executives across several major industries—including shipping, insurance and energy—have been trying to assess the ramifications of sanctions on their businesses.

U.S. officials have said the sanctions are already pinching Tehran. Independent reporting inside the country is greatly restricted, and it's difficult to assess the moves' significance so far.

One key indicator will be whether a new U.S. law aimed at curtailing foreign gasoline imports into Iran will cause any real pain for the government or Iranian consumers. Despite Iran's oil wealth, the country has limited refining capacity and imports as much as 40% of the gasoline it consumes.

FACTS Global Energy, a Singapore-based energy consultancy, estimates that about six gasoline tankers dropped anchor in Iranian ports in July, about half as many as before the latest round of international sanctions. That is enough to meet demand, the consultancy says, as gasoline rationing has kept a lid on consumption.

The gasoline shipments were from Turkey and China, according to FACTS. Both countries said they would abide by U.N. sanctions but aren't beholden to unilateral U.S. or EU measures. Iranian distributors can also find gasoline supplies, at a premium, from a flourishing black market for fuel products in the Persian Gulf.

"There is no evidence of a shortage in Iran," said Fereidun Fesharaki, an Iranian oil specialist at FACTS.

Still, Iran must spend more for gasoline now than it did in early 2010, traders and analysts say. Cargoes headed to Iran are fetching at least 20% more than what they did at the start of the year, said one London-based oil trader, partly reflecting the higher risk premium of doing business with Iran.

The **Iranian government** "will have to keep paying these rates if they want gasoline," the trader added.

—Kazuhiro Shimamura in Tokyo contributed to this article.

WORLD NEWS

The demographics driving nations' wealth

[Capital]

By David Wessel

Demography is *not* destiny. In 1300, China was bigger than Europe and had the world's most sophisticated technology. But China blew it. By 1850, its population was 65% larger than Europe's, but—thanks to the Industrial Revolution—Europeans were far richer.

Yet demography does matter. "We never pay enough attention to demography because it's so long term," says Dominique Strauss-Kahn, head of the International Monetary Fund. So turn for a moment from angst about the disappointing pace of the economic recovery and daunting government budget deficits, and look over the horizon.

Over the next 40 years, Japan and Europe will see working-age populations shrink by 30 million and 37 million, respectively, according to United Nations projections. Birth rates are low and so many of their people are already elderly.

China's working-age population will keep growing for 15 years or so, then turn down, the result of its one-child policy and the tendency of birth rates to fall as incomes rise. In 2050, the U.N. projects, China will have 100 million fewer workers than it does today. India's population, in contrast, will grow by 300 million working-age persons over the next 40 years.

The U.S. is in between, benefiting from a higher birth rate and younger populations than Europe and Japan and more immigration. It is projected to add 35 million working-age persons by 2050.

So what?

History, as interpreted by modern economists pondering the mysteries of growth, teaches that more people lead to more ideas. And unlike land or oil, ideas can be used by more than one person simultaneously. Before countries began sharing ideas, the biggest had the most rapid technological progress. Now, trade, travel and the Internet speed new ideas around the globe ever-more rapidly. So the benefits are dispersed. Belgium is rich not because it is big or has invented a lot, but because it has the wherewithal to employ technology invented by others, notes Michael Kremer of Harvard University. The Democratic Republic of Congo is bigger, but lacks the wherewithal.

"In the coming decades, because of the Internet, because of many other changes that have shrunk the world, it's almost impossible for an individual country to keep proprietary technology for itself," says Mr. Strauss-Kahn. For a time, relatively small countries like Britain and France were global heavyweights because of their technological prowess. That day is over, he predicts. "Power equals numbers," he reasons, and that leads him to anticipate the rising influence of China and India.

Rising populations—and growing numbers of meat-eating, oil-burning consumers—create tension between environmental costs and idea-generating benefits. Some worry about the costs; others see the benefits.

