

THE WALL STREET JOURNAL.

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DJIA 20981.33 ▲ 0.03%

NASDAQ 6048.94 ▲ 0.39%

NIKKEI 19251.87 ▼ 0.19%

STOXX 600 387.79 ▼ 0.24%

BRENT 51.44 ▼ 0.73%

GOLD 1263.70 ▲ 0.13%

EURO 1.0876 ▼ 0.28%

What's News

Business & Finance

Samsung surprised investors and South Korean lawmakers by rejecting calls to restructure into a holding company. **A1**

◆ U.K. regulators are requiring companies to detail how they pay their suppliers as they seek to address late-payment practices. **B1**

◆ The ECB gave no signs that it is ready to wind down its monetary stimulus despite an economic rebound in the eurozone. **A4**

◆ Deutsche Bank's profit more than doubled but its debt-trading revenue lagged behind its peers. **B1**

◆ Google parent Alphabet said revenue climbed 22% and profit jumped 29%, beating estimates. **B1**

◆ Amazon's profit rose 41%, even as the company spent heavily on international expansion and other areas. **B4**

◆ Microsoft's cloud unit saw growth surge continuing the firm's shift to on-demand computing. **B4**

◆ Ford's profit fell 35% amid higher costs and weaker U.S. sales, sending the car maker's shares down. **B3**

◆ KKR swung to a first-quarter profit, aided by appreciation in its private-equity and debt holdings. **B5**

◆ Lloyds said first-quarter earnings climbed, helped by a drop in bad loans. **B7**

World-Wide

◆ Trump said he was preparing to pull out of Nafta but changed his mind after leaders of Mexico and Canada asked him to instead renegotiate the pact. **A1**

◆ A blast shook Damascus in what Syrian state media said was an Israeli missile strike on a military installation near the airport. **A3**

◆ Two U.S. soldiers were killed and another wounded during a late-night operation in Afghanistan, the Pentagon said. **A3**

◆ The Pentagon opened a probe into whether ex-national security adviser Flynn broke the law by taking foreign payments. **A5**

◆ House Republicans moved closer to a healthcare overhaul but face the task of persuading centrists to back some provisions. **A5**

◆ House lawmakers released a one-week spending bill to keep the U.S. government open while they negotiate a deal **A5**

◆ British police arrested a man carrying knives near Parliament on suspicion of preparing terrorist acts. **A3**

◆ Merkel warned that the U.K. risked "wasted time" because some Britons had illusions over Brexit terms. **A4**

◆ Venezuela said it would begin the process of pulling out of the OAS. **A4**

Notice to Readers

WSJ.com will publish throughout the weekend and on Monday. The Wall Street Journal print edition won't be published on Monday in Europe.

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U.K. Police Arrest Knife-Carrying Man on Terrorism Suspicions



NO BYSTANDERS INJURED: The arrest near Parliament follows an incident there in March in which a man mowed down pedestrians. **A3**

DOMINIC LIPINSKI/PA/ASSOCIATED PRESS

THE NEXT U.S. TAX BATTLE

Trump's proposal would kill a favorite blue-state deduction, prompting bipartisan backlash

BY RICHARD RUBIN

WASHINGTON—A big tax break skewed toward Democratic-controlled blue states is the next major battleground as President Donald Trump and congressional Republicans attempt to rewrite the tax code.

The tax policy outline Mr. Trump unveiled Wednesday proposes repealing the deduction for state and local taxes, which lets individuals subtract their home-state levies from their federal taxable income. That move was a major shift for Mr. Trump, who previously had called for capping deduc-

tions but not killing the break.

What makes the latest proposal politically divisive—and could lead to a split inside the Republican Party—is that it would shift the tax burden from low-tax states such as Texas and Florida to high-tax states such as New York and New Jersey. Blue-state Democrats criticized the proposal, as expected, but Republicans from those states don't like it either.

Congressman Peter King (R., N.Y.), who represents part of Long Island, says he is on board with the GOP's philosophy eliminating tax breaks and cutting rates, right up to the point

where it thwarts his constituents and their ability to subtract \$12,000 annual property tax bills from their federal income.

"I am a Jack Kemp Republican," he said in a recent interview. "I believe in supply-side economics. I'm all for that. But again, this has a unique hit on Long Island."

In the weeks leading up to the White House's announcement, Mr. King, New York Democrats and business groups had been urging Republi-

Please see TAXES page A6

◆ Investors discount hype over tax plan... **B1**

Trump Reverses Course On Nafta

President Donald Trump said he was preparing to pull out of the North American Free Trade Agreement but changed his mind after his

By Peter Nicholas,
Paul Vieira
and José de Córdoba

counterparts in Mexico and Canada called him Wednesday and asked him to renegotiate the 23-year-old pact instead.

Speaking in the Oval Office on Thursday, Mr. Trump said withdrawing from Nafta "would be a pretty big shock to the system," though he said he is

President's First 100 Days

An examination of what the Trump administration has done and where it is headed as it reaches its milestone 100th day on Saturday. **A7**

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Mr. Trump's comments come after a day of mixed messages from the White House about a complicated piece of trade policy. Senior White House officials met privately on Wednesday to talk through various options, including terminating Nafta. At one point the White House appeared poised to release an executive order signaling the U.S.'s intent to pull out of the

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WORLD NEWS

Israelis Are Living With a New Neighbor: ISIS



MIDDLE EAST CROSSROADS

By Yaroslav Trofimov

ELIAD, Golan Heights—On one side of a fence that snakes through eucalyptus-covered ridges is a swath of Syrian villages held by Islamic State. On the other, Yitzhak Ribak grows his Merlots, Cabernet Sauvignons and Syrahs.

"My grapes are just 10 meters from the border fence. Sometimes I hear the booms on the other side. Sometimes I see people on the other side. They look like shepherds, but who knows," said the Israeli winemaker. "It's crazy."

So far, Islamic State hasn't bothered his vineyard. "I am here all alone on my tractor at night and I am not afraid."

While most attention has focused on Islamic State's shrinking but still vast territory in eastern Syria and northwestern Iraq, the extremist group has also proved surprisingly resilient in the pocket of land it controls just outside Mr. Ribak's vineyard. The area sits at the confluence of Syria, Jordan

and the Israeli-annexed Golan Heights.

Known as the Khalid bin Walid Army, the local Islamic State affiliate has rebuffed repeated offensives by the Western-backed Free Syrian Army and other moderate rebels. The porous nature of Syria's front lines and corruption within FSA ranks have allowed Islamic State personnel and weapons to infiltrate the area known as the Yarmouk Basin, said Aymenn Jawad al-Tamimi, a security analyst who follows the group.

The presence of Islamic State so close to Israeli-populated towns and villages along the demarcation line in the Golan Heights poses an obvious threat—albeit one that so far hasn't materialized into cross-border attacks.

"The Golan is still the quietest place in the whole country," said Yoni Hirsch, chairman of the municipal council of Nov, an Israeli community of some 800 people about 2 miles from Islamic State-held areas.

"But we know what is happening across the border, and we are getting ready for what may happen," he added. "We know that in one day with the decision of one person on the other side, our lives can change."

The Israeli government is taking no chances. Over the past three years, it has replaced the old security fence in the Golan Heights, a plateau seized from Syria in the 1967 Middle East war, with a



Yitzhak Ribak looks at Syrian villages held by Islamic State near his vineyards in the Golan Heights.

YAROSLAV TROFIMOV/THE WALL STREET JOURNAL

new structure some 20 feet high and equipped with modern sensors. It is also erecting a new fence further south along the border with Jordan.

"As the dangers go up, so does the fence," Mr. Hirsch said.

Islamic State, like other jihadist groups, has repeatedly pledged to eliminate Israel as part of its plan to build a world-wide Islamic caliphate.

"We don't have any doubt about their ideology and their dedication to destroying Israel," said retired Israeli Brig Gen. Effie Eitam, a

former cabinet minister and a resident of Nov.

But Islamic State also has priorities and in southern Syria, the militants have focused on fighting more moderate rebels.

"They are cleverer than attacking Israel. They know Israel has an army and can launch airstrikes and they don't want to open another front line," said Free Syrian Army Maj. Issam al-Reis, a spokesman for the coalition of rebel groups known as the Southern Front. "They are not interested in killing Is-

raelis. What they are interested in is killing us."

Such an unexpectedly peaceful coexistence with Islamic State next door helps explain Israeli perceptions of the Syrian conflict. The U.S. and its European allies view Islamic State, which has carried out terrorist attacks in the West, as the principal threat.

Israeli officials, by contrast, are far more alarmed by Iran and the Lebanese Hezbollah militia. Preventing Iranian proxies from getting

close to the Golan has emerged as a key Israeli priority in the Syrian conflict.

Islamic State, also known by its Arabic acronym Daesh, "is not powerful enough to make us fear," said Ayoub Kara, the only Arab minister in the Israeli government who says he is in regular contact with various Syrian factions.

"Daesh is going to lose," he added. "There is no way it is going to be successful and by the end of the year, we won't see it in any state around here. The problem of the Middle East is the capital of extremism that is Iran."

For Mr. Ribak, who moved to Eliad in 1973 a few months before Syrian tanks attempting to recapture the Golan were stopped outside the village, the growth of Islamic State across the fence carries a clear message. Israel was lucky, he said, that its lengthy attempts at peace talks with Syria, based on trading the Golan Heights for a peace treaty, collapsed in 2010.

"If we had given the Golan to Syria then, it would have all become ISIS-land," Mr. Ribak said on a drive along the border fence. Like many people in the region, Mr. Ribak, who markets his wine under the Chateau Golan brand, said he has developed his own answer to the Middle East's intractable problems.

"I know how to solve it," he said. "Very simple. If all the people here start to drink wine, they will become happy and then there is no problem."

those troubles, which included its ignoring California regulator warnings by putting self-driving cars on San Francisco streets in December. Uber withdrew the cars, got proper permits, and brought some self-driving autos back to the city.

In February, a former engineer accused Uber of being permissive of sexual harassment. Mr. Kalanick condemned the behavior she described and ordered an investigation.

That month, Google parent Alphabet Inc. alleged Uber conspired to steal self-driving-vehicle technology, claims Uber denied. Then a video of Mr. Kalanick yelling expletives at an Uber driver emerged, prompting him to pledge to "grow up."

In March, Uber acknowledged an initiative to elude regulators with a fake version of its app, meant to circumvent stings. It said it ended the practice.

Mr. Kalanick's reputation likely isn't making the search harder than similar hunts elsewhere, said Dora Vell, CEO of executive recruiters Vell & Associates Inc. because qualified executives usually believe they can handle a difficult leader. The firm isn't involved in Uber's search.

The bigger problem, she said, is that Uber wants someone with so many qualifications and that it has such an unusual corporate culture. "The sum total of the requirements and the culture fit will make it very hard to find one person who has everything," Ms. Vell said.

—Joann S. Lublin contributed to this article.

UBER

Continued from Page One

Mr. Kalanick wooed a No. 2 before, retail veteran Jeff Jones, telling him Uber was ready for a strong second-in-command, said a person familiar with Mr. Jones's tenure. Mr. Jones, hired from Target Corp. to be president of ride-sharing, soon found Mr. Kalanick unwilling to be challenged, the person said. Mr. Jones left in March after six months.

Whoever becomes COO must help steer Uber out of the biggest turmoil in its eight-year history. In rapid succession, it has faced sexual-harassment allegations, a lawsuit over allegedly stolen technology, disclosure of an app to evade regulators, a falling-out with its headquarters city over a self-driving car test and an exodus of executives.

The blows have so far been mainly to Uber's image, but the incidents are exposing it to legal challenges, threatening to slow its critical push toward self-driving vehicles and complicating its prospect of an initial public offering.

The new COO will also face problems with Uber's business model, which requires subsidies—such as sign-up bonuses and cash rewards for reaching certain driving targets—to keep its contract drivers driving. Uber said it lost \$2.8 billion last year on \$6.5 billion in revenue, not including its unprofitable China business, which it sold, and other items such as stock compensation.

Mr. Kalanick has insisted on running Uber like a scrappy startup even though it is now a global company whose private valuation exceeds those of companies such as Ford Motor Co.

It operates in more than 70 countries with around 12,000 employees and 1.5 million contract drivers, yet it has no chief financial officer. Unlike smaller rival Lyft Inc., it has had no chief operating officer with companywide duties. Until lately, it had a spartan human-resources department, said current and former employees; it brought on its latest human-resources chief in January, six months after her predecessor left.

"There is a point when you go from an entrepreneurial fly-by-the-seat-of-your-pants startup to a professional organization that needs all the structure and bureaucracy that goes with it," said Michael Barnett, professor of management at Rutgers Business School, "and they are big enough in terms of most measures to need that."

Current and former employees describe a workplace that could resemble aspects of the startup world parodied in the television series "Silicon Valley."

Mr. Kalanick, they said, established a culture that pressured staff to stay late to be present when strategic conversations happened and for fear they would get reprimanded for not having a strong work ethic.

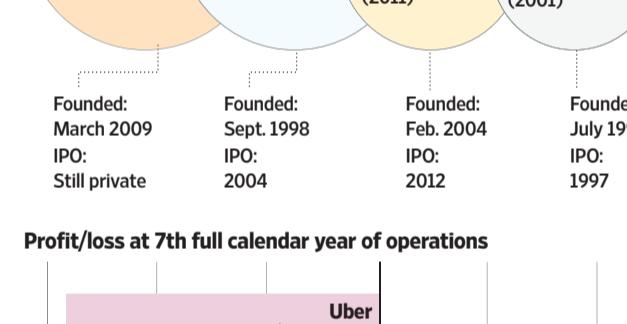
A Kalanick hallmark has been night jam sessions—"ses-

hes," in Uber parlance—that could last until 2 a.m. The CEO

Seven Years In

How Uber's financials after seven years compare with those of Google, Facebook and Amazon at the same age.

Revenue at 7th full calendar year of operations



Profit/loss at 7th full calendar year of operations



THE WALL STREET JOURNAL.

sometimes summoned employees with little warning, causing them to delay other projects and scramble to prepare for session topics such as how to capitalize on Uber's size. A topic might be debated each

night for a week.

Mr. Kalanick played teams against each other, sometimes sowing resentment. Those elements went beyond fostering competitiveness, said some of the current and former em-

ployees, leading to disorganization and infighting.

Mr. Jones, upon leaving Uber, issued a statement that "the beliefs and approach to leadership that have guided my career are inconsistent with what I saw and experienced at Uber."

Uber shareholders continue to support Mr. Kalanick, including Shawn Carolan, managing director at venture-capital firm Menlo Ventures. "Founders bring something else to the table; they deeply feel and believe in the mission," he said. "I do believe Travis believes in the mission to the core."

The board hasn't considered replacing Mr. Kalanick, director Arianna Huffington, the media mogul, said last month, "because it hasn't come up and we don't expect it to."

Mr. Kalanick and two other early employees have majority voting control in the seven-member board. The other directors are private-equity billionaire David Bonderman, venture capitalist Bill Gurley and an official from a Saudi Arabian government investment fund.

In prior searches, the board generally left Mr. Kalanick and other executives to conduct personnel reviews, though directors have in the past recommended executives, said people familiar with the search. This time, directors Mr. Gurley and Ms. Huffington are helping interview candidates. Uber has retained executive-search firm Heidrick & Struggles International Inc.

One of the COO's tasks will be to help Uber recover from

voting clout and a greater share of the earnings.

Samsung Electronics' shares rose 2.4% on Thursday, buoyed by the restructuring news and the delivery of the company's best quarterly net profit in more than three years. Net profit increased sharply to 7.68 trillion South Korean won (\$6.8 billion) in the first three months of 2017, a 46% rise from a year earlier. Revenue edged up slightly to 50.55 trillion won, and operating profit rose to 9.90 trillion won, up 48% from the year before.

Samsung first announced that it would look into transitioning into a holding-company structure in November, after demands from investors, including U.S. activist hedge fund Elliott Management Corp.

In Thursday's earnings call, Samsung Electronics' head of investor relations, Robert Yi, said that the company's decision to not adopt a holding-company structure is definite and final, adding that the firm would explore other ways to simplify its structure.

"Samsung has no plans of converting into a holding-company structure," said Mr.

Yi, adding that Mr. Lee had been informed of the decision but didn't have a particular view on it.

An Elliott spokesman said in response that it was "encouraged" that Samsung decided to cancel the treasury shares, calling the move "a major step forward" for the hedge fund's plan for the South Korean tech giant.

"We believe that the recent strong appreciation in the stock price is reflective in part

CORRECTIONS & AMPLIFICATIONS

New York gallery Fort Gansevoort has postponed Ryan Neil's show Mirai, which will feature bonsai trees, to this summer or fall. An article in the May edition of WSJ Magazine, which went to press before the gallery announced the change, said that the show would open in May 2017.

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com.

of a progressive initiative to improve shareholder returns," the Elliott spokesman said.

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WORLD NEWS

Blast Hits Military Post Near Damascus

Syrian state media report Israeli missiles targeted installation near capital's airport

A huge explosion shook Damascus in what state media said was an Israeli missile strike on a military installation near the Syrian capital's international airport.

By **Rory Jones**
in Tel Aviv and
Noam Raydan in Beirut

Israel neither confirmed nor denied it was behind Thursday's blast, in keeping with official government policy of not commenting on some national security issues. But Israel's transport and intelligence minister Yisrael Katz told Israel's Army Radio that the incident in Damascus was "entirely consistent with our policy of preventing smuggling of weapons to Hezbollah."

The explosion occurred amid escalating tensions between Israel and Iran, which together with Hezbollah, the Lebanese militia and political group, provides crucial support to Syrian President Bashar al-Assad and his regime's efforts to defeat an array of opposition rebels and militant groups, including Islamic State.

Later Thursday, Israel's military said its Patriot missile defense system had intercepted a target over the Golan Heights. The military didn't immediately disclose what the target was, but Israeli media reported it was a drone. The military said it would disclose more details later.



SAJJAD AL-AOUNI/AGENCE FRANCE PRESSE/GT

A photo taken in the rebel-held town of Douma shows flames believed to be coming from near Damascus International Airport Thursday.

Israeli Prime Minister Benjamin Netanyahu has recently raised the alarm with Washington and other Western governments over what his government says is deepening Iranian involvement in Syria that will endure past any political settlement of the war there, now in its seventh year.

Israeli Defense Minister Avigdor Lieberman told a security conference in Moscow this week that Israel wouldn't permit any concentrations of Iranian and Hezbollah forces in the Golan Heights, along Israel's disputed border with Syria.

Thursday's blast, which hit at 3:25 a.m. local time, reverberated across Damascus and

its suburbs, the U.K.-based opposition monitoring group Syrian Observatory for Human Rights said.

Citing an unnamed military source, Syria's state news agency, SANA, said "multiple rockets were launched from inside the occupied territories causing explosions and some material damage" to a "military position southwest of the airport." There were no immediate reports of casualties.

The explosion took place several hours after at least two cargo planes originating in Tehran landed at the airport, according to the tracking site Flightradar24.com. The aircraft were an Iranian 747

and a Syrian Ilyushin il-76, the website said.

The Wall Street Journal couldn't determine whether the arrival of the cargo planes and the explosion at a nearby military installation were connected.

The Damascus airport serves both civilian and military air traffic, and nearby buildings are believed to be depots for weapons and materiel, both for the war and Iranian-supplied weapons bound for Hezbollah in Lebanon. The Shiite Muslim group supplies fighters to the Assad regime.

A commander for the rebel Free Syrian Army said Iraqi and Iranian Shiite militiamen

arriving in Syria to fight on the side of government forces are processed through a military-controlled area inside the airport.

SANA didn't indicate whether the missiles were launched from an aircraft or from land. It also didn't indicate whether they were shot from Israeli airspace or from Israeli territory, or from disputed land in the Golan Heights that Israel controls.

The Israeli military has said its aircraft don't need to enter Syrian airspace to launch strikes against targets in Syrian territory.

The head of the Observatory, Rami Abdulrahman, said

the strike was launched from outside Syrian territory, adding that the full details of how it was carried out were still unclear.

The pan-Arab news channel Al-Mayadeen reported it was a missile attack launched from the Golan Heights, adding that Israeli warplanes didn't enter Syrian airspace.

In Moscow, Kremlin spokesman Dmitry Peskov criticized what he said were Thursday's Israel missile strikes, calling other countries to respect Syria's sovereignty.

"We continue to believe that all countries should refrain from any kinds of actions that lead to a heightening of tensions, including in that respective region, and we call for respect for the sovereignty of Syria," state news agency RIA quoted Mr. Peskov as saying.

Israeli warplanes in March carried out airstrikes inside Syria, drawing fire from Syrian government antiaircraft missile batteries in the most intense military exchange between the two countries since the start of the Syrian war.

A senior Israeli military official said this week that Israeli aircraft destroyed about 100 missiles in the attack, many of which, the official said, were due to be delivered to Hezbollah.

Israel was forced to disclose the clashes to the Israeli public because explosions had been heard and sirens sounded in the Jordan Valley after Israel's antimissile system shot down a projectile.

Along Israel's border with Lebanon, tensions have also run higher.

—*Suha Ma'ayeh, Robert Wall and Thomas Grove contributed to this article.*

U.S. Soldiers Killed in Afghan Clash



GHULAMULLAH HABIBI/EUROPEAN PRESSPHOTO AGENCY

An Afghan soldier patrolled in Nangarhar earlier this week.

Two U.S. Army service members were killed and another wounded during a late-night operation in Afghanistan, the Pentagon said on Thursday, following the death of an American soldier there this month.

By **Jessica Donati** in Kabul and **Ben Kesling** in Washington

Two U.S. Army service members were killed and another wounded during a late-night operation in Afghanistan, the Pentagon said on Thursday, following the death of an American soldier there this month.

The latest deaths come as the White House debates the U.S. military's request for more troops to fight resurgent Taliban and Islamic State threats in Afghanistan.

U.S. Defense Secretary Jim Mattis was in the capital Kabul on Monday to discuss the troop request. A number of the Afghan military's top officials,

including defense minister Abdullah Habibi and army chief of staff Qadam Shah Shahim, resigned that day in the wake of the deadliest Taliban attack since 2001.

Taliban militants toting machine guns and explosives had on April 21 gained access to the Afghan army's northern headquarters, massacring at least 170 of its soldiers. The government admitted the scale

of the disaster only after details were leaked to the media over the weekend.

The Afghan government has denied allegations by critics, including coalition officials, that its military is in a state of disarray on the cusp of the Taliban's annual spring offensive—when fighting and attacks usually increase. Afghan officials called Monday's resignations part of a continuing reform program.

President Donald Trump's administration has yet to announce an official policy for Afghanistan, but Afghan officials and their coalition counterparts widely expect him to send more troops to the country, which has been at war for almost four decades.

Gen. John Nicholson, the top U.S. military commander in Afghanistan, this month took advantage of the U.S. military's greater freedom in the country to drop the U.S.'s second-largest nonnuclear weapon on Islamic State fighters in its east, the first time the munition has ever been used in combat.

Afghan officials claim the strike killed scores of fighters. But coalition officials say it may have been ineffective, as the area remains insecure and fighting continues around the site.

tically the same," Mexican Foreign Minister Luis Videgaray said Thursday.

The Mexican president told Mr. Trump that such a move "would frankly have a very negative impact on Mexico and would practically cancel the possibility of a constructive negotiation," Mr. Videgaray said.

For his part, Mr. Trump assured Mr. Peña Nieto that a pullout wouldn't happen and that renegotiating the agreement was still on the table, Mr. Videgaray said.

At a news conference on Thursday, Mr. Trudeau said when Mr. Trump told him he was considering terminating Nafta, he warned the president that would put at immediate risk hundreds of firms and thousands of jobs that rely on an integrated continental economy for their livelihood.

"A disruption like canceling Nafta—even if it theoretically might lead to better outcomes—would cause a lot of short- and medium-term pain for an awful lot of families," said Mr. Trudeau.

—William Mauldin

contributed to this article.

Man Carrying Knives Held Near Parliament

BY JENNY GROSS

LONDON—British police on Thursday arrested a man carrying knives near Britain's Parliament on suspicion of preparing and instigating acts of terrorism.

London's Metropolitan Police said no bystanders were injured, and there were no known immediate threats.

The 27-year-old man was arrested as part of a continuing investigation and is in custody in a south London police station.

"He was arrested on suspicion of possession of an offensive weapon and on suspicion of the commission, preparation and instigation of acts of terrorism," police said in a statement. "Knives have been recovered from him."

Intelligence officials had been tracking the suspect, who was deemed to be a threat in connection with Islamist extremism, a U.K. security official said.

Photographs from the scene showed investigators inspecting at least three kitchen knives on the ground. A police spokesman declined to go into

detail about the knives.

The arrest follows an incident in March in which a man mowed down pedestrians on a crowded bridge outside Parliament, leaving five people dead, including a police officer. The 52-year-old attacker, who used a knife, had a clear interest in Islamist extremism, the police said.

The March attack was the most serious act of terror in the U.K. since 2005, when co-ordinated bombings by Islamist extremists on buses and subway trains claimed 52 lives.

Like other European countries, the U.K. has seen waves of its citizens traveling to Syria and Iraq to fight alongside Islamic State.

Of the roughly 800 people who have gone, about half are officially estimated to have returned, and officials have expressed concern about the threat they pose to security.

U.K. police have increased the number of officers trained to use firearms. Officials have also raised security funding, tightened border controls, bolstered intelligence staff and overhauled surveillance laws.

WORLD WATCH

RUSSIA

Reconnaissance Ship Sinks in Black Sea

A Russian military reconnaissance ship sank in the Black Sea following a collision with a cargo ship near the mouth of the Bosphorus, Interfax agency reported.

All crew on board the ship were rescued before it sank.

Turkish state news agency Anadolu said 78 Russian crew

members were on the ship.

A Russian ship was set to take the crew back to a Black Sea fleet base. The cargo ship was able to continue sailing after the collision, Interfax reported.

—Thomas Grove

JAPAN

BOJ Holds Rates, Says Inflation Is Lagging

The Bank of Japan pushed back against speculation about an early interest-rate increase by mixing an upbeat assessment of the economy with a further lowing

of its inflation forecast and

a rejection of the need to unwind its ultraeasy policy.

The BOJ's decision to leave interest rates unchanged and to adjust its forecasts follows a campaign by officials at the central bank to highlight weakness in inflation, a departure from an earlier strategy of making mainly positive comments about prices to inspire optimism.

—Takashi Nakamichi and Megumi Fujikawa

SOUTH KOREA

Economy Grew 0.9% In the First Quarter

Gross domestic product grew a seasonally adjusted 0.9% in the first quarter from the previous three months, accelerating from that quarter's 0.5% pace, preliminary data from the Bank of Korea showed on Thursday.

Compared with a year earlier, GDP was up 2.7% in the first quarter, again accelerating from the fourth quarter's 2.4% and

beating a forecast of economists surveyed by The Wall Street Journal.

—Kwanwoo Jun

NAFTA

Continued from page A1

trade accord.

An announcement to withdraw from the pact would have started a six-month clock—with the possibility of backtracking along the way and staying in Nafta. After that, the U.S. would be out of the agreement, but trade lawyers said parts of Nafta would still remain in U.S. law without congressional action. Tariffs would rise to levels established through the World Trade Organization, with U.S. goods facing generally higher tariffs in Mexico than the other way around.

The prospect of a U.S. exit alarmed some business leaders and members of Congress—along with officials in Mexico and Canada—who sent word to the White House that terminating the Nafta deal would be a mistake. By the end of the day, the White House put out a statement affirming that the U.S. wouldn't seek to end the agreement.

As a Republican candidate,

Mr. Trump described Nafta as a "disaster," an argument that appealed to many of the working-class voters attracted to Mr. Trump's campaign. Now in office and with a 100-day milestone approaching, some White House officials had hoped to demonstrate Mr. Trump was taking decisive action to either scuttle or improve a trade deal that he has said was "defrauding" U.S. workers. But the fast-moving events at the White House on Wednesday carried a cost, rattling markets and unsettling the U.S.'s northern and southern neighbors.

Veterans of past administrations said Mr. Trump needs to send more consistent messages and develop a White House operation that is more disciplined. Leon Panetta, a former White House chief of staff under former President Bill Clinton and a cabinet secretary in former President Barack Obama's administration, said in an interview: "I don't think you can operate in this fashion for very long."

"Any time a White House produces that many mixed mes-

sages and develop a White House operation that is more disciplined. Leon Panetta, a former White House chief of staff under former President Bill Clinton and a cabinet secretary in former President Barack Obama's administration, said in an interview: "I don't think you can operate in this fashion for very long."

"Any time a White House produces that many mixed mes-

sages, you've got not only mem-

bers of Congress totally confused, but you've got the world totally confused as to just exactly where you stand," the veteran Democratic official said.

After speaking with President Enrique Peña Nieto of Mexico and Prime Minister Justin Trudeau of Canada, Mr. Trump said they made the case that the better approach was to rework Nafta, rather

than unwind it altogether. Having developed an affection for the two men, Mr. Trump said, he agreed to "give renegotiation a good shot."

"We have to make a deal that's fair to the United States. They understand that," he said.

Before the Mexican president called Mr. Trump, Mexican officials made calls to Mr. Trudeau and found the two nations' positions were "prac-

tically the same," Mexican Foreign Minister Luis Videgaray said Thursday.

The Mexican president told Mr. Trump that such a move "would frankly have a very negative impact on Mexico and would practically cancel the possibility of a constructive negotiation," Mr. Videgaray said.

For his part, Mr. Trump assured Mr. Peña Nieto that a pullout wouldn't happen and that renegotiating the agreement was still on the table, Mr. Videgaray said.

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—William Mauldin

contributed to this article.

WORLD NEWS

BRUSSELS BEAT | By Laurence Norman

Courts Are the Next Brexit Fight



ECB President Mario Draghi at the bank's headquarters Thursday.

ECB Stands Pat On Easy Money

By TOM FAIRLESS

FRANKFURT—The European Central Bank gave no signs Thursday it is ready to wind down its monetary stimulus despite an economic rebound in the eurozone, opting to soothe financial markets ahead of the second round of France's presidential election.

The ECB's decision to stand pat comes at a tense time for the currency union, which is navigating a series of major elections as well as uncertainty in its relations with its two biggest trading partners, the U.S. and U.K.

At a news conference, ECB President Mario Draghi welcomed evidence of economic recovery but said policy makers hadn't discussed reducing their stimulus, which includes subzero interest rates and a €60 billion-a-month (\$65.34 billion) bond-purchase program.

Mr. Draghi also hit back at recent criticism of the ECB from Germany's finance minister, Wolfgang Schäuble, who urged the central bank last week to start exiting easy-money policy. "It's pretty ironic to hear these comments from people who supported the independence of central banks," Mr. Draghi said.

Investors were left trying to "square the circle" between the ECB's cautious stance and mounting optimism about the area's economy, said Lena Komileva, chief economist with G+ Economics in London.

The euro jumped almost half a cent against the dollar following Mr. Draghi's positive assessment of the economy, but later pared its gains as the ECB chief indicated policy would remain unchanged for now.

Echoing the ECB's caution, Sweden's Riksbank surprised investors earlier Thursday by extending its bond-purchase program by six months through the end of the year, albeit at a reduced level, despite strong economic growth.

As the eurozone economy strengthens, pressure has been building on the ECB to consider a change of direction, es-

pecially in the area's largest economy, Germany. Within the ECB, policy makers are divided over how quickly to start winding down their €2.3 trillion bond-purchase program, known as quantitative easing, which is scheduled to run at least through year end.

But Mr. Draghi highlighted a number of potential economic threats, ranging from the details of Brexit and U.S. President Donald Trump's economic policies to tensions in North Korea.

"We shouldn't think that it's over," Mr. Draghi said of the economic fallout of Brexit. "It's quite clear that even now this uncertainty about the length and the shape [of Brexit] is producing economic consequences."

Another risk to the outlook is the French presidential election May 7. Pro-European Union candidate Emmanuel Macron was the top finisher in Sunday's first round, and faces far-right candidate Marine Le Pen in the runoff. A victory for Ms. Le Pen would send shock waves through financial markets, given that she has called for France to leave the eurozone. Polls suggest Mr. Macron will win the head-to-head race.

While Mr. Draghi said the ECB didn't base its policies on likely election outcomes, he acknowledged that political uncertainty played a part in the bank's calculations.

Recent economic data for the eurozone have been robust. Business confidence has risen to a six-year high, unemployment is at a seven-year low, and inflation is approaching the ECB's target of just below 2%. Fresh inflation data Friday will show exactly how close the ECB is to achieving its goal.

Crucially, though, core inflation—excluding volatile energy and food prices—has languished below 1% for months.

Mr. Draghi said none of his colleagues believed the stronger economy had affected the outlook for inflation. "As growth perspectives improve, the probability of tail risks may go down, but we are not there yet," he said.

EU courts, in particular the Luxembourg-based European Court of Justice, are the ultimate authority in deciding when national laws breach EU rules, when EU legislation breaches the bloc's treaties and how EU rules should be interpreted across the bloc.

If the U.K. rejects the authority that polices the single market, it can't be part of the single market.

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The warning—two days before a meeting of EU leaders about Brexit negotiating strategy—represented some of Ms.

Merkel's toughest language toward London in the 10 months since the U.K. voted to leave the EU.

Merkel emphasized that Berlin backed the Brexit positions of European Commission chief Jean-Claude Juncker. She said Brexit talks wouldn't begin in earnest until after the

U.K. parliamentary election scheduled for June 8.

Ms. Merkel said her priority in the talks would be to protect German citizens directly affected by Brexit, including by securing clarity about the future rights of an estimated 100,000 Germans living in the U.K. as quickly as possible. But she said she would also seek to make sure that the remaining 27 EU countries stick together as the talks progress.

She also echoed the stance of EU officials and capitals that there would need to be an agreement in principle on the U.K. accepting its financial obligations to the bloc—the so-called divorce bill—before the EU could start discussing a trade agreement with the U.K.

"We will only be able to reach an agreement about the future relationship with Great Britain when all exit questions are satisfactorily resolved," Ms. Merkel said.

In response to a collapsing economy marked by food and medicine shortages, Mr. Maduro over the past month has faced massive street demonstrations and civil unrest, costing at least 29 lives.

"Behind this coalition of countries is a sight set on our sovereignty and the pretension to intervene, and that can never be allowed to happen," said Ms. Rodriguez in a television statement.

The government has called the OAS a shield for U.S. interests. The group counts as its members all of the region's countries except Cuba. The organization was founded in 1948 to strengthen regional solidarity, as well as democratic and human rights.

Venezuela faces a 24-month legal process and must pay \$8.7 million in dues before it can quit the group, said an OAS spokesman who declined to comment further.

The announcement comes after a nearly two-year feud with OAS Secretary General Luis Almagro, who has pressed to suspend Venezuela from the diplomatic body over a host of human-rights violations, including suspending elections, jailing political rivals and prohibiting humanitarian aid.

This month, French prosecutors requested the European Parliament lift the immunity of Ms. Le Pen. In February, French police searched Ms. Le Pen's offices.



The European Union's chief negotiator for Brexit, Michel Barnier, third from left, pictured in March.

To the surprise of some European officials, determining the role of the bloc's courts looms as a central battle in the divorce talks.

Many expected British concerns about immigration and EU rules guaranteeing freedom of movement of the bloc's citizens to dominate the negotiations. And they anticipated a major clash over payments to settle past spending pledges.

Yet Theresa May, from her first major speech on Brexit as prime minister at October's Conservative Party conference, has made British freedom from EU courts a firm red line.

"We are not leaving the European Union only to give up control of immigration again. And we are not leaving only to return to the jurisdiction of the European Court of Justice," Mrs. May said.

"Our laws will be made not in Brussels but in Westminster. The judges interpreting those laws will sit not in Luxembourg but in courts in this country. The authority of EU law in Britain will end," she said.

The implication was clear: Mrs. May had decided the U.K. should leave the EU's single market, a common zone of laws and rules to ensure that products lawfully sold in one EU country can be sold in the rest of the bloc.

EU courts, in particular the Luxembourg-based European Court of Justice, are the ultimate authority in deciding when national laws breach EU rules, when EU legislation breaches the bloc's treaties and how EU rules should be interpreted across the bloc.

But Britain's EU partners also say that if Mrs. May wants to avoid a cliff-edge exit from the bloc she will have to accept that EU courts will continue to have a role in Britain.

Draft negotiating guidelines to be discussed at Saturday's summit say the ECJ should continue to adjudicate on cases pending at the court

This could conflict with two of Mrs. May's other key objectives: to limit economic disruption after leaving the bloc, and to secure the closest possible economic ties between the EU and the U.K. in the medium term.

Mrs. May has conceded that some ECJ rulings will apply to British exporters. "U.K. companies that trade with the EU will have to align with rules agreed by institutions of which we are no longer a part, just as we do in other overseas markets," she said in March.

Moreover, to avoid a legal vacuum post-Brexit, the U.K. is pasting the body of EU law onto its own books through its so-called Great Repeal Bill. Until the British courts decide differently or U.K. law is changed, the ECJ's interpretation of EU law is the only one U.K. courts will have to rely on.

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While that would open the way to EU-U.K. tribunals on issues such as the rights of EU citizens in the U.K., the guidelines say these dispute mechanisms must be arranged to protect the EU's legal order, including the role of the ECJ.

In other words, while future tribunals can make autonomous decisions, they will have to factor in the decisions and case law of the ECJ. The same would be true for any joint tribunals or enforcement mechanisms established under a future EU-U.K. trade agreement.

ECJ President Koen Len-

aerts said Wednesday that since the terms of Brexit will be agreed to under Article 50 of the EU's Lisbon Treaty, the court will have jurisdiction, if cases are brought to them, to strike down aspects of the divorce deal that infringe EU law.

Since the original draft negotiation guidelines were sent out by European Council President Donald Tusk on March 31, EU capitals have also hardened their position on another crucial point: the role of the EU courts in any transitional agreement. A transitional deal is seen by many officials on both sides as crucial for smoothing Britain's exit from the bloc.

If a temporary extension of the U.K.'s membership of the single market or other EU arrangements is negotiated, the draft guidelines say, "this would require existing Union regulatory, budgetary, supervisory, judiciary and enforcement instruments and structures to apply."

EU law will thus continue to shape British rules and regulation. Even if Britain escapes the jurisdiction of the ECJ, it won't escape the jurisprudence of the court for years.

Merkel Firm on Exit Terms

By ANTON TROIANOVSKI



Angela Merkel on Thursday

Merkel's toughest language toward London in the 10 months since the U.K. voted to leave the EU.

Ms. Merkel emphasized that Berlin backed the Brexit positions of European Commission chief Jean-Claude Juncker. She said Brexit talks wouldn't begin in earnest until after the

U.K. parliamentary election scheduled for June 8.

Ms. Merkel said her priority in the talks would be to protect German citizens directly affected by Brexit, including by securing clarity about the future rights of an estimated 100,000 Germans living in the U.K. as quickly as possible. But she said she would also seek to make sure that the remaining 27 EU countries stick together as the talks progress.

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The announcement comes after a nearly two-year feud with OAS Secretary General Luis Almagro, who has pressed to suspend Venezuela from the diplomatic body over a host of human-rights violations, including suspending elections, jailing political rivals and prohibiting humanitarian aid.

This month, French prosecutors requested the European Parliament lift the immunity of Ms. Le Pen. In February, French police searched Ms. Le Pen's offices.

Venezuela Plans to Quit OAS

BY KEJAL VYAS

CARACAS, Venezuela—Venezuela said it would begin a two-year process to pull out of the world's oldest regional diplomatic body, in a move that is likely to heighten tensions with its neighbors over President Nicolás Maduro's authoritarian rule.

Foreign Minister Delcy Rodriguez said Wednesday Mr. Maduro ordered the withdrawal from the Organization of American States after 19 of its 34 members agreed on a resolution to discuss Venezuela's precarious situation.

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Lawmakers from France's National Front may have misappropriated nearly €5 million in European Union funds, the European Parliament said, more than double the original estimate in the investigation into

By Laurence Norman
in Brussels
and Noémie Bissière
in Paris

the party's funding of its political activities.

The Parliament recently gave the updated estimate of €4.98 million (\$5.4 million) to French authorities following a request from Paris, a parliamentary spokeswoman said. The initial estimate was around €1.9 million.

By winning seats in the Parliament, the far-right National Front and other political parties gain access to EU money that is in part earmarked for parliamentary assistants. But EU and French investigators suspect the money is redi-

rected to domestic political activities.

The latest allegations come ahead of the second-round runoff on May 7 between National Front leader Marine Le Pen and centrist Emmanuel Macron in France's presidential election.

French and European authorities suspect some National Front members of the EU's legislature of paying salaries to senior party officials for political work they were doing in France with funds earmarked for parliamentary assistants, people familiar with their investigations said.

Under French law, these activities would count as fraud, if proven.

Ms. Le Pen has dismissed the allegations as an attempt to thwart the National Front and her presidential bid.

"It's the EU that's really making this country lose money," her campaign manager, David Rachline, said on Thursday.

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U.S. NEWS

Pentagon Probes Flynn Payments

BY BYRON TAU

WASHINGTON—The Pentagon's internal watchdog has opened an investigation into whether former national security adviser Mike Flynn violated the law by taking payments linked to foreign governments without permission after leaving the military, despite being warned against the practice, according to new documents released Thursday by congressional Democrats.

A letter released by Democrats on the House Oversight Committee showed the Pentagon had explicitly told Mr. Flynn in 2014 not to take any foreign payments without advance approval from military officials. The Pentagon has said it has no records of Mr. Flynn receiving such permission.

The inspector general for the Defense Department told members of Congress earlier this month that the office had opened a probe into whether Mr. Flynn violated the emoluments clause of the Constitution, as well as military regulations, by failing to obtain permission for payments from entities linked to Russia

and Turkey, according to a letter the House Democrats released Thursday. The emoluments clause prohibits retired military personnel from receiving pay from foreign governments without congressional authorization.

A spokesman for the inspector general confirmed an investigation was opened on April 4.

Mr. Flynn, a former three-star general who retired from the military in 2014, briefly served as President Donald Trump's national security adviser before resigning after it was revealed that he misled White House officials about his contact with the Russian ambassador to the U.S.

The House Oversight Committee is probing the circumstances around Mr. Flynn's departure from the administration under its mandate to investigate waste, fraud and abuse within the federal government.

Mr. Flynn has told congressional officials and federal investigators he is willing to be interviewed if he is granted immunity, although it isn't clear whether the payment



The inspector general for the Defense Department has begun an investigation of former national security adviser Mike Flynn, above.

questions were the reason for his request. The Federal Bureau of Investigation and several other congressional committees are investigating possible Russian interference in the 2016 election—probes in which Mr. Flynn's testimony may be sought as the investigation moves forward.

At issue in the internal Pentagon probe is Mr. Flynn's post-military work, including a speech he gave at an event hosted by the Russian state-owned television network RT, for which he received more than \$30,000. Mr. Flynn also registered as a lobbyist for

Turkey after acknowledging that some of his work for a nonprofit could have been construed as benefiting the Ankara government.

Robert Kelner, an attorney for Mr. Flynn, said his client had repeatedly communicated with the military about his speech to RT. "General Flynn provided two briefings to the department—one before and one after the event. The department was fully aware of the trip," Mr. Kelner said.

Under U.S. law, approval for a retired Army officer to receive foreign-government payments must come from the

secretary of the Army and secretary of state. The partially redacted letter released Thursday indicates Mr. Flynn gave information about his speech to the Defense Intelligence Agency, which is part of the Defense Department but not in the U.S. Army's chain of command. Mr. Flynn was required to get permission from the Army, not the Defense Intelligence Agency.

Mr. Flynn previously headed up the Defense Intelligence Agency before he was removed from that job and later retired from the military. He became a prominent sup-

porter and adviser to Mr. Trump during the 2016 presidential campaign before being tapped as national security adviser, a top White House post.

The letter from 2014, released by congressional Democrats, showed that Mr. Flynn was explicitly warned about foreign government payments upon his retirement from the military. "The penalty for violating this law is suspension of retirement pay for military members during the period of the violation," the letter warned Mr. Flynn.

—Paul Sonne and Eli Stokols contributed to this article.

Tax-Cut Plan for Firms Criticized

BY LAURA SAUNDERS

President Donald Trump's plan to cut the tax rate to 15% for so-called pass-through businesses could create many opportunities—and leave plenty of room for abuse.

Advocates say lowering the tax rate for the business income of partnerships, S corporations and limited-liability companies would spur U.S. business growth and job creation.

"This is an incentive for business owners like my wife and me to reinvest in our own firms rather than pay the government," said James Jungbauer, president of Hollstadt Consulting, a firm in Mendota Heights, Minn., with 200 employees that specializes in business analysis.

Critics said the measure creates an incentive to minimize compensation as a way of avoiding higher income and payroll taxes, among other issues.

Lawrence Gibbs, a former IRS commissioner under Ronald Reagan who is now with Miller & Chevalier in Washington, said if this measure becomes law, "you will have scams coming out of the woodwork."

"Large tax-rate differentials encourage abusive tax planning," he added.

As he unveiled the measure on Wednesday, Treasury Secretary Steven Mnuchin said the administration would work on protections to ensure that a tax cut for pass-through busi-

Business Break

Many businesses 'pass through' income to their owners, and over half of it goes to top-bracket taxpayers. The current 39.6% top rate on such income could drop to 15% under President Trump's proposal.

Individual income-tax rate	Tax returns reporting pass-through entities	Net income	Share
0% to 15%	25.5 million	\$104.4B	10.8%
25% to 28%	11.2 million	\$330.4B	34.1%
33% to 35%	300,000	\$35.7B	3.7%
39.6%	670,000	\$499.0B	51.5%

Source: Tax Policy Center

THE WALL STREET JOURNAL

nesses wouldn't be abused.

The rate-cut proposal still lacks important details, but it would apply to business income from many small firms as well as large global law firms, hedge funds and Mr. Trump's own real-estate and branding businesses.

All of these firms are partnerships, S corporations and limited liability companies that "pass through" to their owners a proportional share of income, losses, and other tax items. Currently the top rate on such income is 39.6%, but Mr. Trump's proposal would cut it to 15%.

More than half of all business income is now earned by pass-through entities, which have surged in popularity in recent decades.

Of all pass-through income, more than half is earned by top-bracket taxpayers, according to estimates by the Tax Policy Center in

Washington. The top brackets begin at \$470,700 for married couples filing jointly and \$418,400 for singles.

Under current law, pass-through owners have little income-tax incentive to distinguish between business income and compensation, although some have tried to minimize compensation in order to lower Medicare and Social Security taxes.

If this proposal becomes law, owners will likely try to reduce their compensation in order to save income taxes as well, says Troy Lewis, a certified public accountant in Draper, Utah, who advises wealthy clients. "People try to structure their affairs to achieve lower rates."

For example, say a pass-through owner has \$200,000 of net income currently taxed at the top 39.6% marginal rate. Under the proposal, the part that is compensation

would be taxed at a 35% rate, and the portion that is business income would be taxed at a 15% rate.

So taking wages of \$50,000 instead of \$150,000 could save \$20,000 in income taxes, plus any additional payroll-tax savings. While there are laws defining "reasonable" compensation, they are cumbersome for the IRS to enforce because each case is different.

It is still unclear whether the proposal would apply to self-employed workers and how much wealthy owners of hedge funds and private-equity firms would benefit, if at all.

Gregg Polksky, a tax-law professor at the University of Georgia, said the proposal wouldn't immediately affect private-equity partners because much of their income is taxed already at lower capital-gains rates. On the other hand, he said, they could restructure arrangements to benefit from the lower 15% rate.

One adviser to hedge funds, Michael Laveman of accounting firm EisnerAmper LLP, said the proposal would act as a tax cut for hedge-fund owners who share management fee income. Management fees, he said, are typically taxed at the current top 39.6% rate.

Mr. Laveman's own firm, also a partnership, would be among the beneficiaries. "I'm trying not to tell my wife about the huge tax break we are about to get," he said.

—Rob Copeland and Mark Maremont contributed to this article.

GOP Gets Closer To a Health Bill

WASHINGTON—House Republicans are moving closer to agreement on a health-care overhaul, but now face the task of persuading centrists in the party to agree to provisions that could raise costs for many people with pre-existing conditions.

By Stephanie Armour, Kristina Peterson, and Michelle Hackman

The latest effort to repeal large portions of the Affordable Care Act gained significant momentum Wednesday by winning an endorsement from the conservative House Freedom Caucus, whose roughly three dozen members helped to sink an earlier version of the bill last month by withholding their support.

The House could vote on the revised bill as early as this week, aides said. The timing of a vote remained fluid and will depend on whether the bill picks up enough support.

The chamber's approval of the legislation could rewrite the story of President Donald Trump's early tenure, giving the president and GOP leaders an accomplishment after the health overhaul stalled.

But it remains unclear whether House leaders have enough support from centrist Republicans to secure passage. And the legislation still faces a difficult path in the Senate.

The bill has gotten new life because of a compromise crafted by Rep. Tom MacArthur (R., N.J.), a co-chairman of a centrist-leaning coalition of lawmakers called the Tuesday Group. His amendment would let states pursue federal waivers to opt out of some of the law's insurance provisions.

The measure retains a key provision in the law requiring health insurers to sell plans to people with pre-existing medical conditions. But it would permit states to remove several protections aimed at keeping those plans affordable.

With federal waivers, states could let insurers charge higher premiums to some people with pre-existing conditions. That would apply only to people who had let their coverage lapse, a measure that aims to ensure people stay insured. And the higher premiums would generally only last for about 12 months before decreasing. States that received the waivers would also have to set aside funding to help people with high-cost health conditions obtain coverage.

Conservatives applauded the changes, saying they would lower premium costs by reducing regulations on insurers.

But some health-policy analysts said the changes would undermine consumer protections.

—Natalie Andrews contributed to this article.

U.S. WATCH

CONGRESS

Bill Aims to Keep Government Open

Facing a Saturday morning deadline to avoid a government shutdown, House lawmakers have released a one-week spending bill to keep the government open while they negotiate a deal.

Government funding expires on Saturday at 12:01 a.m. The weeklong stopgap measure would give lawmakers more time to settle on a five-month spending bill that would fund the government through the rest of the fiscal year.

The timing of votes on the measure was unclear, but it was expected to pass. Congressional leaders have been inching toward a deal to fund the government through the rest of fiscal 2017, which ends Sept. 30.

The stopgap resolution would extend by a week health-care coverage for retired coal miners and their dependents, who were facing a loss of care with the deadline.

—Natalie Andrews

EDUCATION

Purdue University To Acquire Kaplan

Purdue University, one of the nation's largest public schools, is buying **Kaplan University**, a for-profit online school that enrolls

32,000. The acquisition, announced Thursday, will result in a new public university Purdue hopes will serve working adults.

Kaplan University, which has 15 campuses and 3,000 employees, is a unit of **Graham Holdings Co.**, the former owner of the Washington Post.

The deal doesn't include transfer of Kaplan's professional education program, its test preparation business or its international operations.

—Douglas Belkin and Melissa Korn

ECONOMY

Orders for Durable Goods Edge Up

Demand for long-lasting factory goods improved modestly in March, a signal the manufacturing sector is healing only slowly as business investment remains restrained.