"China's population is roughly equal to that of the U.S., Europe and Japan combined," optimistic Stanford University economists Chad Jones and Paul Romer observed recently in an academic journal. "Over the next several decades, the continued economic development of China might plausibly double the number of researchers throughout the world pushing forward the technological frontier. What effect will this have on incomes in countries that share ideas with China in the long run?" Somewhere between a lot and really a lot, they say.

In fact, they say that even if the U.S. had to bear all the costs of mitigating the added carbon emitted by a rapidly developing China, ideas generated by the Chinese would boost U.S. per capita income enough to more than compensate.

Despite the Internet, multinational companies and global financial markets, we are not—yet—one big world economy. Divergences in demographics have national consequences.

Today, one in five Japanese and Europeans is over age 65. In 2050, it will be one in three. Rapid productivity growth—the amount of stuff produced per hour of work—could make it easier for working-age populations to support the old folks, but productivity trends aren't promising. The Japanese and Europeans almost surely will have to work longer, take fewer vacations and probably pay more taxes. Aging also threatens the Japanese government's ability to keep borrowing so heavily. IMF economist Kiichi Tokuoka estimates that at least half of Japanese government borrowing is now financed, directly or indirectly, by Japanese households; unlike the U.S., Japan doesn't borrow heavily from abroad. Japanese savers will be selling bonds in retirement—and there aren't enough younger workers to save enough to pick up the slack.

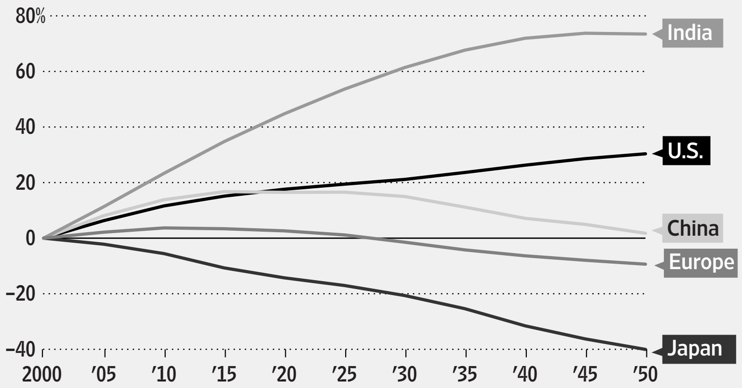
For China, the challenge is to build social structures and retirement schemes to sustain a growing cadre of old folks that, unlike previous generations, won't be able to rely so much on its children for support. Today, 1.4% of Chinese are over age 80; in 2050, 7.2% will be, the U.N. projects.

ZUMApress.com

A worker checks a train wheel on a production line Wednesday at Maanshan Iron & Steel Co. in China's Anhui Province.

Rise and fall

Cumulative change in the size of the working-age population, defined as those 15–64 years old



Note: Data for Europe exclude Russia

Source: United Nations Population Division

India has more time to adjust since its working population is likely to keep growing. Its challenge is to harness the growing number of workers in their 30s and 40s and to nurture industry and services. If India dismantles archaic labor laws, brings more women into the work force and invests in training and education, demographics could add four percentage points a year to economic growth, Goldman Sachs economists estimate. But that's a big "if."

And the U.S.? For all today's gloom, it may be in the sweet spot. A growing population, an openness to ambitious immigrants and trade (if not disrupted by xenophobic politics) and strong productivity growth (if sustained) could lift living standards and bring faster growth, which would reduce big government budget deficits far easier for the U.S. than for slower growing Europe and Japan.

Rapid gains in bioscience raise terror fears

By Keith Johnson

Rapid advances in bioscience are raising alarms among terrorism experts that amateur scientists will soon be able to gin up deadly pathogens for nefarious uses.

Fears of bioterror have been on the rise since the Sept. 11, 2001, attacks, stoking tens of billions of dollars of government spending on defenses, and the White House and Congress continue to push for new measures.

But the fear of a mass-casualty terrorist attack using bioweapons has always been tempered by a single fact: Of the scores of plots uncovered during the past decade, none have featured biological weapons. Indeed, many experts doubt terrorists even have the technical capability to acquire and weaponize deadly bugs.