Orders for durable goods—products designed to last at least three years, such as trucks and computers—increased 0.7% from the prior month, the U.S. Commerce Department said Thursday. It was the third straight month orders increased, but March's gain was the weakest of the year and below economists' expectation for a 1.3% increase.

—Eric Morath

Take Your Children to Work Day



CHIP SOMODEVILLA/GETTY IMAGES

DULY NOTED: The Hill reporter Scott Wong, right, brought his daughter to a news conference with House Speaker Paul Ryan at the Capitol as part of Take Our Daughters and Sons to Work Day.

House Goes After CEO Tied to Clinton Emails

BY BYRON TAU

WASHINGTON—The Republican chairman of the House Science Committee asked the Justice Department to consider criminal charges against the chief executive of a company that managed Hillary Clinton's private email server for alleged obstruction of a congressional investigation.

In a referral to the Justice Department stemming from the long-running controversy over Mrs. Clinton's use of a private email server while serving as secretary of state, Rep. Lamar Smith (R., Texas) alleged that Treve Suazo, chief executive of Platte River Networks, failed to produce documents, made false statements and obstructed a congressional investigation.

Platte River Networks, a company hired by former Secretary Hillary Clinton, has deliberately withheld requested

materials from the Committee and refused to comply with lawfully issued subpoenas," Mr. Smith said in a statement. "With a new administration in place, I am hopeful that the Department of Justice will appropriately respond to the referral. We cannot allow companies with valuable information to stonewall us in our oversight efforts."

An attorney for Platte River Networks said it has cooperated with the long-running government investigations surrounding Mrs. Clinton's private server and believed that the Justice Department would take no action on the matter.

A Justice Department spokesman said, "We have received and are reviewing the letter, but decline further comment."

The decision on whether to pursue criminal charges against Platte River now rests with the Justice Department.

IN DEPTH

TAXES

Continued from Page One
can leaders in Congress to back off their proposal to repeal the deduction. Instead, the administration—in which the president and his two top economic advisers are high-income residents of blue states—chose repeal.

"I never thought I could leave New York and go to a state that had higher taxes, but I did when I moved to California," Treasury Secretary Steven Mnuchin said at a Wednesday morning briefing before justifying an end to a major break for New Yorkers and Californians. "We want to get the federal government out of the business of what's the states' business."

Republicans focused on lowering marginal tax rates have been targeting the deduction unsuccessfully for decades. They contend that it props up bloated state and local governments with support from federal taxpayers. Repealing it, they argue, could put pressure on states to limit or reduce spending and taxes.

Removing the deduction could raise more than \$1 trillion over a decade, according to independent estimates, which would help offset the cost of GOP rate cuts.

The deduction, one of the largest breaks for individuals, saves taxpayers about \$103 billion this year, according to the congressional Joint Committee on Taxation. That is \$38 billion more than the mortgage-interest deduction and \$46 billion more than the deduction for charitable contributions.

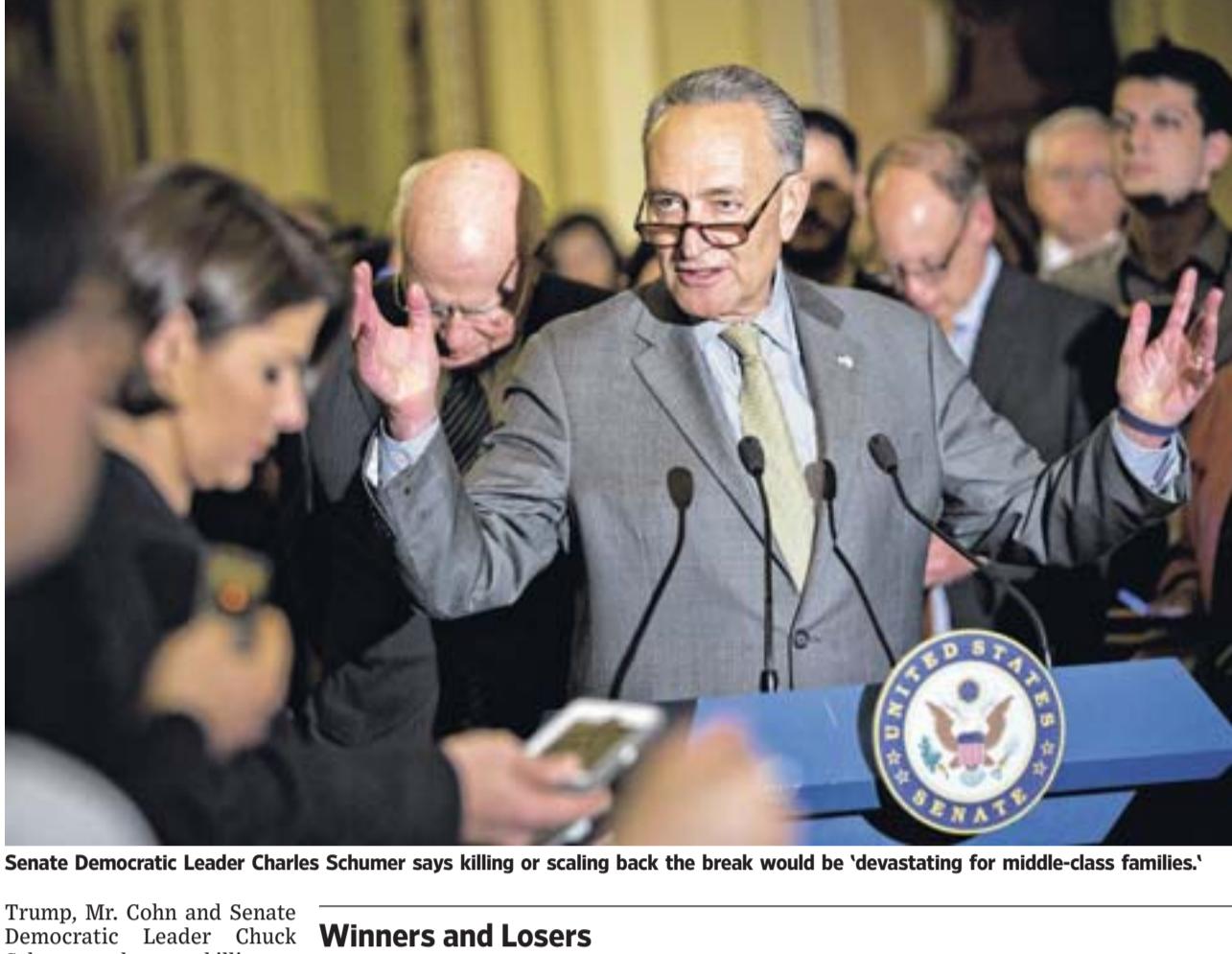
Without repealing the deduction, Republicans would have to settle for smaller tax-rate cuts, higher budget deficits or temporary tax policies. They will be constrained by congressional rules that prevent them passing a tax plan on a party-line vote in the Senate unless they refrain from increasing budget deficits beyond a decade.

Democrats mobilizing to defend the deduction are in the awkward position of standing up for a tax measure that helps some of the highest-income Americans—the same people they typically say don't pay enough in taxes. To win, they will need to transcend party politics by appealing to hometown interests. During the 1986 tax code overhaul, a coalition of business groups, state officials and blue-state Republicans protected the same tax break.

Administration officials argued this week that it isn't the federal government's job to be subsidizing states, though the federal government does redistribute income across state lines outside of the tax system.

"We also think about being fair. We're being fair," Gary Cohn, the director of Mr. Trump's National Economic Council, said at the briefing with Mr. Mnuchin. "And there are those that argue that allowing state and local taxes to be deductible is not fair because certain states are subsidizing other states, and this is a field-leveler."

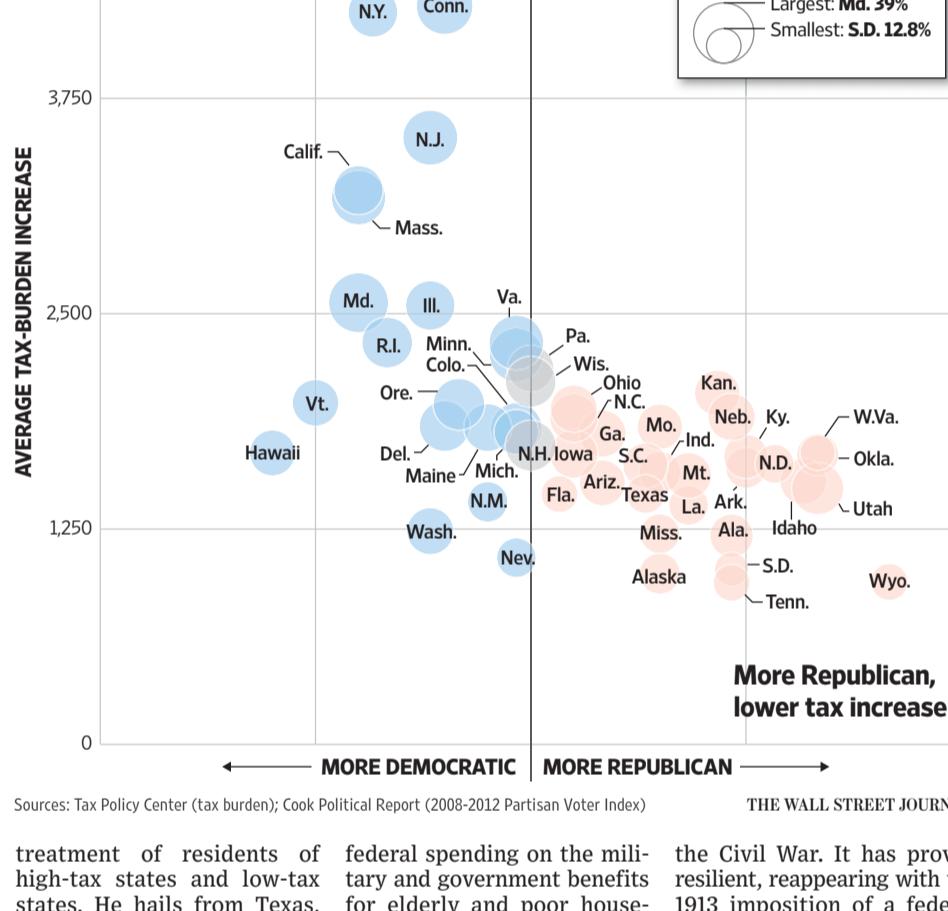
At the center of the fight is New York, home of Mr.



ANDREW HARRER/BLOOMBERG NEWS

Winners and Losers

Estimated effect on taxpayers, by state, of repealing the state and local tax deduction, before taking into account proposed lower tax rates and repeal of the alternative minimum tax.



Sources: Tax Policy Center (tax burden); Cook Political Report (2008-2012 Partisan Voter Index)

THE WALL STREET JOURNAL.

treatment of residents of high-tax states and low-tax states. He hails from Texas, which doesn't have a state income tax and where individual deductions for property and sales taxes make up just 2.5% of income, near the bottom of the pack.

"It is a sort of a fresh approach to moving away from having deductions for some, usually wealthy, or those in high-tax states," Mr. Brady says. The goal, he says, is to make sure that "Washington doesn't reward or punish you based on where you live or choose to live."

Defenders of the deduction have a different view. Though blue states benefit from the deduction, they contend that red states get a lion's share of

federal spending on the military and government benefits for elderly and poor households.

Kathryn Wylde, chief executive officer of the Partnership for New York City, a group that represents the city's biggest businesses, says the tax break helps the broader economy by supporting an agglomeration of media, finance, accounting and professional-services jobs.

She worries about a populist backlash against "clusters of very high earners in the nation's economic centers."

The state and local tax deduction is one of the oldest breaks in the U.S. income tax, dating back to an 1862 tax on incomes imposed by the federal government to finance

the Civil War. It has proven resilient, reappearing with the 1913 imposition of a federal income tax and surviving the last tax-code shake-up in 1986, when President Ronald Reagan tried to repeal it.

Democrats controlled the House in 1986, and Ways and Means Chairman Dan Rostenkowski of Illinois forged an alliance with New York Republicans.

James Baker, who was Mr. Reagan's chief of staff and then Treasury secretary, said the deduction was the only subject that caused Mr. Rostenkowski to hang up on him.

"We had a little shouting match, and it was just one of the deductions that they were damn well determined to protect," Mr. Baker said in a re-

cent interview. "We ended up having to let it go."

The break is an itemized deduction. That means most households don't use it. To claim an itemized deduction, total deductions—largely for mortgage interest, charity and state and local taxes—must exceed the standard deduction of \$6,350 for individuals and \$12,700 for married couples. Mr. Trump wants to double the standard deduction, so many middle-income households might not feel the pinch of the lost break because it would be covered by the bigger standard deduction.

Just 30% of U.S. households itemize their deductions. Those who do—people who benefit from the state and local tax break—are concentrated in high-income, high-tax states. More than 90% of filers with incomes over \$200,000 claim the deduction, according to the Tax Policy Center. Overall, 38% of the deduction's value goes to California, New York and New Jersey, which have 21% of U.S. households, the center says.

The top nine states for the deduction, measured as a percentage of income, all voted for Hillary Clinton, and they have 18 senators, all Democrats. In the House, those same states have 33 Republicans, a number that exceeds the party's overall governing margin. That means they have the numbers to protect the break—if they all agree on the policy and use their leverage.

New York and New Jersey Republicans already resisted the GOP leadership's health care bill in March. Rep. Dan Donovan of Staten Island, N.Y., says losing the deduction would "crush" his constituents, and Rep. John Faso of Kinderhook, N.Y., says it would be "double taxation." Rep. Tom Reed of Corning, the lone New York Republican on the tax-writing Ways and Means Committee, says he intends to fight to protect the break.

New York, in a 2013 report by Gov. Andrew Cuomo on the "tax threat" to the state, called repeal of the deduction and other potential federal changes an "unfair double taxation scheme" that would adversely affect New York.

State residents who are used to taking the tax break would have to pay the full New York tax—with a top rate of 12.7% in New York City and 8.82% for the state outside the city—on top of their federal income taxes.

For the very highest-income New York households—think Wall Street bonuses—the loss of the deduction would make the full cost of being a state resident more apparent than ever. That could increase the incentive for individuals to move away and for businesses to pick another state.

The lawmakers to watch in coming weeks are the blue-state Republicans in the House, including Rep. Chris Collins of New York, an early supporter of Mr. Trump. He said Wednesday that repeal is a "big concern" for GOP lawmakers from New York, New Jersey and California.

"Ever since our proposal first came out in January, I said I will fight to keep those deductions," he said.

—Janet Hook contributed to this article.

CHURCH

Continued from Page One
tice their language skills. Palms and shrubs began recolonizing surrounding roads. Security guards played soccer under the colonnade.

"I used to call it my house because I had it all to myself," said David N'Guesso, a guard who once spent days playing on his cellphone. "To be honest, we felt a bit sorry for the father."

"Let's just say we had a lot of time for prayer," said Father Stanislaw Skuza, a Polish priest who arrived in 1993 and is among those who administer the church.

A series of civil conflicts here ended in 2011, sparking an economic comeback powered by foreign investment and the high price of cocoa, of which Ivory Coast is the world's top producer.

As word spread that one could visit the gigantic jungle basilica in peace, pilgrim buses began arriving from Ghana and Burkina Faso. Tourists now come from China and India, and are returning in greater numbers from former colonial ruler France. Visitors

to Our Lady of Peace numbered 320,000 last year, officials said, threefold the numbers of five years ago.

"We heard about this strange place," said Chi Tsui, here from China on business with two colleagues. "It is indeed strange."

The new masses have been a jolt for church denizens accustomed to an ample supply of quiet contemplation. Priests can't preach unamplified anymore. They fire up an imported speaker system connected to cordless mics. Once-dormant Italian air coolers next to each of 7,000 seats are regularly switched on.

Mr. N'Guesso was an altar boy when Pope John Paul II consecrated the church 27 years ago. It was the capstone of then-President Félix Houphouët-Boigny's project to move the capital from the coastal trade hub of Abidjan to Yamoussoukro, his ancestral village.

One stained-glass window portrays the former president kneeling at Jesus' feet.

The church bustled with foreigners during construction, church officials said. About 1,500 artisans, led by French and Israeli contractors, worked day and night on an

edifice stretching about one-third mile from the last Doric column of the elliptical esplanade to the outermost column behind the nave.

After Mr. Houphouët-Boigny's death, tourist visits fell while refugees periodically sought protection on the church grounds as civil conflict roiled Ivory Coast. As the conflict ended, tourists did not immediately return.

"I used to walk around practicing English alone because there was no one here," said tour guide Yann Loa as Indian visitors snapped selfies

next to a stained-glass window. "Now I make in a month what I used to make in six."

Tourists include members of Ivory Coast's fast-growing middle class. Catholics make up a little less than 20% of the country's population of 23.7 million, according to a U.S. Central Intelligence Agency fact book.

Ivorian teens in their newest clothes use the church to flirt and snap social-media pictures. "It's a cool place to gather after Mass and talk about our programs, our future," said student Ehui Al-

phonse, relaxing under the colonnades with friends. "We were heartbroken when no one was here."

During a recent Sunday Mass, the church welcomed around 1,000 worshipers inside. Other visitors sat along the roughly 3,000-foot marble walkway listening to prayer readings and singing hymns.

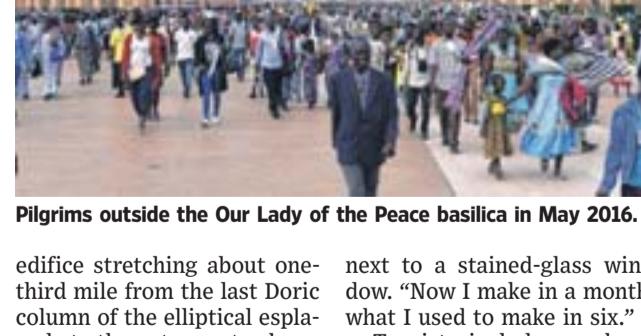
Some around the pews gaped at the 110-pound gold cross suspended from Venetian-glass chandelier.

Visitors to the roughly 300,000 square-foot complex are a fraction of the 55,000 the Vatican's basilica accommodates on peak days, according St. Peter's Archpriest, Cardinal Angelo Comastri.

"None of us expect the queues to be like the Vatican," said Bintou Dosso, a trader whose stall overlooks the basilica's giant dome, "but thank God at least some people are coming now."

The site's souvenir store sells priests' vestments and dresses emblazoned with the former president's face.

Some recent local news has been less welcome. A rogue army brigade mutinied earlier this year, driving tanks onto the streets next to the basilica;



SIA KAMBOU/AGENCE FRANCE PRESSE/GETTY IMAGES

Pilgrims outside the Our Lady of Peace basilica in May 2016.

it withdrew after talks with the government.

Unholy controversies remain over the church's construction. Pope John Paul II, whom Ivory Coast petitioned to consecrate the basilica because of its imitation of the Vatican's holiest shrine, agreed on the condition that a hospital be built alongside and that the cupola be slightly lower than the Roman dome, Ivorian church officials said. The Vatican declined to comment.

Mr. Houphouët-Boigny complied, but the church later topped the basilica with a giant golden cross, church officials said, making it taller than the Vatican's. The hospital was eventually built.

And a controversy over the church's cost was never settled, with the president's critics charging he used state money—the Ivory Coast couldn't afford. Without revealing the final tab, Mr. Houphouët-Boigny repeatedly said the basilica was being built on his own land, financed with his own money and, upon completion, would be given to the Vatican. When asked about the financing, according to local media reports, he said it was "a deal with God."

TRUMP'S FIRST 100 DAYS

What Trump's Start Says About His Future



CAPITAL JOURNAL

By Gerald F. Seib

As the Trump presidency's 100-day mark arrives, here's a little secret: That opening stretch often is a rocky one for new presidents.

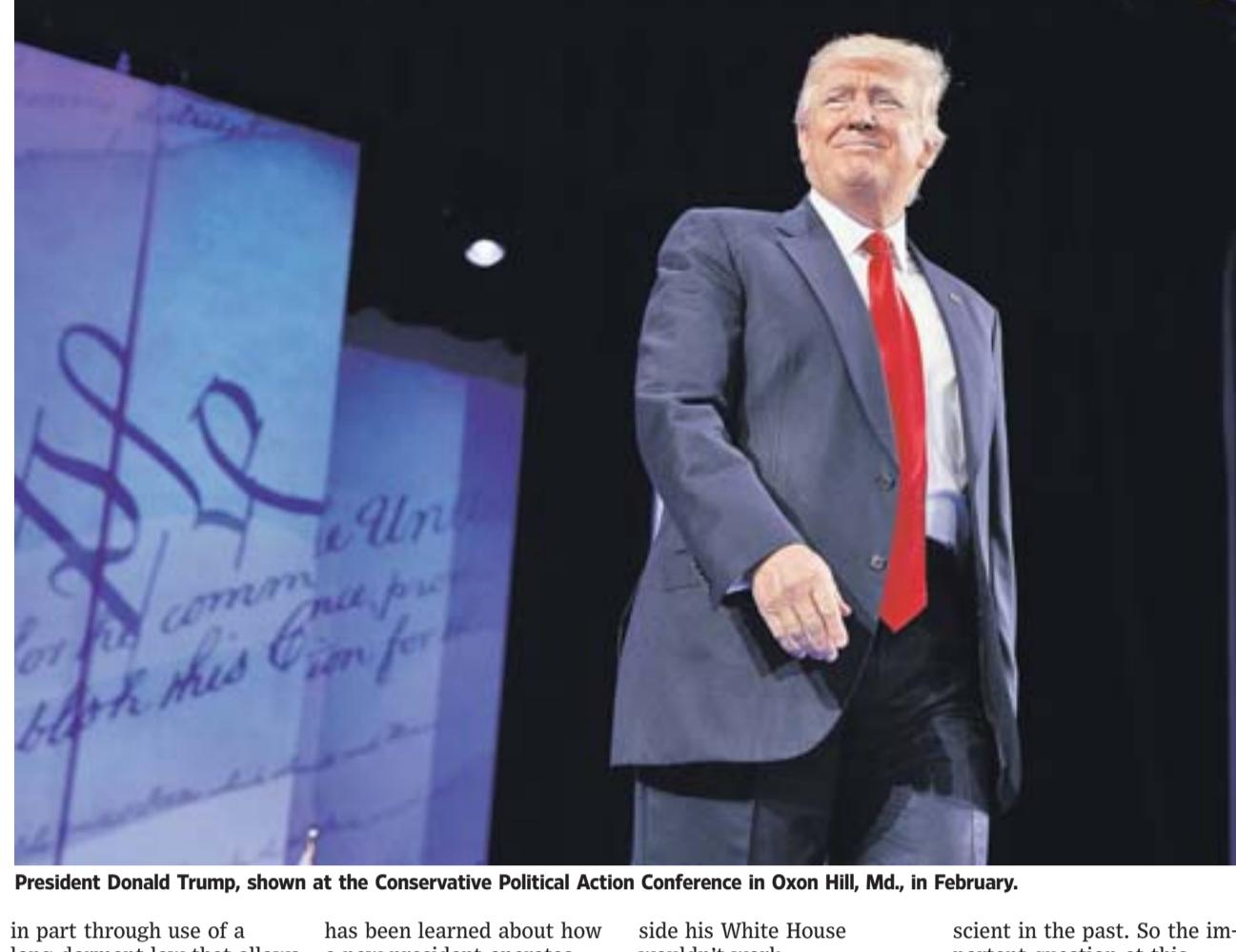
Bill Clinton suffered through a botched economic-stimulus package, a controversy over gays in the military and a White House travel-office scandal.

George H.W. Bush made what turned out to be a disastrous pick for defense secretary.

If you reach back further, John Kennedy made a historic blunder by approving the ill-fated Bay of Pigs invasion in Cuba, a failure that continued to haunt him.

President Donald Trump's journey through 100 days has been notably messy, of course. His most important legislative effort, on health care, collapsed at the hands of members of his own party, while a travel ban on select Muslim-majority countries stalled in the courts. His national security adviser was fired in a controversy over contacts with Russian officials. He leveled an unsubstantiated accusation that his predecessor tapped his phones. He set a record for early job disapproval.

Yet he has been more effective on other fronts. With less notice, he has begun a broad rollback of regulations,



EVAN VUCCI/ASSOCIATED PRESS

President Donald Trump, shown at the Conservative Political Action Conference in Oxon Hill, Md., in February.

in part through use of a long-dormant law that allows elimination of past regulatory directives, to the cheers of the business community. His team got a respected Supreme Court nominee through the Senate. Ditching campaign-season impulses, he launched a strike at Syria over its use of chemical weapons, and built what seems to be a solid relationship with China's president.

So the debate is on over what Mr. Trump has and hasn't done at the much-hyped 100-day milestone. But history suggests that the precise balance sheet at 100 days means less than what

has been learned about how a new president operates—and what kinds of adjustments he makes based on those opening lessons.

Ronald Reagan used his opening 100 days to build an effective legislative coalition of fellow Republicans and conservative Democrats. That coalition implemented his broad agenda in his first year—and then was useful in guiding him through the Cuban missile crisis that came later.

Mr. Clinton learned he needed to impose more order on his personal and political world. He did, and ended up overseeing a prospering economy and largely successful presidency—although that lack of personal discipline returned to haunt him in the Monica Lewinsky affair.

Those early lessons are the ones that proved pre-

cient in the past. So the important question at this point may be less what did or didn't happen in Mr. Trump's first 100 days, but what we know about the new presidency—and what lessons the president might walk away with himself.

We know that Mr. Trump is a restless activist who doesn't abide by the rules, for better and for worse. His presidency will never be quiet. The risk for him now is that the volume and looseness of his running commentary will undermine his ability to communicate effectively, at home and abroad, when it's urgent to do so.

Yet we also know he can curb his impulses, if he really wants to. He has gone stretches without indulging in his Twitter addiction. He can lean toward more of a conventional style when he wants to. He bashes the press yet also is open to it in a way few of his predecessors were.

Perhaps more important, he has allowed a cadre of more conventional advisers—Secretary of State Rex Tillerson, Defense Secretary Jim Mattis, economic adviser Gary Cohn, Treasury Secretary Steven Mnuchin—to accumulate increasing influence. Whether that continues is a key indicator for the next 100 days.

Perhaps most important, Mr. Trump is hitting the 100-day mark without a clear governing coalition. Republicans' control of the White House and both houses of Congress created an expectation that getting things done might be easy, but the early failure on the Obamacare repeal showed that he can't count on support from his party's most conservative wing.

At the same time, he hasn't managed to win meaningful Democratic support, outside of cheers for the Syria strike. The polarizing effect of his opening days has made that task tougher; Democratic National Chairman Tom Perez, in his own 100-days message, called on Democrats "to keep resisting for the next hundred, and the hundred after that, and on until Donald Trump is out of office for good."

The foremost presidential challenge for the next hundred days and beyond is to get Washington beyond the dangers of paralyzing polarization.

A New President Takes the Reins

Trump approval rating, weekly

JAN. 25 The Dow Jones Industrial Average hits 20000 as investors bet that the new president will follow through on economic promises.

JAN. 20-21 President Trump's inauguration speech sets the tone for his early tenure by promising a new, 'America First' nationalism. A day later, millions attend protests, known as 'women's marches.'

FEB. 3 The new president learns about the limits of his powers as a federal judge in Seattle temporarily blocks Mr. Trump's week-old executive order on immigration and refugees.

44 President Trump's inauguration speech sets the tone for his early tenure by promising a new, 'America First' nationalism. A day later, millions attend protests, known as 'women's marches.'

WASHINGTON—President Donald Trump is reorienting U.S. foreign policy away from the approach that has shaped America's role in the world for nearly a decade, by elevating military power, sowing confrontations with allies and hoping personal relationships with former adversaries can help advance his agenda.

Three months into his presidency, the shift has been more in tone than substance, and Mr. Trump largely has signaled his approach via his dealings with world leaders.

He said he offered better trade terms to China in exchange for Beijing's help confronting North Korea. White House officials credit Mr. Trump's praise for Abdel Fattah Al Sisi, Egypt's authoritarian leader, whom the Obama administration shunned, with the country's subsequent release of an imprisoned U.S. aid worker. The White House similarly hopes Mr. Trump's decision to congratulate President Recep Tayyip Erdogan of Turkey on winning a referendum to consolidate his power

FEB. 13 Mike Flynn resigns after failing to fully disclose his conversations with Russian officials. Several congressional committees probe the possible role that Russia played in the 2016 elections.

FEB. 7 Amid heightened partisanship, education secretary nominee Betsy DeVos wins confirmation only with a tie-breaking vote from Vice President Mike Pence, a historic first for a cabinet nomination.

MARCH 17 Mr. Trump expresses support for NATO after meeting with German Chancellor Angela Merkel but also says that many NATO allies 'owe vast sums of money' for the common defense.

FEB. 28 Mr. Trump asks a joint session of Congress to set aside 'trivial fights' and work with him on health care, taxation and infrastructure. The speech draws largely positive reviews.

MARCH 20 FBI Director James Comey confirms the agency is investigating whether there was 'coordination' between people associated with Mr. Trump's campaign and the Russian government in 2016.

APRIL 6 Senate Republicans vote to end the filibuster for Supreme Court nominations, paving the way for Neil Gorsuch's confirmation and giving Trump a much-needed win.

MARCH 24 House Republicans stumble as their long-promised health-care bill fails despite days of lobbying by the president and Speaker Paul Ryan.

APRIL 5 Steve Bannon is removed from the National Security Council. Officials call the move a natural evolution of the council but others in the West Wing say it reflects the shifting power dynamics in the White House.

APRIL 7 The U.S. military launches 59 Tomahawk cruise missiles against a Syrian air base, in the wake of a suspected chemical-weapons attack. U.S. lawmakers are largely supportive.

APRIL 13 The U.S. military drops one of the largest non-nuclear bombs in its arsenal on an Islamic State complex in eastern Afghanistan.

APRIL 26 The Trump administration proposes deep tax cuts, reducing the corporate rate to 15% from 35% and making a range of changes for individuals.

Sources: Gallup (approval ratings); WSJ Market Data Group (Dow); staff reports (events)

Note: Final data point based on April 24-26 daily average.

THE WALL STREET JOURNAL.

On Foreign Policy, President's Tone Signals New Tack

By CAROL E. LEE
AND BEN KESLING

WASHINGTON—President Donald Trump is reorienting U.S. foreign policy away from the approach that has shaped America's role in the world for nearly a decade, by elevating military power, sowing confrontations with allies and hoping personal relationships with former adversaries can help advance his agenda.

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Probes Show No Signs of Slowing

WASHINGTON—The investigations into possible ties between President Donald Trump's associates and Russian interference in last year's presidential election are gaining traction and threatening to shadow his new administration for months, if not years.

At least five congressional committees are investigating matters stemming from Russian interference in the 2016 election, including questions about whether campaign staff or administration officials had any contact with foreign agents.

In addition, the Federal Bureau of Investigation has acknowl-

edged it is probing whether anyone in Mr. Trump's campaign operation colluded with Russia.

A U.S. government intelligence assessment concluded in January that Russia ran a propaganda and hacking campaign aimed at boosting Mr. Trump at the expense of his Democratic rival Hillary Clinton—something that Mr. Trump and Russia deny. The matter is now in the hands of the FBI, which is running a criminal investigation, and Congress, which aims to write authoritative reports on what occurred.

As a result, the probes have become a major story line in Washington, with a steady drumbeat of leaks, hearings and partisan bickering dominating the opening chapters of Mr. Trump's administration. On Capitol Hill, the bulk of the work is

being done by the House and Senate Intelligence Committees—though the House Oversight Committee, Senate Armed Services Committee and Senate Judiciary Committee are also looking at aspects of the purported Russian involvement.

"Once a story is out there, you have to move fast to contain it. If you don't get it over quickly, each little tidbit that gets unearthed just becomes a story in itself that will take on a life of its own and dominate the headlines for another news cycle," said Andrew Ricci, a former Democratic House staffer who is now a vice president at the public relations firm Levick. "That's what's continuing to cause serious damage to President Trump and his team."

—Byron Tau

would pay dividends in the fight against Islamic State.

At the same time, Mr. Trump has taken a tough line with U.S. allies at the United Nations and North Atlantic Treaty Organization, saying they need to adopt reforms and increase their financial commitments. He has sparred

with Mexico over his plans to build a wall along America's southern border, and with Australia over an agreement resettling refugees. On Monday, the Trump administration retaliated against Canada over a trade dispute by moving to impose a 20% tariff on softwood lumber. "The president keeps

"It's easy to have a policy; it's hard to have a strategy, and the president hasn't shown a lot of determination to forge strategies," said Jon Alterman, a senior vice president at the Center for Strategic and International Studies and director of its Middle East program. "The president keeps

our enemies off balance but he keeps our allies off balance, too. And it's hard for anyone to know how to really help the United States."

Mr. Trump's eagerness to flex U.S. military power and willingness to empower commanders on the ground also has set a new tone.

While his predecessor, President Barack Obama, preferred diplomacy over military force, Mr. Trump has launched air strikes against the Assad regime in Syria, proposed a budget that cuts State Department programs and increases military spending, and has escalated the fight against Islamic State, even at the risk of increased tolerance for civilian casualties.

He also has left most decision-making on the ground in the hand of his generals.

But the approach has had its drawbacks. Weeks into his presidency, a U.S. special operations forces raid in Yemen led to the death of a Navy SEAL, and while the White House said the raid gathered invaluable intelligence, little has been publicly released to back up those claims.

The U.S. military dropped

the largest non-nuclear bomb it has ever used in combat, announced by a press release, just weeks after a string of U.S.-led coalition strikes in Iraq and Syria led to accusations of civilian casualties. Investigations into the allegations are under way, but the American military, which lauds its precision airstrikes, has seen its reputation tarnished, aided by Islamic State's ability to leverage social media.

"The Trump administration is essentially doing shock and awe, what we saw in the first days of the Iraq War, and shock and awe plays very well in the U.S.," said Robert Pape, a political science professor at the University of Chicago focusing on air power and terrorism. "The problem is the effects can be fleeting, and in fact can be used later on to say the West has a double standard."

Some see the Trump approach to places like Iraq and Syria differing little from the Obama approach. "The general assessment is not much has changed," said a European official, who called Mr. Trump's Iraq and Syria strategy "Obama-Plus."

BOOKS

'Universities are institutions run by amateurs to train professionals.' —Derek Bok

Schools of Mismanagement

A modern business education provides theories and metrics but no moral center

The Golden Passport

By Duff McDonald
HarperBusiness, 672 pages, £27.26

BY MATTHEW STEWART

ANTHROPOLOGISTS in the distant future will make their careers investigating the extraordinary rituals of American business education. As they sift through the wreckage of a civilization that bestowed its highest rewards on individuals trained to ignore its deepest problems, they will be lucky to have as their guidebook Duff McDonald's deliciously iconoclastic history of the Harvard Business School, "The Golden Passport."

More than a century ago, Harvard formed its Graduate School of Business in the hope that its faculty would soon figure out how to make management into a discipline and a profession. Apparently, they're still working on it.

They first tried on the "scientific management" of Frederick Winslow Taylor (1856-1915), the "efficiency expert" who wielded his stopwatch against laborers as if it were a cattle prod. After it became embarrassingly clear that Taylor's work was as scientific as the average séance, Harvard fell for the humanism of "Dr." Elton Mayo (1880-1949) and senior AT&T executive Chester Barnard (1886-1961). But the doctor's "research" was as bogus as his credentials, and the telephone boss proved to be an insufferable paternalist, convinced that he and his fellow managers ruled the world by virtue of their own moral purity.

When America's corporations floated out of World War II on an ocean of cash, the wise men of Harvard decided that management was all about creating vast, technocratic amoebas that could swallow any business in their path. When Wall Street began to eat those amoebas for lunch, they suddenly realized that management was all about maximizing shareholder value.

Along the way, the Harvard Business School has racked up some remarkable successes, as Mr. McDonald makes clear. The logistical and analytic techniques the school developed during World War II, for example, proved to be of tremendous benefit in ramping up (and ramping down) the war effort. Contrary to Silicon Valley myth, Harvard played a key role in creating the nation's thriving venture capital sector. But a giant hole remains at the center of the business school project, and it is located precisely where one would expect to find an explanation of the fundamental purpose of an education in business.

Two things may be said of the general theories of business education that populate the promiscuous intellectual history of the Harvard Business School. The first—to state baldly what Mr. McDonald wisely allows the accumulation of evidence to reveal—is that none of them are to be taken seriously. They all start and end with the belief in a magic measuring stick that will reduce the problems of human collaboration to a game of numbers. The second is that they always, always, justify the power and the glory of management. Did I mention the money?

In the first decade of its existence, Mr. McDonald shows, the Harvard Business School faced an existential dilemma. It could dedicate itself to the pursuit of knowledge. Or it could dedicate itself to the pursuit of corporate donations and consulting contracts. The choice made then set a pattern: Professors lunged for the cash and then, straightening their ties, waxed eloquent about how this was after all the noble thing to do.

The school's second dean, Wallace Donham (1877-1954), explained everything. Upon returning from Wall Street one fine day, his suitcases overflowing with joy, he announced that it was good and right that the school should stay in touch with "everyday life" and offer faculty the "opportunity for . . . personal development." HBS faculty have been following their bliss ever since, secure in the knowledge that the money will only enhance their ability to carry out their intellectual mission. When the celebrated professor and organization guru Rosabeth Moss Kanter lauded IBM in 2009 for having "achieved the seemingly impossible: high levels of business performance . . . and social good," for



GETTY IMAGES

CONSULTANT CLASS Commencement ceremonies in front of Baker Library on the Harvard Business School campus in Boston on May 29, 2014.

example, she could speak from personal experience. It seems that IBM had been good enough to put her on its payroll as a senior adviser over the preceding decades.

The comedy of dollars reached a climax around the time of peak Harvard, in 1979, when it became apparent that the most powerful man at the school was not a professor or an administrator but Marvin Bower, a 1930 graduate of HBS and head of the consulting firm McKinsey & Co. Bower was meticulous in everything, down to the cuff links he expected his associates to wear, and McKinsey happened to be the single largest consumer of HBS's well-groomed products.

At the time, HBS's fabled "case method" of instruction had come under fire from, among others, Harvard President Derek Bok. The case method, for those who don't know, is a form of open-air literary criticism focusing on third-hand stories written about, and sometimes edited by, the superhuman managers of the same sorts of corporations that help pick up the tab for business schools like HBS. Mr. Bok suspected that it was a pedagogical method masquerading as an intellectual discipline. Others would say that it's mainly a way of teaching young people to speak brilliantly on what they only dimly understand. Now it so happens that the talent for "winging it"—less polite names will come to mind—was exactly what the consultant ordered. So Bower put his perfectly polished wingtip down, and the case method stayed.

The dark void at the core of the business school enterprise became as visible as the moon blotting out the sun during the great transformation that started in the 1980s. In the preceding decades, Harvard had tirelessly preached the gospel that the corporate manager is the moral center of modern civilization. Then, right around the time that "liar's poker" became a thing in the investment banking world, the school suddenly embraced the notion that managers are just a shareholder's idea of roadkill—and that it is positively bad for shareholders to possess anything resembling a moral conscience. If there is a villain painted in a single shade of black in Mr. McDonald's version of the history, it is Michael Jensen, the economist and HBS professor who supplied the intellectual rationalizations for the leveraged buyout boom, the CEO compensation boondoggle, and the rampant financialization of the economy. In Mr. McDonald's tale, Mr. Jensen shows up "spewing out ridiculous blanket claims such as . . . 'shareholders gain when golden parachutes are adopted.'

Although the great transformation of the 1980s was a kind of intellectual 180, it was in a deeper sense a new twist on an old turn. HBS was still in the business of producing magic sticks that promised to answer every human need with a handy spreadsheet. In the more recent chapters of the history, the scariest parts are where the faculty take the spreadsheets off campus.

Michael Porter—probably the school's most famous professor and certainly among the richest—made a fortune by converting an economic theory intended to help regulators curb monopolies into a banal

salads of meaningless managementese when confronted with serious questions—like whether the school, having spent much of the past three decades operating as the human resources department of Wall Street, should take some responsibility for the bonfire of the financial system in 2008.

It would be a funnier story if it weren't for the tragic aspects of American capitalism in the 21st century, as Mr. McDonald rightly points out. American business schools, starting with Harvard, have become, in Mr. McDonald's words, "private sector madrassas." As the economic system veers toward destabilizing

management-ideology complex. Political reporters should take note of the upside of abandoning access journalism: freedom.

Freedom is fun to read. Surveying the malignantly insipid "leadership" literature, Mr. McDonald at last speaks truth to power: "Most of it is bulls—." As for the executive-compensation racket—where CEOs, egged on by their business-school cheerleaders, sit on one another's boards and hire consultants to tell themselves how much more they should be paid—that, says our righteous author, is "one of the most intricately designed circle jerks in business history." Freedom also turns out to be a bit long to read. At nearly 600 pages, it appears to have skipped a trip to the barbershop. Still, the punchy wit and refreshing blasts of pepper spray will keep you awake for the ride.

With a title like "The Golden Passport," this book may be purchased for the wrong reasons. So let's be clear that it isn't about whether a Harvard MBA is "worth it." Of course it is—"duh," as Mr. McDonald would say—assuming that the meaning of "worth" is your personal bank account. It isn't some populist rant against pointy-headed conformists posing as our entrepreneurial saviors. Mr. McDonald surely knows too many good people in the business world to suppose that the issues here have much to do with personal failings or unpleasant stereotypes. It also isn't a facile effort to lay the blame for all of society's ills on the lonely steps of a single campus in Boston. At the end of the day, the American obsession with business education is a symptom, not a cause, of its deepest problems. This is serious history, broad in its sweep and meticulous in the detail.

Which is why it would be a shame if "The Golden Passport" wound up only in the hands of the business-school crowd and even worse if it served merely as an excuse for the sages on the Charles to interview one another about their lapses, appoint yet another professor of ethics, and congratulate themselves once again on their endless capacity for moral improvement. This is really a book for the rest of us, the readers and the thinkers of the world, some of whom undoubtedly have business degrees. Either we figure out why it is we ever imagined that we needed the MBA and its magic sticks, or those future anthropologists, smiling as they shake their heads in distant pity, will do it for us.

This is a bigger, better book than

Mr. McDonald's previous efforts—more critically aware than his premature hagiography of Jamie Dimon ("Last Man Standing," 2009), more ambitious than his able but insipid history of McKinsey ("The Firm," 2013). It appears that we have Harvard itself to thank for the breakthrough: According to the author's note, HBS refused to make a single person available for a single interview. (Mr. Nohria will be rethinking that decision right about now.) Harvard's evident disdain for the search for truth, however, left Mr. McDonald free to step outside the river of self-love that is America's

Mr. Stewart is the author of, among other books, "The Management Myth."

BOOKS

'We sleep safe in our beds because rough men stand ready in the night to visit violence on those who would do us harm.' —George Orwell

The Point of the Spear

Oppose Any Foe

By Mark Moyar

Basic, 432 pages, £26.99

BY IAN F.W. BECKETT

IN MAY 1980, British television was interrupted by a live broadcast of balaclava-clad Special Air Service men storming the Iranian Embassy in London to rescue hostages taken by an Iranian separatist group. Such operations were not perhaps a surprise for the baby-boomer generation. After all, we had been brought up with celluloid heroics in which Dirk Bogarde—it was nearly always Dirk Bogarde—snatched German generals from Crete or raided Rommel's supply lines in North Africa. But for younger generations of Britons, the embassy raid had an enormous impact, spawning a new fascination with special-operations forces. Their growing mystique has led to a stream of often lamentable books with "SAS" on the cover as well as, more seriously, a misleading confidence in their superiority to conventional forces for many missions.

As Mark Moyar's "Oppose Any Foe: The Rise of America's Special Operations Forces" demonstrates, there has been a similar trend in the U.S. The various American special forces, which date from the formation of the Army First Ranger Battalion in 1942, now number 70,000 members. They have moved from being a secondary weapon to a primary weapon. Gen. Peter Schoomaker became the first special-forces officer to be Army chief of staff in 2003, and Gen. Stanley McChrystal the first special-forces officer to be given direction of an entire campaign—in Afghanistan—in 2009.

But, at best, unconventional units have offered tactical rather than strategic success. The one exception was the ousting of the Taliban from Afghanistan in support of the Northern Alliance immediately after 9/11; operations against al Qaeda in eastern Afghanistan were not as successful. There has been a litany of failures, including Operation Eagle Claw in Iran in April 1980 and Operation Gothic Serpent in Somalia in October



GETTY IMAGES

ON WATCH A U.S. Army Special Forces soldier in Afghanistan in 2002.

1993. Successive presidents, however, have fallen under the spell of special forces, although their support has often been qualified and quickly withdrawn, as was the case with President Bill Clinton after Somalia.

It is Mr. Moyar's contention that the problem has been that few incumbents of the White House have understood special forces' limitations. Special forces, he says, are best suited to counterinsurgency. He sees little likelihood of future opportunities to use special forces in the strategic role they played in Afghanistan in 2001, for example. Indeed, he argues that given the persistence of conventional threats, "the best solution at the present time would be to expand conventional forces rather than special operations forces." New roles and missions may evolve, but special forces must be properly integrated into broader strategic enterprises. Successive presidents, he writes, have made decisions about unconventional units "based on superficial and romanticized views."

Franklin Roosevelt, for example, was persuaded by his son James, a Marine captain, to push the creation of the Corps' Raiders units against the views of the Marine Corps commandant. Young Roosevelt had been captivated, in turn, by

Burma would introduce himself to potential recruits by "asking them to punch him in the stomach as hard as they could"; hard-drinking Navy SEAL Richard Marcinko; and Charlie Beckwith, first leader of the Army's Delta Force.

Few American presidents have understood how to utilize special forces. They are best suited to counterinsurgency—not conventional warfare.

the ideas of his mentor, Maj. Evans Carlson, who had observed early Maoist guerrilla tactics in China. Carlson ended up being played by Randolph Scott in 1943. (Mr. Moyar tactfully omits the name of the film—"Gung Ho!") Carlson is by no means the most flamboyant character populating Mr. Moyar's story. Special forces seem to attract mavericks, such as "Wild Bill" Donovan; Carl Eifler (who as commander of the Army's Detachment 101 in

Even John F. Kennedy, who did so much to re-establish the Green Berets in response to Khrushchev's declaration of Soviet support for "wars of national liberation" in 1961, had "little idea of the practical realities of special operations forces, the mundane details that put limits on what could actually be achieved," Mr. Moyar writes. Rapid expansion came at the expense of lowering standards. Too often, conventional forces have been robbed of their best per-

sonnel. Following a policy preference instituted by Donald Rumsfeld, Barack Obama embraced "surgical strikes" as a substitute for a real strategy, because "they enabled him to show the American public that he was combating terrorism forcefully and efficiently."

Ironically, at the same time that Mr. Obama was seduced by the supposed utility of ever-expanding special forces, the 2012 Defense Strategic Guidance eschewed building genuine counterinsurgency capability of the kind that has often shown special forces at their most effective. The Village Stability Operations in Afghanistan—part of what Mr. Moyar characterizes as "white" operations—were reminiscent of the Civilian Irregular Defense Group program in Vietnam. Like the Vietnam program, Village Stability Operations, in which Americans "rented compounds within their assigned villages, forgoing the concrete cocoons of the forward operating bases," were tactically successful to a degree but overtaken by the increasing integration of special forces into large conventional operations. In passing, it might be noted that, while Mr. Moyar has published important studies of the Phoenix Program and of the early years in Vietnam, there is relatively little discussion in "Oppose Any Foe" of the debate over the merits of special forces' involvement with the CIDG as opposed to the more conventional strike role imposed on them after 1965. J.P. Harris's recent "Vietnam's High Ground" (2016), for example, provides an altogether more comprehensive account.

Of course, Mr. Moyar aims at an overall assessment of the development of special forces and has to cover over 70 years of lessons. In so doing, he falls occasionally into the kind of narrative associated with popular history. To an extent, this arguably detracts from his analysis, but his book needs to be taken seriously by policy makers. As Mr. Moyar concludes, "for the sake of the special operations forces, their history must be published, the good as well as the bad, and it must be read."

Mr. Beckett is a former professor of military history at the University of Kent.

High Drama Behind the Scenes

High Noon

By Glenn Frankel

Bloomsbury, 400 pages, £30

BY STEFAN KANFER

IN AUGUST 2015, the headline for an editorial in this newspaper read: "Gary Cooper in Europe." On a train from Amsterdam to Paris, an armed jihadi burst into a passenger car. Three young Americans happened to be aboard. The trio rose up as one, subduing the terrorist before he could fire his weapon. These men, said The Wall Street Journal's editors, represented "an admirable strain in American culture that doesn't shrink from individual acts of heroism for the larger good.... Heroism used to be celebrated in Hollywood, though it rarely is in these cynical days."

Some 63 years before, that headliner had been the lodestar of "High Noon," an austere black-and-white western told in real time. It became a surprise box-office smash, earned four Academy Awards (including one for Cooper for best actor), and a permanent place in the hearts of moviegoers world-wide.

It had not begun that way. In his wide-screen narrative, "High Noon: The Hollywood Blacklist and the Making of an American Classic," cultural historian Glenn Frankel follows the outrageous fortunes of the film and its creators. Fred Zinnemann was a Viennese émigré whose ideas of the Old West were derived from German potboilers. He had directed two promising newcomers, Marlon Brando ("The Men") and Montgomery Clift ("The Search") but was hardly a household name, even in the households of B-picture producers. The screenwriter, Carl Foreman, was better known to the cognoscenti; his credits included several distinguished features, including "Champion" and "Cyrano de Bergerac." He was also known to another group: fellow members of the Communist Party, an affiliation that was to shape the drama of "High Noon" and blight the career of its writer.

Cooper, the third pillar of this now-classic feature, was 50 when he went before the cameras. He had been a bankable actor for decades, celebrated for his performances not only on screen but in bed. He never took himself seriously in the latter role. After a hot romance with co-star Ingrid Bergman, he recalled: "Ingrid loved me more than any woman in my life loved me. The day after *Saratoga Trunk* ended, I couldn't get her on the phone." But as a performer he was polished and professional, aware that he had been a member of cinema royalty—and that age had eroded his status. As Stanley Kramer, the producer of "High Noon," put it: "Everybody felt he was old and tired."

Writer Carl Foreman ended up on the blacklist, but he didn't give the conservative Cooper any pink-stained speeches.

Not quite everybody. "Coop" believed that he was right for the role of Marshal Will Kane. So right, Mr. Frankel tells us, that he agreed to take a salary cut. He also volunteered to play without makeup, accenting the creases in his leather-saddle face. The filmmakers found the offers irresistible. With a supporting cast of reliable character actors, and a 22-year-old ingenue named Grace Kelly, filming began in the fall of 1951.

At the same time, another show got under way. The House Committee on Un-American Activities began to probe for Communist influence in Celluloid City. As a shelf of books have indicated, the congressmen pursued ink and air time as avidly as they hunted "subversives."

They did discover a handful of self-styled commissars in the film colony. Mr. Frankel quotes Stalinist screenwriter John Howard Lawson instruct-

ing neophytes: "As a writer try to get five minutes of the Communist doctrine... in every script that you write. If you can, make the message come out of the mouth of Gary Cooper or some other important star who is unaware of what he is saying."