The new fear, though, is that scientific advances that enable amateur scientists to carry out once-exotic experiments, such as DNA cloning, could be put to criminal use. Many well-known figures are sounding the alarm over the revolution in biological science, which amounts to a proliferation of know-how—if not the actual pathogens.

"Certain areas of biotechnology are getting more accessible to people with malign intent," said Jonathan Tucker, an expert on biological and chemical weapons at the James Martin Center for Nonproliferation Studies.

Geneticist Craig Venter said last month at the first meeting of a presidential commission on bioethics, "If students can order any [genetic sequences] online, somebody could try to make the Ebola virus." Mr. Venter is a pioneer in the field whose creation of a synthetic organism this spring helped push the debate about the risks and rewards of bioscience from scientific journals to the corridors of power in Washington.

Scientists have the ability to manipulate genetic material more quickly and more cheaply all the time. Just as "Moore's Law" describes the accelerating pace of advances in computer science, advances in biology are becoming more potent and accessible every year, experts note.

As recently as a decade ago, the tools and techniques for such fiddling were confined to a handful of laboratories. Today, do-it-yourself biology clubs have sprung up where part-timers share tips on how to build high-speed centrifuges, isolate genetic material, and the like.

That has prompted the Federal Bureau of Investigation to reach out to amateur biologists, teaching them proper security measures and asking them to be vigilant of unscrupulous scientists. "The risk we're seeing now is that these procedures are becoming easier to do," said Edward You, who heads the outreach program at the FBI's Directorate for Weapons of Mass Destruction.

Biological weapons date back millennia. Rotting and plague-stricken corpses once were catapulted over besieged city walls. Wells were routinely poisoned.

More recently, fears that terrorist groups such as al Qaeda might deploy weapons of mass destruction have kindled fears of bioterrorism. Those fears reached fever pitch after Sept. 11 when anthrax-filled mail killed five people and prompted panic. That's when Washington boosted spending on biodefense.

WORLD NEWS

China economy is still cooling on Beijing move

By Aaron Back

BEIJING—Key drivers of China's economic growth continued to cool in July, according to new figures that the government said showed the success of its recent push to achieve a moderate slowdown and avoid asset bubbles.

Industrial output, a major indicator of activity in this manufacturing powerhouse, was up 13.4% in July from a year earlier, slowing from the 13.7% gain in June, the National Bureau of Statistics said Wednesday. The monthly data also indicated that growth in urban fixed-asset investment, China's benchmark measure of capital spending, slowed to 22.3% in July from a year earlier, down from the 25% pace of recent months. The figures were generally in line with market expectations, and officials appeared satisfied with the results.

"The momentum of China's economic growth is still comparatively strong," said Sheng Laiyun, spokesman for the statistics bureau. "An appropriate economic slowdown helps prevent overheating, accelerate restructuring and maintain sustainable economic development," he said, echoing recent comments by other officials.

China's government this year has been gradually dialing back the enormous stimulus it applied to the economy since late 2008, while also clamping down on property-market speculation and on the expansion of polluting and energy-intensive industries.

With the economy expanding 11.1% in the first half of this year, the government feared that overly rapid growth might inflate a housing bubble and compromise the government's environmental goals.

Those risks seem to be receding somewhat with the moderation in recent economic indicators, and many economists say the government hasn't overdone the slowdown. "China's growth is slowing, but we see no sign of a hard landing," Bank of America-Merrill Lynch economist Lu Ting said.

Mr. Sheng of the statistics bureau said private-sector investment has picked up in recent months and will be supported over the long term by China's urbanization process.

Inflation did tick up in July, with China's consumer price index rising 3.3% in July after 2.9% in June, but economists said the gain largely reflected a rise in food prices amid severe flooding in many areas across the country. Economists expect that one-off effect to dissipate in the months ahead, when most are forecasting inflation to decline. Underscoring those receding inflationary pressures, the producer price index rose 4.8% in July from a year earlier, down from June's 6.4%.