But the scenarists were not an ovine flock. When in their early 20s, the radicals had indeed bought the Workers' Paradise myth exported from Moscow and joined the American Communist Party. Then disillusion set in. In 1939, the U.S.S.R. invaded a defenseless Finland. This outrage was followed by

infiltration, unseen since the America of the 1920s, resumed. The federal government required employees to sign a loyalty oath; the private sector followed.

Summoned before the House Un-American Activities Committee, scores of writers, directors, actors and executives made full confessions. When these were deemed insufficient to rescue their livelihoods, they furnished the identities of their fellow radicals. Others, however, declined to name names. They were finished in Hollywood. One of the refuseniks was Carl Foreman.

A black and white photograph of Gary Cooper as Marshal Will Kane in the 1952 film "High Noon". He is walking down a dusty street in a small town, wearing a dark suit, a white shirt, and a dark bow tie. He is carrying a revolver in a holster on his belt. The background shows wooden buildings and other people in period clothing.

TICK-TOCK Gary Cooper as Marshal Will Kane in 'High Noon' (1952).

ter-day Will Kane, the imperiled lawman whose former buddies have given him their backs. After "High Noon" wrapped, Foreman left town just like the sheriff, seeking employment elsewhere.

He found it in the friendlier precincts of Britain. But if Foreman was finished with the blacklist, the blacklist wasn't finished with him. To sell scripts he used pseudonyms for the next six years. In 1956, along with Michael Wilson, another blacklisted, he wrote "The Bridge on the River Kwai." The Oscar for best screenplay adaptation went to French novelist Pierre Boulle, who didn't write or speak English.

Even this failed to satisfy the old-line Communists who attacked Foreman for ideological impurity—after all, his typewriter never stopped, so there must have been something tainted about his success. "Some perhaps were jealous of the fact," observes Mr. Frankel, that the writer "lived well in London, and that he always seemed to come out ahead financially." The words "skill" and "proficiency" had no place in the progressives' lexicon.

Carl Foreman, who died in 1984, had in fact paid a steep price for his walk on the left side. Gary Cooper was back on top; Fred Zinnemann went on to become a world-class director ("The Nun's Story," "A Man for All Seasons"). Though Foreman was eventually rehabilitated, he had lost who knows how many film projects, a Hollywood career and a marriage. In the end there was only one true workman's compensation: Like the character he created, "I discovered that I could be scared and still come through a situation. I actually was the kind of person I thought I was." The movie "High Noon," great in itself, is all the greater for the backstory Mr. Frankel tells.

Mr. Kanfer is the author of "A Journal of the Plague Years: A Devastating Chronicle of the Era of the Blacklist." His novel "Hell Money" will be published in the fall.

OPINION

REVIEW & OUTLOOK

Trump's Tax Principles

The White House rolled out its tax principles on Tuesday, investing new energy in the first serious reform debate in 30 years. While the details are sparse and will have to be filled in by Congress, President Trump's outline resembles the supply-side principles he campaigned on and is an ambitious and necessary economic course correction that would help restore broad-based U.S. prosperity.

Many voters heard Mr. Trump's make-America-great-again slogan as a promise to raise their incomes and improve economic opportunities after a long stagnation. Eight years of 2% growth since the recession ended in 2009 is the weakest recovery in the postwar era, and the result has been rising anxiety and diminished expectations for millions of Americans.

Faster growth of 3% a year or more is possible, but it will take better policies, and tax reform is an indispensable lever. Mr. Trump's modernization would be a huge improvement on the current tax code that would give the economy a big lift, especially on the corporate side. The reform would sharply cut the business-income rate to 15% from 35%, while simplifying the code for individuals and cutting some marginal rates.

Though Mr. Trump's proposal dabbles in some politically fashionable tax redistribution, at its core it is an exercise in growth economics. The cuts would be permanent and immediate, and the rates are low enough to enhance the incentives to work and invest.

* * *

The plan also fits the economic moment, because a main source of U.S. malaise is poor business investment. Spending on the likes of new factories, equipment and software is soft, which in turn has undermined the productivity gains that produce more jobs, higher wages and higher living standards. Productivity growth in the 2000s and 2010s is only about half the average of the 1980s and 1990s.

One reason for this underinvestment—even though corporations have about \$2.5 trillion parked overseas—is the uncompetitive and complex American tax system. The 35% statutory rate is the developed world's highest, and an archipelago of credits, exclusions and deductions means the tax collects only about 11% of federal revenue, or roughly a meager 2% of GDP.

Slashing the headline rate to 15% would instantly lead to a surge in capital investment. Mr. Trump would make small businesses like S corporations and other pass-throughs that now pay through the individual-tax code eligible for the 15% rate. Tax parity among all companies is a useful goal, not least because owner-operated companies are an engine of hiring and growth.

Increasing the capital stock will raise productivity. The economic literature conservatively suggests that about half of the corporate-tax burden is carried by workers in the form of lower wages. In other words, moving to 15% is a national pay raise.

Another benefit is that the Trump plan would move to a territorial tax system, where U.S. companies pay taxes on income only in countries where it is earned. Businesses are now taxed on world-wide profits (less certain credits), which is why so many have moved headquarters overseas. The White House also endorsed a one-time required tax on profits earned abroad, the rate to be determined. A single-digit rate would be best and voluntary would be better.

On the personal side, the Trump plan would make the code more efficient by collapsing the current seven brackets down to three of 10%, 25% and 35%. The White House is still debating at which income levels these rates would apply. The plan would also double the standard deduction to \$24,000, so fewer taxpayers would need to itemize.

Springtime Out of Paris

President Trump and his advisers are debating whether to withdraw the U.S. from the Paris Climate Accords, and the issue is coming to a head. If he doesn't want to topple his own economic agenda, Mr. Trump's wisest course is to walk away from a pact that President Obama never put before the U.S. Senate.

Mr. Trump wants to revive growth and lift wages (see above), and a large part of that project is a bet on liberating U.S. energy production, notably natural gas and oil. Toward this end Mr. Trump issued an executive order in late March asking the U.S. Environmental Protection Agency to unwind Mr. Obama's Clean Power Plan.

The Obama team finalized CPP in late 2015, and the rule was immediately challenged in court by 28 states. Notable among the Obama Administration's legal defenses is that CPP is essential to fulfill the U.S. commitments to reduce carbon emissions under Paris. By the end the White House cited Paris as the legal justification for all its climate policies.

EPA Administrator Scott Pruitt is moving to repeal CPP and other Obama climate rules. Environmental groups will inevitably sue. If the U.S. remains in Paris, Mr. Pruitt will have to explain to the many Obama appointees on the federal bench that gutting CPP is a reasonable exercise of administrative power in light of the Administration's continued fealty to Paris carbon reductions. This is the sort of logical incon-

A pro-growth outline that focuses on weak capital investment.

A top marginal rate of 35% is progress over the status quo of well above 40% (including surcharges and phase-outs), though above the 33%

rate that Mr. Trump proposed during the campaign. The President's economic advisers are sensitive to the "tax cuts for the rich" label, though they'll be pilloried for that no matter what they propose.

The Trump plan eliminates all deductions except for home mortgages and charitable donations. This killing spree includes political favorites like the write-off for state and local tax payments. This is a federal subsidy for high-tax New York, New Jersey, Oregon and California, but about 90% of these tax expenditures flow to taxpayers with adjusted gross income of more than \$100,000. Depending on the specifics, the affluent could pay more.

But the economic evidence is substantial that lower marginal-tax rates provide the biggest growth bang for the buck. The 1986 Reagan reform—the last major reform—cut the top rate to 28% from 50%, which sustained the 1980s boom. Growth averaged 4.8% in the six years after the 1981-82 recession and the growth effects continued to pay dividends into the 1990s. These have since dissipated as the tax code has been riddled with more and more rent-seeking dispensations.

Speaking of which, the White House affirmed new tax credits for families with children, and perhaps this is the price of fulfilling an Ivanka Trump-brand campaign promise. But such credits are expensive and do nothing for growth.

The Trump plan is silent on the House's controversial 20% border-adjusted tax, and perhaps that is more than the political bandwidth could bear. Retailers and other importers oppose a tax on imports, and the transition in practice—such as a rapidly appreciating dollar—could be rougher than economic theory suggests. But this means losing revenue of about \$1 trillion that was supposed to offset the lost revenue from tax-rate cuts. Without border adjustment, or some other tax increase or budget cuts, the Trump plan will increase the deficit.

Thus the blueprint is being assailed from both the left and the balanced-budget right. The Trump economic team acknowledges that their plan would mean less federal revenue than current law under conventional Beltway scorekeeping that assumes no increase in economic growth. But unlike in Washington, in the real world people and companies will change their behavior in response to better incentives, the economy will grow faster, and over time revenues will grow faster than without reform.

* * *

We've been somewhat skeptical of Mr. Trump's economic team, but Treasury Secretary Steven Mnuchin and National Economic Council chief Gary Cohn have delivered a supply-side outline that will unleash the pent-up productive capacity of U.S. workers and businesses. Credit is also due House Speaker Paul Ryan and Ways and Means Chairman Kevin Brady, whose "Better Way" platform made tax reform a priority.

Mr. Trump's plan is an opening bid to frame negotiations in Congress, and there are plenty of bargaining chips. Perhaps the corporate rate will rise to 20%, or maybe the House will include a more modest border adjustment. Budget rules and Democratic opposition could force Republicans to limit the reform to 10 years. But better to start with a big pro-growth offer rather than pre-emptively lower aspirations. Republicans won't get another opportunity like this to reshape the tax code for a generation.

The Trump principles show the President has made growth his highest priority, and they are a rebuke to the Washington consensus that 1% or 2% growth is the best America can do. Now Mr. Trump has to show results. If anything close to this reform can survive the political maelstrom, it will go a long way toward returning to the abundance of the 1980s and 1990s.

Staying in Obama's climate accord risks Trump's energy plans.

sistency that a creative judge might seize on to justify blocking Mr. Trump's EPA rules. By staying in Paris Mr. Trump may hand opponents a sword to kill his agenda.

The left is also pointing to Section 115 of the Clean Air Act, which gives EPA a mandate to regulate emissions that "may reasonably be anticipated to endanger public health or welfare in a foreign country." The catch is that EPA can only act if there is regulatory "reciprocity" among the nations involved. Such as the Paris accords.

Mr. Obama knew he was setting these carbon political traps as he rushed to commit the U.S. to Paris. His bet was that even a future GOP President would be reluctant to endure the international criticism that would follow withdrawal. And sure enough, U.S. Secretary of State Rex Tillerson and National Economic Council director Gary Cohn are making precisely this argument for staying in Paris.

Then again, Candidate Trump promised to withdraw, and he can't possibly be vilified for Paris more than he already has for everything else. His advisers have presented a way to short-circuit the supposed four-year process for withdrawing, which involves U.S. resignation from the U.N. Framework Convention on Climate Change.

This isn't a question of science or diplomacy. For Mr. Trump, the question is whether he wants to put his economic agenda at the mercy of anticarbon warriors and federal judges.

Hope for France?



POLITICAL ECONOMICS By Joseph C. Sternberg

Much that's going wrong in French politics happened at a Whirlpool factory in Amiens on Wednesday.

The factory, which is due for closure soon, has become emblematic of France's industrial decline. The jobs are moving to cheaper Poland. The area is the birthplace of Emmanuel Macron, the presidential front-runner and Hope of France. But it's the political turf of his far-right opponent, Marine Le Pen of the National Front.

Ms. Le Pen tells workers at the Whirlpool factory that the European Union is to blame for the loss of their jobs and the broader economic and social decay around them. Free trade with Europe allows Poland to steal French jobs, while the fiscal harpies in Brussels punish any French government that tries to respond with subsidies or welfare.

"I'm here exactly where I belong, among Whirlpool workers who are resisting wild globalization," Ms. Le Pen said Wednesday during a surprise visit to the plant. She promises a 35% tax on companies that relocate production out of France. That's economically illiterate but may sound good if you're about to be unemployed and desperate.

Mr. Macron tells those soon-to-be-unemployed people—well, roll the tape:

He had originally planned to meet only with a small delegation of union leaders miles away from the factory. When someone noticed Ms. Le Pen was campaigning at the factory, Mr. Macron—to his credit—went there himself. Once he arrived, he lectured the worker-voters on macroeconomic trade-offs: "After the closure of borders, what is there? The destruction of thousands of jobs that need them open."

Mr. Macron helpfully added later that if Ms. Le Pen is elected, another on-the-brink factory up the road will have to close, too. Which surely makes the Whirlpool workers feel better. That smoke you see in the background of the press photos of Mr. Macron in Amiens is coming from the tires they burned in the parking lot during their strike to try to save their jobs.

Optimistic pundits hope the impending victory of a fresh-faced reformer signals that France's economy at last can be fixed. But for at least the past decade, France's problem hasn't been a lack of understanding in the political class of what the French economy needs. Mr. Macron is not so much a radical change-agent as a photogenic tribune for a political class that is increasingly, albeit belatedly, uniting behind the need for economic overhauls.

Formerly of the center left, he won Sunday's first round on a revitalization

platform different more in degree than in kind from that of the main center-right candidate, François Fillon, on matters such as government spending cuts and labor-law reform. The global case of the vapors over Ms. Le Pen obscures how remarkable this pro-reform convergence is.

An implication is that Mr. Macron's biggest problem in office may not be the mechanical challenge of pushing reform legislation through the National Assembly despite his lack of a serious party apparatus. Parties matter, but Mr. Macron is swimming with the tide. He can probably legislate enough of his reform program to make a material difference to France's economy over the next few years—and Lord hasten the day.

Then there's Amiens. Mr. Macron's problem will be that results often aren't enough. The protectionist outsiders Ms. Le Pen and far-left Jean-Luc Mélenchon

Macron can probably 'fix' the economy for a time. Getting reforms to stick will be another matter.

won some 49% of the first-round vote Sunday, despite economic growth that has inched upward toward 1.5%—that's good by French standards—and unemployment that's finally starting to tick down toward less than 10%. But voters quite reasonably like to think there's a strategy they can believe in, not merely a few lucky quarters of data.

Margaret Thatcher and Ronald Reagan understood this. They remade British and American politics for a generation not through the workings of their legislative programs but through their capacity to shape public opinion. They created a coalition of the optimistic whose new expectations for the political class tugged at both the left and the right.

If the Macron program is to stick, he'll have to do the same. He isn't off to an auspicious start. He won among the 49% of first-round voters who already know they support openness and are benefiting from it. But so far when he tries to persuade the other 49% he too often ends up in that parking lot in Amiens.

His message to those workers—"Take the hit for the good of the country"—lacks a certain Reaganesque resonance. He has limited time left in this campaign, and perhaps in the early days of a new Macron administration, to do better.

Mr. Macron probably will still win the May 7 run-off thanks to the quirk that the National Front comes with a considerable ick factor. But for this to be the decisive turn France needs, Mr. Macron urgently needs to find a political road out of Amiens.

Alec Baldwin Hates Science

By Robert P. Crease

The month after President Trump's inauguration, a Facebook post with a lighthearted take ricocheted around the internet—including into my email inbox. Think of all the great things that have happened since the election, it said. Sales of George Orwell's "1984" have soared. Millions of Americans have learned the names of their state and federal representatives. People can now spell "emoluments."

But No. 4 on the list stuck in my craw: "Alec Baldwin is great again. Everyone's forgotten he's kind of a jerk." I haven't forgotten. Sure, I've enjoyed Mr. Baldwin's "Saturday Night Live" impersonations of the president. But 20 years ago I happened to be writing a book about the early history of Brookhaven National Laboratory on New York state's eastern Long Island.

Brookhaven is a historic institution, one of the first three U.S. national labs. Researchers at the lab have been awarded the Nobel Prize seven times. In 1997, after a small amount of radiation leaked from the lab, Mr. Baldwin helped lead a group of antinuclear activists seeking to close Brookhaven.

The lab's manager and the Energy Department should have been more diligent about supervising its activities. Yet the leak, which came from the spent-fuel pool of Brookhaven's research reactor, posed no threat to health or the environment. Lab employees, many of them experts in cancer risks and cures, were happy to keep sending their children to the lab's day-care center.

In calling for Brookhaven to be shut down, Mr. Baldwin and his allies publicized several allegations, including the false claim that its reactors were responsible for a local surge in cases of a rare childhood cancer called rhabdomyosarcoma.

Let me say a few words about facts. Scientific facts aren't scattered around the world like sticks and stones, waiting to be spotted and gathered. They are produced by an infrastructure of laboratories that earn credibility by exposing their findings to repeated checks. Surviving these checks is what makes a finding a fact. The system isn't perfect, but constant scientific scrutiny is the principal reason we can trust its conclusions (though many people, including congressmen, sometimes still don't). Apart from this scrutiny, a claim may seem believable and fit some ideological picture, but it's still only a claim, not a fact.

Back to the summer of 1997. There was

no scientific evidence of an unusual surge in rhabdomyosarcoma near Brookhaven. A task force convened by Suffolk County found the disease less common there than elsewhere on Long Island and in the rest of New York state. But don't trust me: Please check the report yourself.

Further, there's no scientific consensus about the cause of rhabdomyosarcoma. "Researchers now understand many of the gene changes" that can lead to the disease, says the American Cancer Society, "but it's still not clear what causes these changes."

Never mind that: Mr. Baldwin and his group of activists were certain—absolutely certain—that Brookhaven was to blame. Mr. Baldwin used his showbiz contacts to promote that claim. He brought an 8-year-old boy with the disease onto an episode of "The Montel Williams Show" that aired Jan. 9, 1998. Mr. Baldwin falsely asserted that "the rates of cancer are 200 to 300 times the national average in this area on Long Island."

The sick child was then used to deliver a powerful emotional punch. Mr. Williams gave the prompt: "Why do you think you have cancer?" The boy obediently answered: "Brookhaven Lab."

Mr. Williams promised the boy that he could star in a public-service video. Mr. Baldwin added excitedly: "You know the way this works. We'll give you your own trailer." Mr. Williams followed up: "And your agent can negotiate the fees."

Don't get me wrong, my heart bleeds for that child, and for anyone, with rhabdomyosarcoma. But effective treatment starts with using the scientific infrastructure to check and recheck findings about causes and incidences. Brookhaven, the lab Mr. Baldwin unsuccessfully tried to close, was part of this infrastructure.

True believers who want to bypass the scientific infrastructure insist that their beliefs justify their actions. But any cause with a scientific dimension must constantly check the connection between its goals and the facts. Otherwise it isn't a genuine cause but political theater. Sound public policy is built on the scientific infrastructure, not the claims of politicians or celebrities.

Sorry, I still think that anyone who promotes fake facts and accuses reputable scientific institutions of conspiracy is a jerk—no matter how well he can impersonate Donald Trump.

Mr. Crease is a professor at Stony Brook University and the author of "Making Physics: A Biography of Brookhaven National Laboratory" (University of Chicago, 1999).

OPINION

Balancing Lost Tax Revenue the Reagan Way

By Martin Feldstein

U.S. Treasury Secretary Steven Mnuchin calls the Trump administration's tax proposal "the largest tax reform in the history of our country." The plan would slash corporate-tax rates to 15% from 35% and roll back increases in individual rates that occurred under Presidents Clinton and Obama.

The announcement represents a first step toward a White House budget proposal that combines the president's fiscal plans with reforms to defense spending and domestic policies including ObamaCare. If such a budget

Gradually increasing the Social Security eligibility age can offset revenue loss from Trump's tax cuts.

is passed, it would stimulate business investment, boost productivity and improve real wages. It would also reverse the decline in military preparedness by raising defense outlays from a projected 2.6% of gross domestic product back to at least 4%.

The challenge will be to do all of this without increasing long-run fiscal problems. The U.S. government's debt has already more than doubled in the past decade, reaching upward of 75% of GDP. The U.S. Congressional Budget Office projects that the debt will grow to more than 100% of GDP in the next 15 years even without a

reduction in tax revenue or an increase in defense outlays.

Higher projected budget deficits could raise long-term interest rates, potentially triggering failures in the fragile financial markets and a serious economic downturn. The markets' current fragility reflects overpriced assets—the S&P price/earnings ratio is now 70% above its historical average—after a decade of excessively low long-term interest rates engineered by the Federal Reserve.

Republicans expect to pass their tax plan through the Senate's reconciliation process, but there are strings attached. If the bill causes deficits beyond the decadelong forecast horizon, a sunset rule kicks in and ends the tax cuts in the 10th year. To prevent this, congressional Republicans propose to balance revenue losses from the personal-tax changes by eliminating all tax deductions other than those for charitable contributions and mortgage interest.

That means the new revenue would come from the one-third of taxpayers who itemize deductions, households that tend to have higher incomes, supporting Mr. Mnuchin's promise that the tax plan won't be a gift to the rich.

In addition to cutting corporate rates, President Trump proposes a similar tax cut for partnerships and other unincorporated pass-through businesses. House Republicans have also promised to allow American companies to repatriate after-tax profits earned abroad without penalty.

Preventing the business-tax cuts from increasing the budget deficit won't be easy. The corporate tax



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raises revenue equal to about 2% of GDP. Cutting the rate in half will increase the annual deficit by about 1% of GDP, or nearly \$200 billion. Faster economic growth due to increased investment would bring in some extra tax revenue, but probably only about \$50 billion a year.

Congressional Republicans propose to offset the other \$150 billion by enacting their border-adjusted tax: a 20% levy on imports combined with a 20% subsidy for exports. That should raise about \$120 billion or so a year, enough to offset most of the net cost of the corporate-tax cut.

Textbook economics implies that a border-adjusted tax, or BAT, would push up the value of the dollar, reducing the price of imports by enough to offset the 20% tax. Americans would therefore see no change in the prices they pay for imported goods. The stronger dollar would also have no effect on the net prices American ex-

porters receive for goods sold overseas. A BAT is thus a pure revenue raiser, with the tax falling on foreign firms that export to the U.S.

But the dollar's value may not rise as much as theory implies, so American importers and retailers are lobbying against a BAT while major exporters are lobbying for it. Without the BAT, however, the corporate-rate cut would add more than \$1 trillion to the national debt during the coming decade, weakening the favorable effects of tax reform on capital formation and threatening higher interest rates.

There is no way to shrink the deficit other than by slowing the growth of Medicaid, Medicare and Social Security. Outlays for these programs are now 10.4% of GDP and projected under current law to rise to 12.9% over a decade. ObamaCare's insurance subsidies and Medicaid expansion now cost the U.S. government more than \$200 billion a year. Re-

form could contribute significantly to reducing the deficit, although not by enough to balance out everything Mr. Trump is proposing.

The bipartisan Social Security legislation enacted during the Reagan administration provides a useful history lesson for how to offset deficit increases. The 1983 law raised the age of eligibility for full Social Security benefits to 67 from 65 while still allowing actuarially equivalent benefits at earlier ages. The increased age was phased in gradually and began only after a substantial delay.

In the intervening decades life expectancy at 67 has increased by three years. Repeating the Reagan reform by gradually raising the age for full benefits to 70 for those now under the age of 55 would reduce the annual cost of Social Security by about 15%, or 1% of GDP. Together with reforms of federal health-care spending, that should be enough to close the budget gap created by tax reform and increased defense outlays.

Raising the age for full Social Security benefits would also prevent the crisis in the program that is projected to occur in 2029. That's when the Social Security trust fund will be exhausted, requiring either an immediate 30% cut in benefits or a sharp tax increase. A gradual rise in the age for full benefits would be the best way to prevent that crisis as well as to reduce the projected fiscal deficit.

Mr. Feldstein, chairman of the Council of Economic Advisers under President Reagan, is a professor at Harvard and a member of the Journal's board of contributors.

Europe's New Political Divide Cuts Through France

By Guy Sorman

Emmanuel Macron's survival Sunday through the first round of France's presidential election means that when the country returns to the polls for a second round on May 7, the French will have a classical-liberal candidate to stand against the National Front's Marine Le Pen. It may also augur the end of the traditional left-right divide and the rise of a new political era not only in France but across the Continent.

Ms. Le Pen is often identified as a politician of the far right. She prefers to describe her candidacy as one of the "people" against the "elites," and has called the second round of the election a confrontation between the French people and "fierce globalization."

Rhetorical excess aside, it's undeniable that Ms. Le Pen aligns herself with the populists and those who exalt the nation, where the individual exists not for himself but as rooted in a collective identity.

Such a vision of society has been used in the past to justify the expulsion of the Protestants. Now it's being used as grounds to expel France's

Arabs, unless they are blended in with "the people." The most radical version of this ideology was the Vichy regime, for which Ms. Le Pen recently expressed her sympathy.

To these populist ranks we now add the neo-populists, those who have missed out on the advantages of globalization. The electoral map makes this dichotomy clear: The prosperous cities overwhelmingly voted against Ms. Le Pen—she received a mere 5% of the vote in Paris—while she found support in those regions that are losing population, in rural areas and the underprivileged areas on the outskirts of cities.

Neo-populism has revealed another France, one that is disoriented by the evolution of the economy and of lifestyles. This France is resentful of what the populists call the "system" or the "elites." But these are absurd terms, since the system is a democracy and the elites are the majority that has embraced our age.

The opposition of the people versus elites, or the nation versus globalization, corresponds to the opposition between the populists' closed society and the open society represented by

Mr. Macron. By designating himself as a social liberal, Mr. Macron, too, goes beyond the left-right distinction. He is a strong believer in deregulation, competition and lower taxes, all the while leaving untouched the country's centralized health-insurance system and

The left-right distinction no longer matches voters' experiences. Elections are about open versus closed.

the impossibility to terminate employment contracts in the private sector—two sacred cows among the socialists.

The left-right distinction no longer matches the French experience: The governing parties, as they are called for having alternated in power since 1945, have long been in agreement on the task of managing a certain regime, one in which the market is regulated by the state and there is broad public solidarity.

From one election to the next, the scale would tip slightly towards the

social on the left or the market-liberal on the right. But both sides at heart supported the same ideals of democratic norms, a centralized state, a market economy, reasonable immigration, free trade and the idea of Europe. This implicit consensus between left and right has contributed to collective prosperity but, as Ms. Le Pen's rise makes apparent, in the process has abandoned one third of the population.

The left and right may thus be held responsible in part for neopopulism. In their shared reticence for a freer economy, their common love for the state and their excessive taste for regulation, they slowed innovation in areas reserved for the government, such as social insurance and education. They also consolidated the welfare state without renovating it. The disadvantaged became the hostages of these bureaucracies, the underprivileged their clients.

Should Mr. Macron succeed in becoming president, he won't be able to sustain an open society unless he frees the market—and in particular the labor market—and renews solidarity in a way that removes obstacles faced by the poor.

Ms. Le Pen, meanwhile, has nothing realistic to propose, only a national revolution that means the repression of immigrants. Her threat to stop imports in order to "buy French," to leave the eurozone and the European Union, would wreak havoc on France's economy, not least its agriculture sector, which is heavily supported by the EU.

France's election may thus be the latest, most visible turning point in a larger European trend. Not only in Hungary and Poland, but also in Catalonia, Germany, the Netherlands, Norway and Scotland, openly populist governments with no clear agenda are seeking to transcend the traditional left-right divide in the name of the nation.

The choice on May 7 is therefore simple: an open or a closed society, along with the open society's representatives' duty to do a better job of managing their legacy.

Mr. Sorman is the author of many books on classic liberalism and is a locally elected official in Boulogne near Paris.

The Freedom Caucus and Its First 100 Days

Wonder Land By Daniel Henninger

Trump's first hundred days was "stumbling."

The relevant question surrounding this faux event is whether, as a result of the Freedom Caucus's derailment of the ObamaCare-reform bill, the Trump presidency will stumble toward its 200th or even 300th day in office.

Let us posit that the first Trump travel ban, which released armies of political furies days into the new presidency, was a self-inflicted wound. What came next was something no one in politics would inflict on themselves.

Back in 2016, Speaker Paul Ryan and the House leadership held public hearings, conducted negotiations inside the House conference and published texts of the proposed legislation to repeal and reform ObamaCare. The American Health Care Act that emerged from this process had both a political and policy purpose.

Its political purpose was to create a bill that could survive the House, survive the Senate, survive a conference and make it to Mr. Trump's desk to fulfill one of his and the party's biggest political promises.

The policy purpose was to lay a foundation on which Health and Human Services Secretary Tom Price and his SWAT team of reformers, such as Indiana Medicaid specialist Seema Verma, could help Congress clean up the rest of ObamaCare over the next two years—moving away from the 2010 law's 2,000 pages of legal babel and toward a market-based system.

With momentum from that accomplishment, the Trump White House and the Republican-controlled Con-

gress would roll forward into the next item on the ambitious, first-year Trumpian agenda: a historic tax-reform bill to clean up the tax code and restore growth of the kind last seen in the 1980s and '90s.

From there, Congress would move on to the other pieces—infrastructure, the funding needs of the military and cleaning out the sludge in the financial system produced by Dodd-Frank.

Never forget Congress isn't a normal workplace. All this has to be done inside the confines of the congressional calendar. Anything rolled into 2018, including tax reform, was at risk of members turning toward their re-election interests and away from the president's agenda.

It was a high-risk, high-reward scenario. Its biggest risk appeared to be a Democratic Party racing rapidly leftward after Hillary Clinton's loss, pulling its members out of negotiations.

But no. The Freedom Caucus rose to say none of these pieces of the

president's legislative agenda could move forward until it got what it wanted: elimination of ObamaCare's 10 essential health benefits.

The Freedom Caucus's dramatic stoppage of the health bill made Mr. Trump vulnerable on the issue most

The health-care fiasco broke the momentum of the presidency and fractured the party.

central to American politics over the past year, the desire for change, especially change in the economic status quo.

Control of government gave Republicans that opportunity. Instead, the Freedom Caucus broke the momentum of the young presidency and created multiple hairline fractures in the GOP's unity. Politically at-risk Republicans suddenly found

themselves under fairness attacks from Democrats who'd been looking for something to criticize other than "Trump." This affair gave them a new point of attack, and they'll use it every day of the tax debate.

The episode created a needless wedge between the White House and House Republicans. Conservative donors also have taken to wondering privately about how their money is being used.

There have been early accomplishments—the successful Gorsuch nomination, a strong deregulatory offensive and intimations of restored U.S. leadership in the world. Still, the Freedom Caucus's health-care fiasco sits in public view of the Trump presidency's first months like, well, a smoking swamp.

There have been reports the past few days that the Freedom Caucus has worked out a compromise on health care led by moderate Reps. Tom MacArthur of New Jersey and Greg Walden of Oregon. That would be good. Friendly-fire incidents are relatively productive.

Mr. Trump doesn't lack for critics, but one difference between this presidency and his predecessor's deserves positive mention.

Barack Obama didn't listen to much of anyone other than himself. His governing style, especially in the second term was: "I know what's good for you, and I am going to impose it on you." Indeed, the Freedom Caucus was born of a rebellion against that constant imposition.

Mr. Trump listens. Has any modern president spent as much time soliciting others' views? He and his presidency are being shaped, inexorably, by all the forces of the American system. How novel.

Politics remains a partisan contact sport. A successful president needs the reasonably functioning unity of his party. That includes the errant knights of the Freedom Caucus and their enablers tilting at their opponents, rather than their own side.

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LIFE & ARTS

MOVIES

Dwayne Johnson Rocks Hollywood

He can cook up something for every audience, which explains how he's become the highest-paid actor in film

BY ERICH SCHWARTZEL

Los Angeles

AMONG HOLLYWOOD'S franchise obsessions this year: outlaw cars, barely dressed lifeguards and board games brought to life.

The common denominator? Dwayne Johnson.

These days, if there's an action, comedy or family formula with the potential to make high nine figures world-wide, studios are saving a seat for the former pro wrestler.

These movies may rely on old ideas, inspired by previous movies, TV shows or even toys. Mr. Johnson has become the movie star of the moment—and the highest-paid actor in Hollywood in 2016 with \$64.5 million in earnings, according to Forbes—by giving such films his personal nitro boost.

His 2017 movies, "The Fate of the Furious," "Baywatch" and "Jumanji: Welcome to the Jungle," help explain why.

Since leaving WWE, Mr. Johnson has structured a career that's become the most successful athlete-to-movie-star transition since bodybuilder Arnold Schwarzenegger was tapped to play the title role in "Conan the Barbarian."

Like stars Will Smith and Tom Cruise in their heydays, Mr. Johnson has cultivated a malleable persona that easily hops between genres, whether as the brawny action star ("San Andreas"), comic foil ("Central Intelligence") or parent-approved cartoon voice ("Moana").

But Mr. Johnson's career really took off when he joined several franchises, which have become top priority for Hollywood studios increasingly focused on overseas grosses and outside revenue sources like merchandise and theme-park attractions.

Executives in Hollywood say Mr. Johnson's varied roles have introduced him to several different kinds of audiences, which are im-



Dwayne Johnson with Karen Gillan, far left, in "Jumanji: Welcome to the Jungle," and Kevin Hart, left, in "Central Intelligence." Mr. Johnson in "The Fate of the Furious," left bottom, and "Pain and Gain," right bottom.

Mr. Johnson's rise in Hollywood began in 2001, when he cast in "The Mummy Returns" as The Scorpion King, an evil ancient power terrorizing Egyptologists in the 1930s.

"While we were reaching out of the traditional acting community, we saw him filling this role because of a unique set of demands," says Sean Daniel, who produces the "Mummy" franchise.

The Scorpion King should be "powerful and ancient but totally contemporary, charismatic but intimidating," he says.

"He had to be a lot of things up on the screen. [Mr. Johnson] was the king of the world in the WWF, and what can I say? He was just cool."

Early reviews of Mr. Johnson's second career were less enthusiastic.

"I continue to believe the Rock has an acting career ahead of him, and after seeing this movie I believe it is still ahead of him," Roger Ebert wrote.

But the studio executives watching daily footage of Mr. Johnson were impressed, says Mr. Daniel, and gave him the starring role in a "Scorpion King" spinoff released in 2002.

"I expect him to become a durable action star," Mr. Ebert wrote in his review of the stand-alone film.)

Mr. Daniel is currently producing a reboot of "The Mummy" starring Mr. Cruise that will hit theaters on June 9, about two weeks after Mr. Johnson's "Baywatch." He's not surprised that his onetime discovery has become such formidable box-office competition.

"He's totally a 21st-century movie star," Mr. Daniel says.

portant to attract in mass when a monster franchise budget is on the line.

The fact that Mr. Johnson has shown himself to be a Swiss army knife for blockbusters has made him very wealthy.

His early days in entertainment didn't exactly show a wide acting range. As a World Wrestling Federation superstar called The Rock, Mr. Johnson would flex, snarl and growl his catchphrase: "Can you smell what The Rock is cooking?"

Early roles riffed on that persona, but Mr. Johnson has left the ring far behind in recent years.

This year, the 44-year-old Mr. Johnson already has headlined the action-packed "The Fate of the Furious," which made its debut in April and is currently the second-highest grossing movie at the world-wide box office this year, at more than \$910 million. On May 25, he'll star as a trash-talking lifeguard in "Baywatch," an R-rated, raunchy comic take on the beach

drama.

He'll flip from adults-only to family-friendly in "Jumanji: Welcome to the Jungle," a December reboot of the board-game franchise that last hit screens in 1995 with Robin Williams in the lead role. Mr. Johnson plays a teenage nerd trapped in the actor's body.

"Baywatch" and "Jumanji" will test Mr. Johnson's ability to reboot well-known properties, rather than join them after they've taken off. Mr. Johnson joined the "Fast & Furious" franchise in its fifth install-

ment, and took roles in sequels in the "G.I. Joe" and "Journey to the Center of the Earth" franchises.

His stand-alone efforts, like 2014's "Hercules," haven't fared as well, though a sequel to his 2015 hit earthquake epic "San Andreas" is in development. Mr. Johnson declined to comment for this article.

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Friday - Monday, April 28 - May 1, 2017 | B1

Euro vs. Dollar 1.0876 ▼ 0.28%

FTSE 100 7237.17 ▼ 0.71%

Gold 1263.70 ▲ 0.13%

WTI crude 48.97 ▼ 1.31%

German Bund yield 0.299%

10-Year Treasury yield 2.298%

Deutsche Bank Wins Back Clients

German lender more than doubles quarterly net income after a difficult 2016

By JENNY STRASBURG

Deutsche Bank AG made progress winning back clients who fled over capital concerns as it recovered from a turbulent 2016, but first-quarter profit was muted by debt-trading revenue that lagged behind its peers.

The German lender, fresh off an \$8.5 billion capital increase, more than doubled its first-quarter net income from a year earlier, to €575 million (\$627 million), it said Thursday. That was broadly in line

with analysts' expectations. Deutsche Bank's big fixed-income trading business, a closely watched driver of profit, posted an 11% revenue increase from the same quarter last year. The lender said interest-rate and credit trading were especially strong, but its overall results from trading bonds and currencies lagged behind performances by big U.S. investment banks that benefited more from this year's fixed-income trading boost.

Deutsche Bank shares closed down 3.7% Thursday. Shares in the lender are down about 2% this year, but have strongly rebounded from multyear lows last fall.

Overall, Deutsche Bank showed it is stabilizing across



Deutsche Bank is fresh off an \$8.5 billion capital increase.

its main businesses after a rocky 2016, when fears of big legal settlements and the lender's thin capital buffer

spooked clients. The tumult last year also raised Deutsche Bank's costs to fund its trading and client-financing businesses, eating into profit. Those costs have been coming down, according to executives.

The bank said hedge-fund and corporate clients seeking deal advice and other customers are returning, after some pulled business last year. Chief Executive John Cryan said in a statement Thursday that cost-cutting efforts—which have included closing bank branches, firing employees and axing bonuses—are paying off, and "asset flows are returning across the bank."

The bank's first-quarter revenue figure of €7.3 billion was roughly flat from a year earlier, excluding an account-

ing adjustment tied to the increased value of Deutsche Bank's own debt. On a reported basis including that accounting adjustment, revenue was down 9%.

In asset management, Deutsche Bank halted a year-long sequence of quarterly losses of client balances, which has chiseled away at revenue in that business. Overall revenue in the retail-banking and wealth-management division increased 11%.

Investment-banking revenue was mostly unchanged. The bank's ongoing process of cutting clients to reduce risk and expenses continued to bring down revenue in some areas.

◆ Heard on the Street: Bank slogs as rivals soar B8

U.K. Puts Squeeze On Late Payers

By NINA TRENTMANN AND MARA LEMOS STEIN

New compliance regulations are forcing U.K.-registered firms to provide detailed information on how they pay their suppliers, as regulators seek to address late-payment practices that are becoming more prevalent in the country.

The new rules, introduced by the U.K.'s Department for Business, Energy & Industrial Strategy, or BEIS, came into effect earlier this month. They require companies to detail twice a year how they pay their suppliers, how long it takes and how often payment is delayed.

According to government figures, nearly half of the country's 5.5 million small-and medium-size companies receive payments late, with £26.3 billion (\$33.9 billion) owed to them at the end of December 2016.

"Small firms are going out of business because they are owed money by large firms," said Liz Sandwith, chief professional practice adviser at the Chartered Institute of Internal Auditors. Large companies on average owe 60% of total delayed payments, according to a survey of members of the Federation of Small Businesses, or FSB, an advocacy group.

A Brexit-induced slowdown of the economy could make matters worse, as late payments increase when there is economic volatility, according to FSB.

If suppliers see discrepancies between what is disclosed about payments and what they have experienced, they can flag it to regulators.

Companies and their directors are liable under the new regulation if they fail to comply or if the information they report is found to be misleading. Disclosure of the late-payment information also could hurt a company's reputation if it is tardy or delinquent in its payments.

Black Swan Analysis Ltd., a consulting firm, has had multiple issues with delayed payments from larger customers. "Many big companies have finance systems in place that help them delay payments for as long as possible," said Black Swan director Zoe Talbot-Watt. She said that as a result she no longer works for certain companies.

Black Swan was able to take out bank loans in the past to compensate for delayed payments. However, it is difficult and relatively rare for small

Please see RULES page B2

STREETWISE

By James Mackintosh

Investors Discount Hype Over Tax Plan

In the immediate aftermath of the November election investors dared to hope that the U.S. had entered a new political era. The market reaction—or lack of it—to Donald Trump's sketchy plan for tax cuts on Wednesday is part of a recognition that Washington remains stuck with politics as usual.

On the face of it the tax plan is exactly what investors put so much hope in back in November. It would cut the corporate tax rate to 15%, from the current effective rate of 28%, putting many billions of dollars into shareholders' pockets every year. The plan isn't detailed enough to be precise about the effects on the budget, but it would boost debt by trillions of dollars over the next decade, presumably juicing the economy along the way. In a sweet move for Wall Street, hedge-fund managers would get a tax cut, not the tax rise Mr. Trump threatened during the election campaign.

The hyped-up tax plan disappointed investors not because of what it contained, but because of the prospects of it being implemented. The White House seems to have made little effort to appeal to Democrats and none at all to make the plan acceptable to Republican deficit hawks.

Please see STREET page B2



DryShips founder George Economou could reap a huge windfall resulting from a series of financial maneuvers last year.

BENJAMIN LOZOVSKY/BFA

Bulk Carrier's Mysterious Voyage

By SPENCER JAKAB

When stocks rose after last year's U.S. presidential election, DryShips Inc. left the market far behind. The little-known Greek dry-bulk carrier's epic one-week rally pushed its shares up by 1,500% for no apparent reason.

The rally quickly unwound after the shares were briefly suspended by Nasdaq. But the run-up appears to have made possible a flurry of financial maneuvers that may earn the company's founder a huge windfall, according to calculations by The Wall Street Journal, while small investors suffered hundreds of millions of dollars in losses.

George Economou, DryShips' chairman and chief executive, founded the company in 2004 and listed it on the Nasdaq in 2005. Mr. Economou and the company didn't respond to repeated requests for comment on the stock or how Mr. Economou benefited from share sales.

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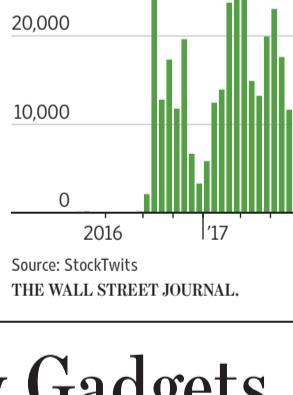
Islands in the central Pacific but based in Athens, the company owns ships that carry bulk cargoes like coal and iron ore. The industry has been battered in recent years by weak commodity prices and an oversupply of ships. Immediately before the share-price surge, DryShips announced it was suspending principal and interest payments "to preserve cash liquidity."

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Mr. Economou and the company didn't respond to repeated requests for comment on the stock or how Mr. Economou benefited from share sales.

Buzzy Stock

Weekly messages about DryShips on StockTwits



Source: StockTwits

THE WALL STREET JOURNAL

They haven't been accused of any wrongdoing and there is no evidence the company or its CEO engineered the stock rally. Shares in small companies, especially ones in financial distress like DryShips, are often highly volatile as investors try to profit from big moves.

The sequence of events that could yield Mr. Economou tens of millions in profits began last September. First, through a series of transactions involving the company's debt, Mr. Economou gained voting control of DryShips without exposure to the common stock, according to securities filings. Filings indicate he owns just 0.01% of the company. Second, the stock price soared, attract-

Please see STOCK page B2

Nokia Pegs Its Comeback to New Gadgets

By STU WOO

Nokia Corp., once the world's undisputed cellphone superpower, is attempting a consumer-electronics comeback. Its strategy: sell \$100 bathroom scales.

The company stopped selling personal devices in 2014, when it sold its slumping mobile-phone division to Microsoft Corp. Instead, it focused on making equipment for cellular towers and other infrastructure that enables modern communication.

Believing its consumer brand still carries cachet, however, Nokia is jumping back into the gadgets business. It makes a virtual-reality camera for professional filmmakers and has outsourced the production of Nokia-branded phones. Its biggest in-house focus, though, is internet-connected health devices, including scales, blood-pressure monitors and forehead thermometers. It bought a French startup last year that

made the devices, and plans to stamp its all-caps Nokia logo on the products by this summer.

Nokia's consumer-electronics comeback, and its new bid to lead the budding market for personal digital health devices, relies on its name. It

Signal Change

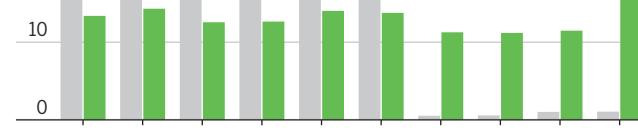
Nokia, once a consumer-gadgets giant, now mostly makes telecom equipment.

Revenue

€40 billion

Phones and consumer electronics

Telecom equipment



*Nokia agreed to sell its mobile device division to Microsoft. \$1 = €0.92

†Acquired rival Alcatel-Lucent

Source: the company

"We think we're pushing against an open door here."

Skeptics abound. Relying on the Nokia name won't sell health devices in itself, said Annette Zimmerman, an analyst at research-firm Gartner Inc.

Nokia is still well known throughout the developing world for its low-end phones. But it has lost its luster in the U.S. and wealthier countries.

"Nokia as a name has a meaning," Ms. Zimmerman said. "But it's not one that still stands for a great product or great innovation."

Nokia says it expects digital-health-device sales to grow in 2017, but didn't disclose specifics.

The Nokia division comprising health-care devices, virtual-camera business and its phone-licensing business brought in €1.1 billion (\$1.2 billion) in 2016, or 4% of Nokia's total revenue.

Telecom-equipment sales last year came in at €21.8 billion, or 91% of overall revenue.

Please see NOKIA page B4

Alphabet's Revenue Continues to Soar

By ROLFE WINKLER

Google parent Alphabet Inc. on Thursday posted a sharp increase in first-quarter revenue, continuing a trend of sharp growth seemingly unscathed by boycotts from some of its major advertisers.

Alphabet said net revenue rose 22% from a year earlier to \$24.75 billion, beating Wall Street estimates of \$24.22 billion, according to Thomson Reuters.

First-quarter profit rose 29% to \$5.43 billion, or \$7.73 a share, from \$4.21 billion a year earlier. Analysts had expected \$7.39 a share.

The company has benefited from rising internet usage across the globe thanks to the smartphone revolution. That is seen most notably in the consistently high growth of paid clicks on Google's ads, which increased 44% in the first quarter compared with the year-ago period.

Please see GOOGLE page B2

A portion of that growth is offset by the falling average price for each click, which dropped 19% in the first quarter, owing to the lower price Google is able to charge for ads on smartphones and its YouTube video site.

Analysts had expected Google's advertising revenue for the first quarter would take a hit because major advertisers, including Coca-Cola Co., pulled their spending on all Google advertising except targeted search ads after its advertisements were spliced in with offensive content.

YouTube responded by giving them more controls over where not to place their ads.

Alphabet's "Other Bets" revenue rose to \$244 million from \$165 million. Most of the Other Bets revenue came from Nest, Google Fiber and Verily, its life-sciences startup. The segment also includes its Waymo self-driving car unit.

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Airbus Faces Struggle To Hit Delivery Goals

BY ROBERT WALL

European plane maker **Airbus SE** faces another year of scrambling to meet full-year delivery targets after falling behind in the first three months because of problems with a key engine supplier.

Airbus expects to build a record 720 planes this year including 200 of its new A320neo single-aisle jet. But it delivered only 26 of those A320neo airliners in the first three months, fewer than expected, Chief Financial Officer Harald Wilhelm said Thursday.

A rush to the finish line is nothing new for Airbus, the world's No. 2 plane maker behind Boeing Co. The plane maker based in Toulouse, France, was forced to crank out a record number of planes in December to meet its full-year target.

Pratt & Whitney, a unit of **United Technologies Corp.**, has had to replace faulty engines, called the geared turbofan, on some A320neo planes already delivered to airline customers, which has reduced the number of turbines avail-

able for new airliners. United Technologies said Wednesday that 26 of 70 geared turbofans delivered last quarter were used as spares.

United Technologies Chief Executive Officer Gregory Hayes said fixes to the engine were either approved or in development and that additional tests were being performed to identify any other potential faults early.

Airbus reported a sharp drop in first-quarter profit, hobbled by delivery of less profitable planes and higher costs on new models even as its net result benefited from the sale of some defense activities.

The company's net profit increased 52%, boosted by a €560 million gain from the divestment of Airbus's defense electronics unit.

derdeliver. The problem is that trade and diplomacy are where Mr. Trump has the least constraints from Congress and the courts, and it is his promises on trade and diplomacy that scare investors the most.

Investor concern about Mr. Trump using his executive powers was on show in Wednesday's trading. Leaks that the White House was preparing an executive order ditching the North American Free Trade Agreement knocked 1.5% off the value of the Mexican peso in minutes, hurt U.S. stocks and pushed down Treasury yields. The drop in the peso was particularly significant, although entirely reversed later in the day when Mr. Trump reassured Mexico and Canada that the U.S. wouldn't pull out.

Business as usual in Washington means drawn-out negotiations and compromises, and the policy reality rarely matches the political rhetoric. But it is still entirely reasonable to expect something to emerge, later and smaller than investors first hoped, but still significant.

For now it looks as though markets have adjusted their expectations, and are discounting Mr. Trump's hype. The risk of investor disappointment in the months ahead has been reduced, just so long as something passes on tax and Mr. Trump resists the urge to act aggressively where he can.

The tax plan fits the pattern of pronouncements during Mr. Trump's first 98 days: The president has forgotten Teddy Roosevelt's advice to speak softly and carry a big stick, and is doing precisely the opposite. Reality hasn't lived up to the hype in foreign policy, trade, health care, currency policy or, in part thanks to poor drafting and ornery judges, immigration.

None of this means Mr. Trump's policy agenda is dead, or that he will continue to overpromise and un-

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BUSINESS & FINANCE

United Settles With Doctor

Terms of airline's deal with man pulled off plane aren't released; report issued on incident

BY SUSAN CAREY

United Airlines reached a settlement with David Dao, the Kentucky physician forcibly pulled off an April 9 flight from Chicago's O'Hare International Airport, in the latest step by the carrier to put the crisis behind it.

The deal, whose terms were not disclosed, comes more than two weeks after the incident, which was captured on social media and sparked global outrage.

The carrier has been under mounting pressure to make changes to policies affecting customer service after the incident.

The settlement comes on the same day that United issued a report concluding that shortcomings in customer service, training and internal systems contributed to the incident. The airline promised to address these problems this year.

Tom Demetrio, an attorney for Dr. Dao, said Thursday that he hopes "all other airlines make similar changes and follow United's lead in helping to improve the passenger flying experience with an emphasis on empathy, patience, respect and dignity."

Stephen Golan, another attorney for Dr. Dao, said the city of Chicago was party to the settlement but he declined to elaborate on its terms. Dr. Dao remains in a "secluded location and he's healing," Mr. Golan said.

United said it was pleased to reach "an amicable resolution." The city of Chicago



CEO Oscar Munoz referred to 'a failure of epic proportions that's grown to this breach of public trust.'

didn't immediately comment on the settlement.

In its 11-page report issued earlier Thursday, **United Continental Holdings Inc.** sought to give a more complete account of the events leading up to the April 9 incident.

It was "a failure of epic proportions that's grown to this breach of public trust. We get that," said United's chief executive, Oscar Munoz, in an interview. "We let our policies and procedures get in the way of doing the right thing."

The comments come nearly a week after United said Mr. Munoz will no longer be taking on the chairman role next year so he can focus on the top job.