There is still concern that China's slowdown could become sharper and more disruptive than intended. "Slowing demand could be adding to growth worries, which could possibly trigger the government to take a more accommodative policy stance," said ING economist Prakash Sakpal.

Some economists say the government may end up raising the ceiling on bank lending, which is constrained by an official target to lend no more than 7.5 trillion yuan ($1.1 trillion) this year. That measure has been key to regulating the government's delivery of stimulus to the economy, most of which has come through the state-controlled banking system. However, the central bank has said the target won't be changed.

In July, financial institutions in China extended 532.8 billion yuan in new loans, the People's Bank of China said separately Wednesday, down from 603.4 billion yuan in June. The figures mean that banks have used up 69% of their annual quota, though in China, lending is typically concentrated in the first half of the year.

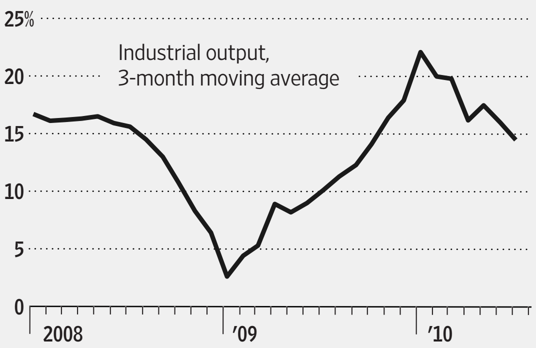
The slowdown also was reflected in the growth of the money supply, with the broad M2 measure rising 17.6% in July after 18.5% in June. That is the smallest increase in the money supply in a year and a half, which Goldman Sachs economist Yu Song called alarming.

"We believe this level of broad money supply growth is clearly too restrictive as it will put more downward pressure on domestic demand growth in the near future," he said.

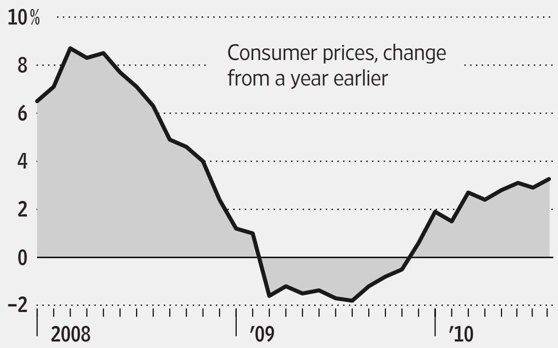
—Liu Li in Beijing and Esther Fung in Shanghai contributed to this article.

A member of the Chinese military selects vegetables at a market in central Beijing Wednesday.

China's economic activity continues to slow...



And inflation picks up because of increased food prices.



Sources: China's National Bureau of Statistics; Reuters (photo)

Beijing orders nation's banks to close regulatory loophole

Continued from first page

much higher levels of lending than official data indicate.

No official data are available for the volume of bank loans that were repackaged as trust products. Fitch Ratings puts the figure at 1.3 trillion yuan ($192 billion) for the first half of 2010. That would mean that in addition to the 4.6 trillion yuan that was lent by banks over the period, a further 28% worth of new loans were issued.

That represents a massive expansion of credit at a time Beijing has been trying to wean the economy off stimulus spending. Including repackaged, off-balance-sheet loans, China's financial sector is on track to match the unprecedented 9.6 trillion yuan of new loans last year.

Yet China's property bubble is already starting to deflate and data issued Wednesday show industrial output and investment continuing to slow. Market jitters over the extent to which China will continue to drive global demand helped send the Shanghai Stock Exchange's benchmark index down 2.9% Tuesday to its lowest point in two weeks. It rebounded 0.5% Wednesday.

The step to rein in banks comes weeks after the Agricultural Bank of China raised more than $20 billion, a sign of the faith some investors still have in China's banking sector.

China's banking regulator has been struggling to bring the problem of banks' off-balance-sheet liabilities under control since the end of last year. Such vehicles make it harder for regulators to keep track of trouble in the banking system and control credit growth, although some analysts say the loans in question are typically high-quality corporate loans with little risk of default.