"It's better for me to focus on the task at hand and continue to be the CEO," he said, adding that there wasn't a specific timeline spelled out by the board to measure success.

United said a new rule, to

take effect Friday, will increase compensation to up to \$10,000 for customers willing to volunteer to take a later flight.

United said that later this year it would install an automated check-in process to gauge a customer's interest in giving up his or her seat on an overbooked flight in exchange for compensation.

The airline also said it would give more discretion to its employees to issue mileage vouchers for future flights and other compensation when bad service occurs—things that some of its rivals already are doing.

United said it would reduce overbookings on flights that historically haven't generated a lot of volunteers when oversold, particularly on smaller planes and the last flights of the day to a destination.

The airline will start a new program to find "creative solu-

tions" for agents to use to help overbooked passengers, such as turning to other airlines or even ground transportation to get customers to their destinations.

When asked if any individual employees would be held responsible, Mr. Munoz said he was taking the blame himself: "Things happened in so many places, there was no particular breakdown I can't and shouldn't take ownership of."

United already has made some policy changes, including not calling on law enforcement to remove passengers from flights except for safety or security reasons.

The incident involved United Express Flight 3411, a 70-seat aircraft operated by subcontractor Republic Airways Holdings Inc., that was destined for Louisville, Ky., from Chicago's O'Hare International Airport.

—Andrew Tangel contributed to this article.

RULES

Continued from the prior page
companies to do so. "Small businesses in situations like these often struggle to get bank loans or overdraft facilities," Ms. Sandwith said.

In the U.K., delays in payments to suppliers have increased since the 2008 financial crisis, according to Ben Baruch, a policy adviser at the FSB. "The practice bolsters the cash held on company balance sheets and allows firms to present a favorable picture to their investors," he said.

Tesco PLC, the U.K.'s largest food retailer by sales, has in the past been criticized for its treatment of suppliers.

"Payment terms are a key component of our working capital management," said Jason Tarry, chief product officer at Tesco. In general, the company takes between 28 to

45 days to pay food suppliers and 60 to 90 days to pay non-food suppliers, Mr. Tarry said.

The company hasn't changed its payment terms to improve its working capital situation, Mr. Tarry said.

In 2015 the grocer started paying small suppliers within 14 days if they sell products to Tesco worth £100,000 or less a year. This applies to all food suppliers globally and to non-food suppliers in the U.K. More than 99% of payments to these firms are on time, Mr. Tarry said.

Unilever PLC, the Anglo-Dutch consumer goods giant, differentiates between large and small suppliers, too. The latter are being offered 30-day payment terms, a spokeswoman said. The company didn't respond to a request for further comment.

Diageo PLC, the U.K. spirits maker, in 2015 came under fire from the Forum of Private Business, a lobbying group, for

planned changes to its payment cycles. The company then shelved its plans to pay small U.K. suppliers after 90 days and instead committed to a maximum 60-day term. A spokeswoman declined to comment.

Delays in payments to suppliers have increased since the 2008 financial crisis.

son said. This is causing "massive cash-flow problems," he said.

Both closely held and publicly traded companies are subject to the new rules. So are limited liability partnerships that meet two of the three criteria: annual turnover of more than £36 million; a balance sheet exceeding £18 million; and 250 or more employees. Foreign companies with subsidiaries in the U.K. are also required to comply.

The new rules are in line with the U.K.'s efforts to address issues of corporate criminal liability.

Although there are no limits on potential financial penalties, it is unlikely the BEIS will seek prosecutions, according to experts.

"This will be an early warning system and the BEIS will contact companies they don't think are compliant," said Joanna Walsh, a senior associate at Kingsley Napley LLP.

STOCK

Continued from the prior page
ing the attention of thousands of fast-trading individual investors. Third, as the rally peaked, the company began issuing stock, which would total more than \$500 million, at ever-diminishing prices.

Fourth, DryShips used the money to buy ships in deals that benefited Mr. Economou, who earns management fees on its vessels, according to securities filings.

The CEO cemented his control of DryShips two months before the shares took off by converting loans to the company that he owned into a new series of preferred stock that confer 100,000 votes apiece. That stock wasn't affected by the share price run-up or collapse.

The rally between Nov. 9 and Nov. 16 led the company's market value to surge from about \$5 million to about \$80 million.

A day after shares peaked, the company embarked on a series of stock sales totaling more than \$500 million so far, according to securities filings. Those documents show the buyer was a British Virgin Islands company called **Kalani Investments**, but DryShips' shareholder records don't list Kalani or any other institution, meaning the firm in turn sold the shares to small investors. DryShips says Kalani is independent of the company. Con-

tact information for Kalani couldn't be obtained to request comment.

DryShips shares would ordinarily be worth pennies following the big decline. The company has avoided that through repeated reverse stock splits that reduce the number of shares outstanding without affecting the company's value.

Despite issuing over \$500 million in stock since November, DryShips' market value is less than \$70 million.

The company has used the proceeds from the share sales to buy or acquire options on several hundred million dollars' worth of ships, likely at attractive prices because of a glutted market. This is one way Mr. Economou has prof-

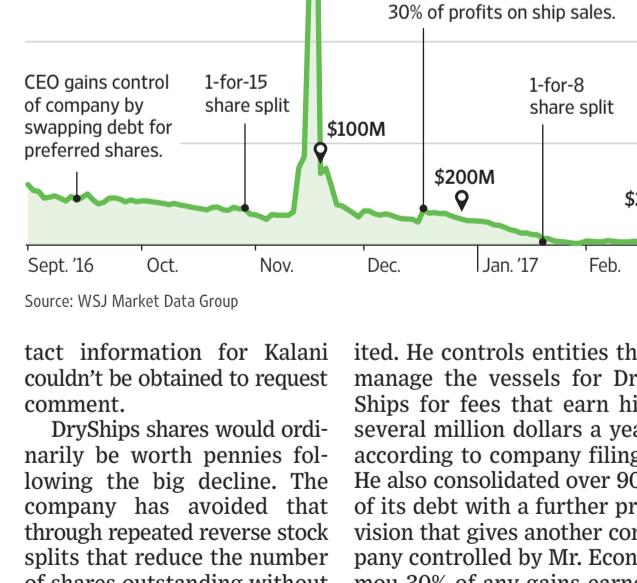
ited. He controls entities that manage the vessels for DryShips for fees that earn him several million dollars a year, according to company filings. He also consolidated over 90% of its debt with a further provision that gives another company controlled by Mr. Economou 30% of any gains earned by the company if certain vessels are later sold.

Individual investors remain obsessed with DryShips. Since the mysterious surge in its share price, there have been an average of more than 17,000 mostly bullish mentions a week of DryShips on social investing site StockTwits, a favorite of fast-trading small investors.

Lambros Papaemilou, a

longtime observer of DryShips and chief U.S. correspondent at shipping publication Lloyd's List, calls the size of the share issuance unprecedented in the industry. He says that the first time the company sold stock in November the shares went for \$100 each. In its most recent issue, the company has sold Kalani its shares for an average \$3.15, according to a securities filing last Tuesday. They closed at \$1.23 Wednesday.

The end of the share-selling spree appears to be close. The pace of share issuance to Kalani has slowed and the price keeps falling. But DryShips is still spending the proceeds of the sales. Last week, the company said that it had bought three more ships for \$68 million.



Source: WSJ Market Data Group

THE WALL STREET JOURNAL.

BUSINESS NEWS

Key Issue Unclear In Trump Tax Plan

BY YOREE KOH

President Donald Trump's tax-cut proposals could miss the mark for the tech industry.

The crucial issue for some of the biggest tech names, the one-time tax rate on stockpiles of cash stashed overseas, remained unanswered by the president's tax plan announced Wednesday. But Mr. Trump's plan to slash the corporate tax rate to 15% could be good news for startups.

Over the years, many of the tech giants have found ways to lower their tax rate to well below the statutory rate of 35%, often by booking profits in low-tax countries and leaving the money there. Twenty information-technology companies on the S&P 500 had an effective annual tax rate of 20% or lower, including **Facebook**.

A one-time tax rate on cash stockpiles stashed overseas remains unresolved.

get multiple years to pay it to prevent liquidity concerns. Mr. Trump campaigned on a 10% rate. House Republicans proposed lower rates and a two-tiered system for cash and other profits.

U.S.-based companies can keep foreign earnings abroad, allowing them to avoid the 35% U.S. tax until they bring that money home. Under the new tax plan, U.S. companies would owe little or no tax on their future foreign profits.

Apple Inc., which earns about two-thirds of its revenue outside the U.S., is holding more than \$230 billion in cash overseas. **Microsoft** Corp. said in its most recent quarterly report that the bulk of its cash, about \$116 billion out of a global total of \$123 billion, is housed overseas and "would be subject to material repatriation tax effects."

The companies have indicated that they would like to bring that cash home. During a 2013 hearing on the U.S. tax code, Apple Chief Executive Tim Cook urged senators to adopt "a reasonable tax on foreign earnings" that would encourage companies to bring profits back to the U.S. He said such changes would boost the economy and create jobs.

Recent policy conversations have focused less on incentives and more on a one-time tax on all accumulated profits to clear the decks for the new system in which companies can bring foreign profits home tax-free as they earn them.

In January, Mr. Cook expressed optimism that Congress would enact a tax overhaul this year, allowing Apple to repatriate much of the cash it holds overseas. The company has indicated it could use that money for acquisitions or shareholder dividends and stock buybacks. Alphabet and Apple didn't respond to requests for comment.

—Tripp Mickle contributed to this article.



For the first quarter, the auto maker reported a 4% drop in U.S. vehicle sales and booked \$295 million in expenses for safety recalls.

Ford's Profit Eases After Hot Run

Demand for trucks remains solid, but U.S. auto market as a whole is downshifting

BY ADRIENNE ROBERTS AND CHRISTINA ROGERS

Ford Motor Co.'s first-quarter profit fell 35% from a year earlier amid higher costs and weaker U.S. sales.

The No. 2 U.S. auto maker on Thursday reported profit of \$1.6 billion, down from \$2.5 billion in 2016's first period, when strong demand for a newly redesigned F-150 pickup truck helped Ford post its best quarterly operating profit in history.

Adjusted earnings per share were 39 cents in the latest quarter, beating analysts' consensus of 36 cents. Analysts cited stronger-than-expected earnings in North America and at Ford Credit, the company's financing arm.

"The results were solid, but it was a tough comparison" to last year's first quarter, Ford Chief Financial Officer Bob

Shanks said Thursday.

The Dearborn, Mich., auto maker faced headwinds at home and abroad with lower sales in China, an unfavorable exchange-rate impact in Europe because of Brexit and a tougher market in the U.S., where new-car demand is cooling after seven years of uninterrupted growth.

Mr. Shanks described the just-ended quarter as likely Ford's "toughest" for this year with results expected to be flat "in aggregate" over the remaining three quarters.

Revenue for the first quarter rose 4% to \$39.1 billion, driven by a favorable mix of pickup trucks and sport-utility vehicles.

Ford is coming off one of its most profitable periods in history with its North American business benefiting from two years of record sales growth for the U.S. auto industry and surging demand for its highly lucrative trucks and SUVs amid low gasoline prices.

Ford earned \$10.4 billion in operating profit last year, down slightly from 2015's record of \$10.8 billion.

Company executives are forecasting a leaner profit this year, confirming on Thursday full-year guidance for \$9 billion in operating profit.

Ford plans to cut \$3 billion in costs this year and expects profit to rebound in 2018, driven by continued strength in the U.S. pickup-truck market, the rollout of two new full-size SUVs and improving results at Ford Credit.

Ford's first-quarter adjusted pretax profit fell 42% to \$2.2 billion, dinged by a \$295 million recall expense disclosed in March covering nearly a half-million vehicles with fire risks and faulty door latches. This was the second time in less than a year that safety concerns have hurt the bottom line.

Operating profit for Ford's North American business was \$2 billion, down 35% from the same period a year earlier.

Margins slipped in the first quarter to 8.3% in the company's core North American business, from a lofty 12.9% a year earlier. While transaction prices were up \$1,971 per vehicle on strong demand for Ford's heavy-duty trucks, vehicle

sales in the U.S. fell 4% in the quarter and market share shrank.

Higher interest rates and a steady decline in used-car values are also hurting vehicle affordability among U.S. consumers and making it more difficult for auto makers to continue offering the cheap leases that helped drive U.S. sales.

In Europe, Ford posted a pretax profit of \$176 million compared with \$434 million a year earlier, with exchange-rate and Brexit headwinds offsetting higher sales volumes.

In Asia Pacific, Ford recorded a \$124 million operating profit, down from \$220 million, as the auto maker contended with cooling new-car demand and the expiration of a tax subsidy on small-engine vehicles last year.

Ford's operating losses in South America continued, with the auto maker reporting \$244 million in red ink, compared with \$256 million in last year's first quarter.

Ford shares were off 1.2% at \$11.46 on the New York Stock Exchange late Thursday.



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Switch consoles at their launch in Tokyo last month. March sales of the handheld-hybrid game console exceeded Nintendo's expectations.

Switch Heartens Nintendo

By TAKASHI MOCHIZUKI

OSAKA, Japan—**Nintendo** Co. offered a rosy outlook, forecasting that strong sales of its Switch console will lift annual earnings to a seven-year high.

After a successful launch of the Switch last month, Nintendo said Thursday that it expects to sell 10 million of the handheld-hybrid game console in the current fiscal year. The Switch's unpopular predecessor, the Wii U, tallied sales of 13.6 million units since its launch in 2012.

"We have done a lot of things to raise awareness about how the Switch experience can offer something new, and I am just relieved that consumers seem to have accepted it," Nintendo Chief Executive Tatsumi Kimishima said of the console designed for use both in the living room and on the go.

The Switch posted March sales of 2.74 million units, beating the company's initial sales estimate of two million units for the month.

The scale of Switch sales in March surprised the market, analysts said, given that the

launch missed the year-end holiday season, Nintendo's biggest profit-generating period.

Ace Research Institute analyst Hideki Yasuda said Nintendo's 10 million sales forecast is too cautious and that the tally could exceed 15 million units in the current fiscal year.

For the 12-month period beginning this month, Nintendo said it expects operating profit of ¥65 billion (\$585 million) on revenue of ¥750 billion. On Thursday, the company reported a profit of ¥29.4 billion for the year ended March 31.

The projected ¥65 billion operating profit, if realized, would be the highest since the year ended March 2011. Profit has declined in recent years because of the weak performance of the Wii U console.

Mr. Kimishima said Nintendo will be spending more this year to promote the Switch, which would restrain operating profit.

Earlier this year, for example, Nintendo aired a prime-time television commercial during the Super Bowl.

Compared with game-console rivals Sony Corp. and Microsoft

Corp., Nintendo has far more in-house titles featuring famous character franchises that contribute directly to its profits.

The company said it has sold 2.76 million copies of the new "Legend of Zelda" game for the Switch, creating the unusual situation of a single piece of software outselling the console.

"It is surprising that Zelda is doing so well, but it also proved what we have been saying is right: A good game title will spur sales of the platform device," Mr. Kimishima said.

The company plans to release titles featuring its classic Mario character and an addition to its highly popular Splatoon series by the end of this year.

For the year, Nintendo expects 35 million copies of Switch games, including those from other publishers, will be sold.

During the just-ended year, Nintendo earned ¥24.3 billion from smartphone games, including "Super Mario Run" and "Fire Emblem Heroes," a game especially popular among long-time hard-core fans.

Nintendo said Mario Run

downloads are nearing the 150 million mark. Fire Emblem's tally was less than one-tenth of that figure, but Fire Emblem earned more than Mario through in-game purchases.

The company plans to release two or more smartphone games during this fiscal year, including an already announced "Animal Crossing" game.

Analysts' earnings forecasts are higher than Nintendo's projection. Macquarie Capital Securities analyst David Gibson pegs operating profit at ¥137 billion for the current fiscal year, assuming Nintendo sells more than 14.5 million Switches over the period and receives revenue contributions from Nintendo-made game software for the Switch and smartphones.

For the recent year, Nintendo recorded net profit of ¥102.6 billion, compared with analyst forecasts of ¥93.6 billion and a year-earlier ¥16.5 billion.

A ¥64.5 billion boost came from the sale of part of its stake in the Seattle Mariners operator.

Amazon Quarterly Profit Rises 41%

By LAURA STEVENS

Amazon.com Inc. posted a 41% rise in first-quarter profit, even as the company is spending heavily in areas including international expansion and video content.

Earnings rose to \$724 million, or \$1.48 a share, from \$513 million, or \$1.07 a share, a year earlier. Analysts surveyed by Thomson Reuters expected earnings, excluding one-time items, of \$1.12 a share.

Sales of \$35.71 billion, up 23% from \$29.13 billion, were within Amazon's own forecast of \$33.25 billion to \$35.75 billion and above analysts' expectations of \$35.3 billion.

Amazon's shares rose 4.3% in after-hours trading after finishing up 1% at \$918.38 on Thursday. The stock has ad-

vanced about 22% year-to-date through the close.

The Seattle-based online retailer has long plowed most of its profit back into product development, warehouse expansion and delivery infrastructure. In recent periods Amazon had shown some spending discipline, but the company has entered a phase of heightened investment by expanding overseas, bolstering its shipping operations and broadening its video content.

Analysts expect the phase to last at least through mid-2018, in part because of Amazon's promise to hire 130,000 U.S. workers during that time frame.

A big piece of that spending is coming in international markets such as Mexico and India, where the company is building out its Prime offer-

ings and competing against heavily entrenched incumbents. Flipkart, Amazon's main competitor in India, just drew another big round of funding totaling \$1.4 billion, including from U.S. rival eBay Inc. Last week, Amazon said it would be expanding its retail footprint to Australia.

The online retailer is spending heavily, expanding overseas and in shipping.

The international business has been stuck in the red. That remained the case in the first quarter, as the division posted an operating loss of \$481 mil-

lion. Sales rose to \$11.1 billion, from \$9.57 billion.

The retail giant has also started laying the groundwork for its own shipping business to add capacity for itself, with the grander ambition of one day hauling and delivering packages for itself, other retailers and consumers. In the first quarter, Amazon said it is building its first air hub in Kentucky and is also planning to add airfreight capacity for Chinese customers. The company is leasing 40 planes and has more than 4,000 dedicated truck trailer hitches as it aims to move more of its goods itself. And it has rolled out delivery in as little as an hour to more than 40 cities.

But that fast shipping likely contributed to Amazon's shipping costs rising 34% in the first quarter to \$4.38 billion.

NOKIA

Continued from page B1

The shift is the latest for the Finnish company. It began in 1865 as a wood-pulp business, drawing its name from the Nokianvirta River on which it operated a mill. Over the next century, Nokia expanded into industries including electronics, rubber and defense. It made computers, gas masks and rain boots.

Nokia pioneered cellular technology for both phones and equipment in the 1980s. But after **Apple** Inc. and **Samsung Electronics** Co. emerged, dominating the new smartphone market, Nokia lost ground and eventually sold its mobile-phone business to Microsoft.

Chief Executive Rajeev Suri beefed up its already large telecommunications-equipment business through the 2016 acquisition of rival Alcatel-Lucent. That business is hitting headwinds. Wireless carriers largely have the infrastructure they need, and Nokia and Nordic rival Ericsson AB face new competition from Asian competitors such as China's **Hua-**

wei Technologies

Its foray into gadgets is relatively limited, but executives hope it may eventually provide diversification for the firm.

Nokia's approach is three-pronged. First is the Ozo, the \$40,000 virtual-reality camera it released for professional filmmakers last year. Nokia plans to eventually release a cheaper model for hobbyists.

The second push is its outsourced mobile-phone business. Last year Microsoft, which floundered with the handset business it bought from Nokia, sold it to HMD Global Oy, which is run by former Nokia executives.

Under license from Nokia, the company is selling branded smartphones and basic phones, like the well-received, soon-to-be-released revamp of the classic Nokia 3310 "candy-bar" phone.

Nokia has input in designing the phones and the boxes they are sold in. "All devices need to pass a test of Nokianess, whether it is user interface, or software, or quality standards," Mr. Suri said in an recent interview.

Anchoring the third prong is Nokia's €170 million acquisition

ANTOINE DOYEN FOR THE WALL STREET JOURNAL

of Withings, a digital-health-device startup based in the Paris suburb of Issy-les-Moulineaux. Withings makes about a dozen devices, including a \$180 fitness-tracking watch, a \$100 body-temperature thermometer, a \$200 air-quality monitor and \$100 bathroom scale. The scale can measure body fat by sending a small electric signal through the body.

The devices can be connected to a smartphone app, similar to ones offered by competitors such as **Fitbit** Inc. Withings also sells a premium service on the app, a \$5 add-on that provides more-detailed analysis for people using the \$100 blood-pressure monitor.

"My challenge is that people don't just see this as a gadget," says Mr. Le Bras-Brown, the marketing chief. "This is a health product. This is for people who have a trigger event, like a doctor's moment, people who are told to start taking their blood pressure midlife, or somebody who realizes their metabolism has changed and wants to get healthier."

Nokia is jumping back into gadgets that include \$100 bathroom scales.

Cloud Lifts Microsoft's Net

Verizon Is Taking To Road, Investing In Self-Driving Firm

By TIM HIGGINS

Verizon Communications Inc. has invested in an autonomous-vehicle tech startup best known for turning a vintage DeLorean into a self-driving car.

The startup, **Renovo Auto**, said the investment from Verizon's venture arm is part of a new \$10 million funding round led by **True Ventures**.

Founded in 2010, Renovo gained attention five years later when the startup and Stanford University researchers demonstrated a vintage DeLorean driven in tight, smoke-filled circles.

Now the company is seeking to create ubiquitous autonomous-vehicle software similar to an operating system like Microsoft Windows or Google Android that would help car manufacturers, fleet managers and others control their software and data across a group of shared vehicles.

Verizon, the largest U.S. telecom carrier, sees a place for itself among the oceans of wireless data that could flow from computer-driven cars.

"One of the biggest markets we see as we look at this ecosystem is the [automated mobility on demand] space," said Ed Ruth, a director for Verizon Ventures, in an interview from his Palo Alto, Calif., office. "There needs to be a significant amount of orchestration that goes on with the data that's being generated by all of those vehicles."

Intel Corp., which is also exploring how to manage the

data, estimates a single self-driving car will generate four terabytes of data in about 90 minutes of driving, the typical amount of time a person spends in a vehicle each day. That is the equivalent of data that 3,000 people might generate on the internet by 2020, according to Intel's forecasts.

Today, cars generate little data.

Several car makers and tech companies are far along in developing computer systems—essentially the artificial intelligence's brain—that can handle sensing, perception and path-planning required for autonomous travel, said Chris Heiser, Renovo's chief executive.

"Figuring out how to operationalize that and bring it across a fleet of vehicles in a consistent way, that's not something we see others taking a serious look at," he said.

Developers of autonomous cars increasingly believe that robot taxis and delivery vehicles are the likely route to introducing the technology. Waymo LLC, the self-driving tech unit of Google parent **Alphabet** Inc., is preparing to test hundreds of autonomous vans in Phoenix with passengers, and General Motors Co. is said to be preparing to add 300 self-driving cars to its test fleet.

Last year, Verizon acquired fleet-tracking software companies Fleetmatics Group PLC and Telogis Inc. as part of a broader strategy to focus on connected cars.



A Renovo prototype in 2015. Verizon is investing in Renovo Auto.

BUSINESS WATCH

UNDER ARMOUR

Sportswear Brand Reports First Loss

Under Armour Inc. posted its first quarterly loss as a public company, as demand cooled for its sneakers and athletic apparel.

Still, results weren't as bad as Wall Street anticipated, and shares were up 9.9% Thursday at \$21.67. Footwear sales at the Baltimore-based company rose just 2% to \$269.7 million for the quarter, compared with a 64% surge a year earlier that was fueled by strong basketball sales and liquidations.

Over all, Under Armour posted a loss of \$2.3 million, or a penny a share, compared with a profit of \$19.2 million, or four cents a share, a year earlier. Revenue rose 6.6% to \$112 billion.

—Sara Germano

and Anne Steele

ASTRAZENECA

Revenue, Profit Fall As Crestor Stumbles

AstraZeneca PLC, battling declining sales of its blockbuster cholesterol pill, posted lower revenue and profit in the first quarter of the year. The company, based in Cambridge, England, is working furiously to launch a string of new drugs to help drive a return to growth, as a series of patent expirations erodes sales for drugs such as the cholesterol-lowering pill Crestor.

Sales from AstraZeneca's so-called growth platforms—a collection of new drugs and faster-growing geographic regions—increased 4% from a year earlier to \$35.7 billion. But Crestor sales fell 45% to \$631 million. Overall, revenue fell 12% to \$5.41 billion and net profit slid 17% to \$537 million.

—Denise Roland

Cloud Lifts Microsoft's Net

By JAY GREENE

Microsoft Corp.'s cloud business surged in its fiscal third quarter, continuing the firm's shift from a vendor of packaged software to a leader in on-demand computing.

Microsoft's Azure business posted torrid growth as corporate customers use the cloud service to handle larger pieces of their computing operations. And Office 365, the online version of Microsoft's productivity software, reported huge gains as well as businesses increasingly subscribe to email, word-processing and spreadsheet applications that run in Microsoft's data centers.

Even as the Windows operating-system franchise continues to generate big profits, the

cloud gains are crucial as Microsoft battles Amazon.com Inc. and **Alphabet** Inc.'s Google in the cloud-infrastructure market, which is expected to reach \$71.55 billion in 2020, up from \$25.29 billion last year, according to market-research firm Gartner Inc.

Revenue from the Redmond, Wash., company's Intelligent Cloud segment, which includes Azure, rose 11% to \$6.76 billion. In the Productivity and Business Processes segment, which includes the Office franchise, revenue climbed 22% to \$7.96 billion.