Early moves to crimp the practice had little effect, with loans sold to trust companies ballooning in the first half of this year as limits on the amount of new loans banks could issue sent them looking for alternative avenues through which they could lend to their customers.

The China Banking Regulatory Commission had set 7.5 trillion yuan in new loans as this year's lending target. That ceiling may not hold if the regulator wants to soften the impact on the economy of the sudden drying-up of credit from trusts.

Analysts say property developers and local government-backed infrastructure projects have raised significant amounts of credit from banks' off-balance-sheet lending.

"It appears the rapid increase in the bank-trust loans has raised concerns among regulators, partly because the lion's share of the proceeds raised from such products have gone to the property market," said Zhao Xijun, deputy dean of the School of Finance at Renmin University of China.

Chinese banks temporarily sell loans to trusts, promising to repurchase the loans any time between a few weeks and a few years later. Given that the loans ultimately return to the banks, analysts say they should retain responsibility in case of default, but they typically don't count them on their books.

Off-balance-sheet loans aren't the only problem for banking regulators to emerge from the financial crisis. Data collected from the banks by the CBRC at the end of June indicate about 20% of loans to local-government financing platforms—state-owned companies that raise money from banks to fund local projects, something local governments are formally banned from doing—were a high default risk and weren't backed by sufficient guarantees or cash flow.

The CBRC has told banks to conduct "stress tests" to predict the impact on loan quality of a drop in property prices of up to 50% in some cases.

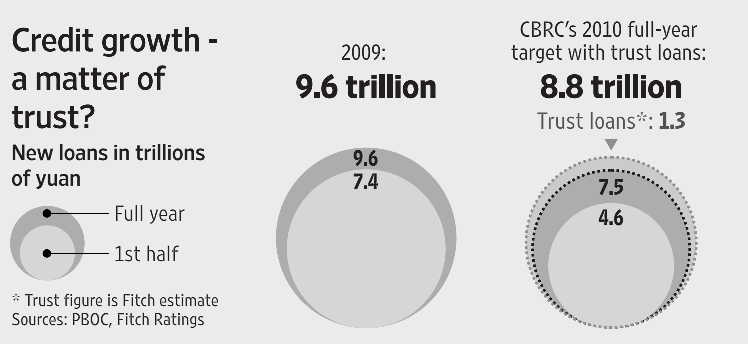
The CBRC's new rules don't impose an outright ban on repackaging loans but significantly raise the costs to banks by requiring them to keep the loans on their books, and by extension hold capital against them in case of default.

According to a copy of the directive reviewed by The Wall Street Journal, the loans moved back on to banks' balance sheets must have a bad-loan coverage ratio of 150%, the same as for other assets. Large banks must hold an 11.5% capital-adequacy ratio against these assets and small and midsize banks a 10% capital-adequacy ratio.

There is unlikely to be a sudden recall of trust products. According to Fitch, 65% of trust products will have matured by the middle of next year, with a minority outstanding when the CBRC's deadline falls due.

China's trust companies have more in common with hedge funds than trusts in the West. They were born from the "trust and investment" companies that proliferated throughout China in the 1990s primarily as funding vehicles for construction companies. A crash in property prices embroiled the companies in a major debt crisis, most notably resulting in the default of Guangdong International Trust & Investment Co. in 1998 and Hainan ITIC a year later.

—Rose Yu in Shanghai contributed to this article.



New milk questions emerge in China

By Brian Spegele

BEIJING—Mounting questions about abnormal hormone levels in several Chinese infants who demonstrated early signs of puberty have prompted a Chinese milk supplier and New Zealand dairy giant **Fonterra Cooperative Group** Ltd. to defend their products.

The issue comes two years after the 2008 milk scandal, in which at least six children died and 300,000 were sickened from milk that contained dangerous levels of melamine, an industrial chemical.

The Chinese company at the center of the latest questions, Nasdaq-listed **Synutra International** Inc., insists it isn't to blame for symptoms of sexual prematurity in babies, including breast growth. On Synutra's website, it says the company has never added illegal hormones to its milk products, and questions links between its product and the babies' signs of puberty.

"These claims are highly irresponsible and based on speculation instead of scientific evidence," said the company's chairman and chief executive, Liang Zhang. "As a well-known and trusted provider of infant formula in China, we are completely confident that our products are safe and our quality levels are industry leading."

Earlier this month, parents and doctors in central China's Hubei province began voicing concern that milk powder from Synutra had caused at least three infant girls to exhibit signs of puberty, the state-run Xinhua news agency reported. This week, Ministry of Health officials said they were launching an investigation into the milk powder.

At a news conference on Tuesday, a spokesman for China's Ministry of Health said multiple factors could cause sexual prematurity, and experts couldn't yet determine whether food was a factor, Xinhua reported.

In 2008, Fonterra, one of New Zealand's largest companies, faced a wave of criticism in the aftermath of the milk scandal. Fonterra owned a large stake in one of the companies at the center of the scandal, the now-defunct Sanlu Group, but has flourished in China following Sanlu's closing. Synutra recalled some of its products during the melamine scare.

Synutra has said it has been using milk powder imported from Europe and New Zealand.

Both Fonterra, which supplies milk powder to Synutra, and New Zealand authorities issued statements Wednesday.

"In New Zealand there are strict legislative controls on the use of hormonal growth promotants," said the New Zealand Food Safety Authority. "NZFSA is seeking clarification about the media reports from China."

Fonterra said the country's strict controls mean the routine testing for hormones is unnecessary. "Fonterra remains 100% confident about the quality of its product," it said.

Along with receiving supplies from Fonterra, Synutra contracts with local Chinese suppliers and dairy companies in Europe. On Monday, Synutra shares fell 27% after reports of the puberty symptoms in local media. On Wednesday afternoon, the shares were up two cents each at $13.02, but are down 48% from their 52-week high reached in May.

Agence France-Presse/Getty Images

A child plays beside tins of milk powder made by Synutra International at a supermarket in Beijing on Monday.

Mudslide death toll climbs above 1,100

By Brian Spegele

BEIJING—The official death toll from a massive mudslide in northwest China rose to 1,117 on Wednesday, the state-run Xinhua news agency reported, with 627 people still missing, as questions continue to rise about what role environmental degradation may have played in triggering the disaster.

China's National Meteorological Center said there was a "relatively large" chance that more mudslides would occur in the coming days, the Associated Press reported.

The official toll rose from 702 on Tuesday as more bodies were recovered, but rescue teams' efforts to locate survivors were becoming increasingly grim four days after the landslide early Sunday morning.

As rescue efforts continue and with rebuilding efforts on the horizon, questions are increasingly focused on what caused the disaster.

It appeared government officials are beginning to acknowledge that overdevelopment may have contributed to the disaster, even as they cautioned that the investigation into the causes of the slide was still in its early stages and stressed that rains had been unusually heavy before the collapse.

Jiao Yong, deputy vice minister of the Ministry of Water Resources, said that in the future there should be a greater effort to make sure that development is "in harmony with nature."

Experts overseas have been more explicit in linking overdevelopment with the disaster. "This all shows that the law of nature has to be respected and the government should realize if they do not take the ecosystem seriously, then it will eventually cost more in the end," said environmentalist Wen Bo, a senior fellow with U.S.-based Pacific Environment.

Chinese officials also drew attention to natural causes. "A lingering drought lasting almost nine months in some local areas and the 2008 earthquake that might have loosened the mountainside and caused some cracks are also reasons behind the devastating mudslide," said Tao Qingfa, deputy director of the Department of Geological Environment of Ministry of Land and Resources, according to the AP.

—Shai Oster contributed to this article.

Agence France-Presse/Getty Images

A woman cries over the body of her child on Wednesday amid the rubble of landslide devastation in Zhouqu, in northwest China's Gansu province.