Overall, Microsoft posted \$4.8 billion in third-quarter net income, or 61 cents a share, compared with a profit of \$3.76 billion, or 47 cents a share, a year ago.

Nokia is jumping back into gadgets that include \$100 bathroom scales.

Cloud Lifts Microsoft's Net

FINANCE & MARKETS

Property Firms Applaud Tax Plan

Businesses like those of Trump Organization are likely to win from president's proposal

BY PETER GRANT
AND RICHARD RUBIN

Commercial real-estate businesses like those controlled by the **Trump Organization** stand to benefit greatly from the tax overhaul proposed by the Trump administration Wednesday, according to tax experts.

A key provision would cut tax rates for many property businesses by more than half, while lower rates on personal income would benefit landlords as well.

Industry executives on Wednesday reacted positively to the proposal, pointing out the plan is designed to stoke economic growth, which benefits real estate. "We strongly support the core objectives of what they put out," said Jeffrey DeBoer, chief executive of the Real Estate Roundtable, a trade group.

Commercial real-estate owners also are well aware that while the administration outlined the broad parameters of a plan, it hasn't yet addressed many issues landlords are concerned about, such as how tax law will treat depreciation and interest expense.

"This is a first step," Mr. DeBoer said.

The most important part of President Donald Trump's plan for landlords is how it would treat income of partnerships, limited-liability corporations and other business entities. Most real estate is owned



Donald Trump's tax-overhaul plan would lower top rates on landlords' income. Here, the Trump Building on Wall Street in New York.

through these types of entities, which don't pay corporate taxes.

Rather, owners report their income from these businesses on their individual tax returns. The individual rates currently are as high as 39.6%. Mr. Trump is calling for such "pass-through" income to be taxed at 15%, the same rate he proposes for corporations.

Commercial-property owners would have other compensation like wages taxed at the personal rate, which would top out at 35% under the Trump plan instead of the current 39.6%. Rules would have to be established to prevent people from gaming the system to get the lower corporate rate.

The Trump plan so far wouldn't affect the tax bill of many of the biggest corporate owners of real estate in the U.S. because they are structured as real-estate investment trusts. REITs already don't pay corporate taxes because they distribute most of their taxable income to shareholders as dividends. The tax plan doesn't address REITs specifically, but the top tax rate on most dividends paid by REITs would drop to 35% from 43.4%.

The precise amount that Mr. Trump or the Trump Organization would save from the proposals couldn't be determined because he has declined to release his tax returns. Still, from what is known about how

his businesses are structured, experts estimate the savings would be in the tens of millions of dollars.

"I expect he will have a massive tax cut," said Steven Rosenthal, senior fellow in the Urban-Brookings Tax Policy Center.

A spokeswoman for the Trump Organization didn't respond to a request for comment.

When Mr. Trump took office, he transferred ownership of his scores of businesses to trusts and turned over management to two of his sons and a longtime executive. But he remained the ultimate beneficiary of these businesses, and they likely will be taxed in the same way they were before, experts say.

Mr. Trump also would likely benefit from his proposal enabling U.S. businesses to owe little or no taxes on foreign profits.

Commercial-property owners have been concerned about changes to tax law because of some provisions included in a tax overhaul proposal released last year by House Republicans. For example, it called for eliminating for all businesses the deduction for debt interest payments.

Real-estate deals tend to feature large amounts of debt, and owners have long depended on the deduction. The Trump administration's proposal has been silent on the issue.

KKR Returns To Profit As Assets Increase

By MATT JARZEMSKY

KKR & Co. swung to a first-quarter profit from a year-earlier loss, aided by appreciation in its private-equity and debt holdings.

For the period ended March 31, the New York asset manager reported earnings of \$259.3 million, or 52 cents a share, versus a year-earlier loss of \$329.9 million, or 73 cents a share.

Economic net income, a closely watched measure of performance that reflects changes in the value of the firm's investment portfolio, was \$549.9 million, or 65 cents a share, versus a year-earlier loss of \$553 million, or 65 cents a share.

The latest result topped the average estimate of 51 cents a share from among analysts polled by FactSet.

KKR said alternative credit and corporate buyout investments drove earnings.

Money managers are benefiting from both rising valuations for equities and robust debt markets that enable them to cheaply fund acquisitions and finance dividends from their portfolio companies.

While that environment has made attractively valued companies harder to find, buyout firms continue to put money to work and amass large sums to invest on behalf of institutions seeking alternatives to richly priced public securities.

KKR said alternative credit and corporate buyout investments drove its improved earnings. Its private-equity portfolio grew by 4.7% during the period, trailing the 6.9% gain at rival Blackstone Group LP.

Apollo Global Management LLC and Carlyle Group LP are due to report their results in the coming weeks.

KKR also benefited from investments on its balance sheet appreciating by 5%.

Revenue at the firm's capital-markets business more than doubled to \$121 million, far exceeding the unit's previous quarterly high of \$87.5 million.

KKR's \$10.3 billion balance sheet is the largest among publicly traded private-equity firms, which predominantly invest on behalf of pensions, sovereign-wealth funds and other large investors in return for fees.

The company differs from its peers because it employs dozens of capital-markets executives who arrange debt and equity capital both for KKR's portfolio companies and others, performing a function akin to that of an in-house bank.

Distributable earnings rose to \$346.5 million, or 43 cents a share, from \$168.7 million, or 21 cents a share, a year earlier.

KKR's sales of investments made in prior years included a \$1.08 billion offering of its stake in the food-service distributor US Foods Holding Corp.

KKR said it would pay a 17-cent dividend. Its shares closed Wednesday at \$17.77, marking a 15% year-to-date gain.

In late afternoon trading in New York on Thursday, the stock was up another 5.1% at \$18.68.

Barclays CEO Faces Pressure Over Re-Election

By MAX COLCHESTER

Shareholders in Barclays PLC should abstain from re-electing Chief Executive Jes Staley pending a probe by regulators into his attempts to unmask a whistleblower, proxy adviser Institutional Shareholder Services Inc. recommended Thursday.

Earlier this month Barclays disclosed that the U.K.'s Prudential Regulatory Authority and Financial Conduct Authority were investigating Mr. Staley after the executive repeatedly tried to uncover the identity of a whistleblower who complained about a top hire he made.

Mr. Staley apologized to Barclays's board, admitting errors in his handling of the sit-

uation. The board has said it will dock a chunk of Mr. Staley's bonus after the regulators' reports are complete. That process is expected to take several months.

ISS recommended that shareholders refrain from endorsing the American CEO at the bank's general meeting on May 10 but stopped short of saying they should vote against him outright.

"Given his personal involvement and accountability in this matter, and given the importance of his role as the group CEO, an abstention on his re-election is considered appropriate," ISS said in a report that was sent to shareholders and seen by The Wall Street Journal. It added that given the board's pledge to co-

operate with the continuing investigation, a vote against Mr. Staley wasn't warranted. ISS also recommended that investors vote in favor of the bank's remuneration report.

Barclays declined to comment.

Since arriving at the British bank in December 2015, Mr. Staley has accelerated a restructuring of the lender that has seen it start to retreat from Africa and refocus on its businesses in the U.S. and U.K.

Barclays is set to present first-quarter results on Friday, where analysts will look for evidence that the overhaul is bearing fruit. Of particular interest will be how the investment bank, which Mr. Staley has backed, has fared compared with U.S. rivals.

FINANCE WATCH

SEB

Bank Warns About Regulatory Costs

Skandinaviska Enskilda Banken AB said Thursday it swung to a profit in the first quarter, but warned that customers face increasing costs as regulatory fees in Sweden rise.

The Stockholm-based bank posted a net profit of 4.29 billion Swedish kronor (\$489.6 million) for the three months ended March 31, compared with a loss of 2.29 billion kronor a year earlier. The result last year was dragged down by a write-down of goodwill in connection with a company reorganization.

Net interest income rose to 4.72 billion kronor from 4.64 billion kronor, while loan losses narrowed to 204 million kronor from 291 million kronor.

The Swedish government has proposed increasing the fee banks pay to help cover the cost of supporting financial institutions that get into trouble, arguing that bumper profits within the country's growing financial-services industry justify them paying a higher "resolution fee."

SEB Chief Executive Johan

Torgeby, who took the helm less than a month ago, said the cost of delivering banking services is increasing.

"This year, SEB expects to pay more than 2 billion kronor in regulatory fees including resolution fund and deposit guarantee fees," he said. "Ultimately these costs will also impact customers."

—Dominic Chopping

CHINA CONSTRUCTION BANK

Fees, Commissions Bolster Profits

China Construction Bank Corp. said net profit in the first quarter rose 3% from a year earlier to 70.01 billion yuan (\$10.2 billion), buoyed by fee and commission income.

Net interest income at the bank, China's second-largest commercial lender by assets, fell by 0.9% to 106.9 billion yuan, while net fee and commission income rose by 1% to 38.8 billion yuan, the bank said.

The bank reported 184.51 billion yuan of nonperforming loans, up from 178.69 billion yuan three months earlier.

—Chuin-Wei Yap

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The bank has said that regulators were investigating Jes Staley after he tried to uncover the identity of a whistleblower.

BBVA's Net Rises, Tops Estimates

By JEANNETTE NEUMANN

MADRID—Banco Bilbao Vizcaya Argentaria SA said Thursday that net profit jumped in the first quarter versus a year earlier as the bank's capital ratio also edged up.

BBVA said net profit was €1.2 billion (\$1.31 billion) in the first quarter of this year compared with €709 million a year earlier, when the bank had a particularly weak quarter because of currency turmoil, weaker trading income and higher costs.

That beat analysts' estimates that BBVA would report a net profit of €1.08 billion in the first quarter, according to a poll by data provider FactSet.

The Spanish lender said net interest income in the first quarter was €4.32 billion compared with €4.15 billion a year earlier.

Net interest income, a key

profit driver for retail banks, is the difference between what lenders earn from loans and pay for deposits. That figure came in slightly below analysts' estimates for BBVA's first-quarter net interest income of €4.35 billion, according to FactSet.

BBVA's fees and commissions were up both year-on-year and quarter-on-quarter. The lender attributed that increase to a recovery in its wholesale banking activity. Net trading income also improved in the first quarter from a year earlier.

Net profit in Mexico rose in the first quarter to €536 million from €489 million in the year-earlier quarter. BBVA owns Bancomer, one of the largest banks in Mexico. The Spanish lender's earnings in the Latin American country have been hit by the drop in the Mexican peso, which fell sharply last year as talk of a

potential trade war between the U.S. and Mexico heated up following the election of President Donald Trump.

The significant depreciation of the Mexican peso in 2016 has reversed since mid-January 2017, thanks to moderation from the United States with respect to future trade policy and, to a lesser degree, the hedging program implemented by Mexico's central bank, BBVA said in its earnings report.

Separately, BBVA said it booked €177 million in restructuring in the first quarter, mainly in its Spanish banking unit, where BBVA closed 130 bank branches in February as it seeks to cut costs and boost efficiency.

BBVA's capital ratio was 11% in March 2017 compared with 10.9% in December 2016 under international regulations known as "fully loaded" Basel III criteria.



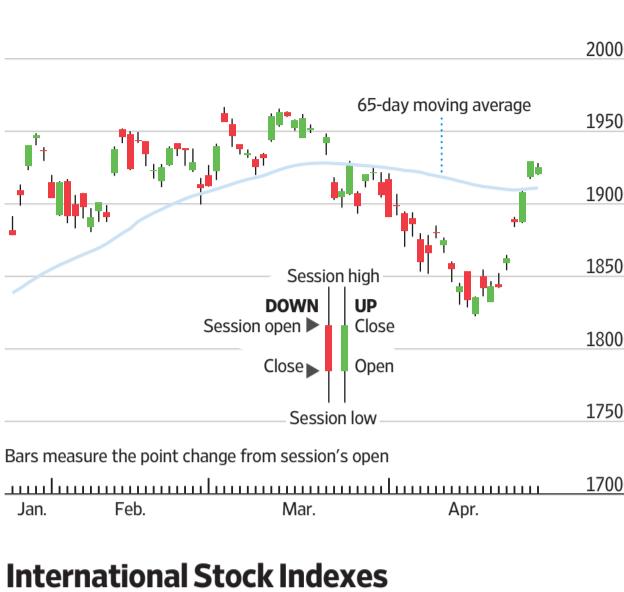
BBVA said fees and commissions were higher in the first quarter on a recovery in wholesale banking.

MARKETS DIGEST

Nikkei 225 Index

19251.87 ▼ 37.56, or 0.19%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Jan. Feb. Mar. Apr.

STOXX 600 Index

387.80 ▼ 0.93, or 0.24%

High, low, open and close for each trading day of the past three months.



Jan. Feb. Mar. Apr.

S&P 500 Index

2388.77 ▲ 1.32, or 0.06%

High, low, open and close for each trading day of the past three months.



Jan. Feb. Mar. Apr.

Data as of 4 p.m. New York time

Last Year ago

Trailing P/E ratio * 24.39 24.11

P/E estimate * 18.24 17.80

Dividend yield 1.98 2.17

All-time high: 2395.96, 03/01/17

* P/E data based on as-reported earnings from Birinyi Associates Inc.

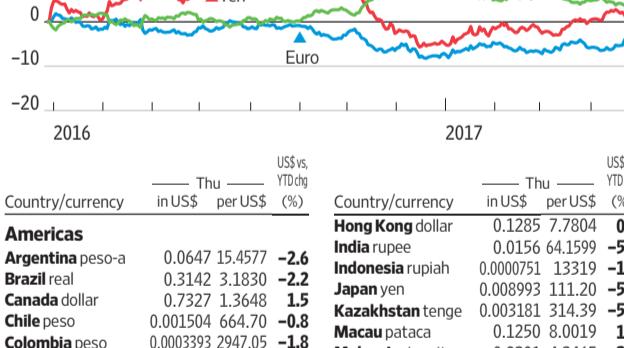
International Stock Indexes

Region/Country	Index	Data as of 4 p.m. New York time					
		Close	Net Chg	% chg	52-Week Range	YTD High	% chg
World	The Global Dow	2734.07	-5.21	-0.19	2193.75	2743.02	8.1
	MSCI EAFE	1837.77	-1.27	-0.07	1471.88	1956.39	7.1
	MSCI EM USD	979.14	-3.39	-0.35	691.21	1044.05	23.3
Americas	DJ Americas	575.16	-0.23	-0.04	480.90	577.99	6.4
Brazil	Sao Paulo Bovespa	64569.82	-292.10	-0.45	48066.67	69487.58	7.2
Canada	S&P/TSX Comp	15508.65	-140.89	-0.90	13535.54	15943.09	1.4
Mexico	IPC All-Share	49449.49	-115.67	-0.23	43902.25	50147.04	8.3
Chile	Santiago IPSA	3680.85	-53.11	-1.42	2998.64	3786.05	14.2
U.S.	DJIA	20981.33	6.24	0.03	17063.08	21169.11	6.2
	Nasdaq Composite	6048.94	23.71	0.39	4574.25	6050.70	12.4
	S&P 500	2388.77	1.32	0.06	1991.68	2400.98	6.7
	CBOE Volatility	10.37	-0.48	-4.42	9.97	26.72	-26.1
EMEA	Stoxx Europe 600	387.79	-0.94	-0.24	308.75	388.73	7.3
	Stoxx Europe 50	3193.12	-4.53	-0.14	2626.52	3199.61	6.1
Austria	ATX	2962.47	-12.19	-0.41	1981.93	2975.69	13.1
Belgium	Bel-20	3882.69	-8.14	-0.21	3127.94	3898.88	7.7
France	CAC 40	5271.70	-16.18	-0.31	3955.98	5296.52	8.4
Germany	DAX	12443.79	-29.01	-0.23	9214.10	12486.29	8.4
Greece	ATG	706.51	0.11	0.02	517.10	709.00	9.8
Hungary	BUX	32959.62	-239.31	-0.72	25126.36	34334.92	3.0
Israel	Tel Aviv	1405.45	-5.30	-0.38	1372.23	1490.23	-4.4
Italy	FTSE MIB	20597.34	-239.17	-1.15	15017.42	20883.66	7.1
Netherlands	AEX	521.89	-2.57	-0.49	409.23	526.25	8.0
Poland	WIG	61731.80	32.16	0.05	42812.99	61903.49	19.3
Russia	RTS Index	1106.92	-12.19	-1.09	873.58	1196.99	-3.9
Spain	IBEX 35	10683.90	-79.50	-0.74	7579.80	10828.80	14.2
Sweden	SX All Share	579.88	-0.95	-0.16	443.66	580.83	8.5
Switzerland	Swiss Market	8844.78	14.49	0.16	7475.54	8853.96	7.6
South Africa	Johannesburg All Share	53680.69	...	Closed	48935.90	54704.22	6.0
Turkey	BIST 100	94282.48	-239.86	-0.25	70426.16	95196.45	20.7
U.K.	FTSE 100	7237.17	-51.55	-0.71	5788.74	7447.00	1.3
Asia-Pacific	DJ Asia-Pacific TSM	1572.74	1.57	0.10	1308.52	1574.93	10.5
Australia	S&P/ASX 200	5921.50	9.50	0.16	5103.30	5934.00	4.5
China	Shanghai Composite	3152.19	11.34	0.36	2806.91	3288.97	1.6
Hong Kong	Hang Seng	24698.48	120.05	0.49	19694.33	24698.48	12.3
India	S&P BSE Sensex	30029.74	-103.61	-0.34	25101.73	30133.35	12.8
Japan	Nikkei Stock Avg	19251.87	-37.56	-0.19	14952.02	19633.75	0.7
Singapore	Straits Times	3171.36	-2.40	-0.08	2729.85	3187.51	10.1
South Korea	Kospi	2209.46	1.62	0.07	1925.24	2209.46	9.0
Taiwan	Weighted	9860.62	4.17	0.04	8053.69	9972.49	6.6

Source: SIX Financial Information/WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on April 27

US\$ vs. Country/currency

Thru in US\$ per US\$ (%)

YTD to date

Country/currency

Thru in US\$ per US\$ (%)

YTD to date

Country/currency

Thru in US\$ per US\$ (%)

YTD to date

Country/currency

Thru in US\$ per US\$ (%)

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Thru in US\$ per US\$ (%)

YTD to date

Country/currency

Thru in US\$ per US\$ (%)

YTD to date

Country/currency

Thru in US\$ per US\$ (%)

YTD to date

FINANCE & MARKETS



A worker at the Queensland Curtis Liquefied Natural Gas project site in Gladstone, Australia, operated by a unit of Royal Dutch Shell

Australia to Restrict Gas Exports

By ROBB M. STEWART

MELBOURNE, Australia—Australia's government said it would intervene in the country's natural-gas market by restricting exports in an attempt to avert a looming domestic gas shortage and cool soaring prices.

Despite criticism that fresh regulation wouldn't address the underlying issue of supply and could threaten future investment, Prime Minister Malcolm Turnbull said steps were needed to secure gas supplies for manufacturers and households that were being drained to feed massive export facilities run by global energy companies on the east coast.

"What we are doing here is taking decisive action in the national interest to protect jobs," Mr. Turnbull said.

The prime minister has faced a barrage of demands from business groups and opposition lawmakers to take a tougher stand on gas producers after average prices jumped by at least 80% in the first quarter from a year earlier. Last month,

the operator of the country's gas and electricity markets warned of a possible shortfall in gas-power electricity generation in populous southeast states as soon as next summer.

Mr. Turnbull has met with executives from companies including **Royal Dutch Shell** PLC and local producer **Santos** Ltd. twice in recent weeks. He is seeking a commitment from each of them to provide more natural gas for the eastern market than they draw out, but said requirements hadn't been met. His latest move also pre-empts a report from the country's competition regulator, which last week was charged by the government with looking into how gas producers could make more gas available to local industry and other users.

The government will introduce a temporary mechanism giving it the power to impose export controls on companies when there is a shortfall in gas supply in the domestic market. If a company exports more gas than it provides domestically, it will be ordered to limit shipments and outline steps to fill

the shortfall, Mr. Turnbull said. Companies that are net contributors to the local gas market will be licensed to export based on their forecasts, he added.

The prime minister said the government remained committed to exports of liquefied natural gas—which has become one of the country's most valuable commodities in recent years—but not at the expense of Australians. He predicted that securing more supply would pressure prices lower.

"Australian demand, Australian businesses, Australian jobs and Australian families have to come first. It is ridiculous for us to be on the edge of becoming the largest LNG exporter in the world and not to have enough gas for our businesses and households," Mr. Turnbull said.

In a speech last month, Rod Sims, chairman of the Australian Competition and Consumer Commission, said the gas crisis had become more acute this year with prices up as much as four times historic levels and significant reductions in supply

for electricity generation.

The construction of three LNG plants on Curtis Island in northeast Queensland in recent years opened the region to global gas markets, buoying what had been comparably low local prices. However, the fall in global oil prices and regional environmental concerns has discouraged further investment in the area.

Government intervention has become essential to confirm a future for manufacturing in the country, said Paul O'Malley, managing director of **BlueScope Steel** Ltd., who previously warned that vast numbers of jobs would leave the country if business couldn't access affordable energy.

Restricting exports is almost unprecedented for Australia and risks worsening already tight market conditions, said Malcolm Roberts, chief executive of the Australian Petroleum Production and Exploration Association, which represents oil-and-gas companies operating in the country.

—Rob Taylor in Canberra contributed to this article.

Lloyds Earnings Rise As Bad Loans Fall

By MAX COLCHESTER

LONDON—Lloyds Banking Group PLC said Thursday its net profit increased in the first quarter as the British economy continued to hold up after the Brexit vote, in the latest sign of the U.K. lender's return to health.

The U.K. retail bank said revenue increased 1% to £4.38 billion (\$5.63 billion) in the first three months of the year. This fed into a jump in net profit to £766 million, compared with £405 million a year earlier, bolstered by a fall in bad loans. Operating costs fell 1%, and the bank raised a closely watched profitability target.

Shares in the lender rose 2.3% in London.

The results mark another step forward for Lloyds, whose earnings have for years been drained by costs related to conduct issues and a huge restructuring following its 2009 government bailout.

The bank said earlier this month that it was putting aside £350 million in extra provisions to cover future payouts to customers sold insurance products they didn't need. The provision came after a U.K. regulator extended a deadline for claims until August 2019. The bank also put

aside £100 million to compensate customers who were victims of a fraud committed at the bank more than a decade ago. Two former employees were jailed earlier this year over the fraud.

Lloyds, which is viewed as a bellwether for the U.K. economy, said asset quality remained strong in the country. However, the bank said it didn't expect the Bank of England to raise interest rates this year as the economic boost caused by the fall in value of the pound fades. "U.K. economic performance remains strong," said Chief Executive António Horta-Osório, who played down fears of a bubble in unsecured debt levels.

The bank increased its projected net interest margin, the difference between what it pays for deposits and charges customers for loans, to 2.8%.

The U.K. government, which owns just under 2% in the bank, is expected to sell its remaining shares in the coming months, marking a fresh start for the lender, which was bailed out during the financial crisis.

The bank is entering the last stretch of a three-year turnaround plan. Investors expect Mr. Horta-Osório to present a new plan for the bank later this year.



Lloyds said asset quality remained strong in the U.K.

WSJ PRO CYBERSECURITY EXECUTIVE FORUM

THURSDAY, MAY 25, 2017 | LONDON

WSJ Pro's Cybersecurity Executive Forum will bring together senior figures from industry and government to discuss how senior executives can best prepare for hacking threats, manage breaches and work with government cybersecurity authorities and regulators. The forum will offer insights, practical advice, case studies and workshops tailored to the needs of executives and managers.

SPEAKERS



ELIZABETH DENHAM

UK Information
Commissioner



JENNIFER JANSON

Chairman
Six Degrees



Rt Hon BARONESS
PAULINE NEVILLE-JONES

Minister of
Security and Counter
Terrorism (2010-2011)



DAVID OMAND

Visiting Professor,
Dept. of War Studies
King's College, London



CHARLES PALMER

Senior Managing
Director and Global
Head of TMT
FTI Consulting



THOMAS REAGAN

Cyber Practice Leader
Marsh

To request an invitation, go to CYBER.WSJ.com

MARKETS

Bankers Cash Out on Trump Rally

Insiders at regional lenders net \$1 billion from stock sales since U.S. election

By RACHEL LOUISE ENSIGN
AND TOM McGINTY

Investors rushed into regional and community-bank stocks after the U.S. election, encouraged by higher interest rates and potential regulatory relief. Top executives and directors at banks used the rally for a different reason: to cash out.

Insiders at publicly traded commercial banks with a market value greater than \$1 billion, but excluding the largest national banks, sold about \$1.4 billion in their company stock between the election and the end of March, up 65% from the 10-plus months in 2016 before the election, according to an analysis by The Wall Street Journal.

The sales netted executives and directors at banks such as PNC Financial Services Group Inc. and U.S. Bancorp \$1 billion when taking into account the cost of exercising options.

The moves are in line with the behavior of insiders at the biggest U.S. banks, which was the subject of a Journal article in January.

Executives at some of the country's largest banks sold about \$163.5 million of stock since the presidential election, more than in that same period in any year since before the financial crisis, according to an updated Journal review of securities filings.

At the nearly 100 community banks and regional players included in the Journal's latest review, net gains from selling since the election totaled about \$7.2 million a day—nearly four times the 2016 pace before the election.

For years, bank stocks lagged behind the broader stock-market rally as low interest rates and a regulatory overhang from the financial



Retired U.S. Bank chief Richard Davis, shown in Minneapolis in 2014, netted \$28 million from sales.

crisis weighed on results. Last year started with the KBW Nasdaq Bank index falling as much as 23% by mid-February due to recession fears. During that time, insiders did very little selling, netting just \$13 million on share sales in the first two months of 2016.

After Donald Trump's surprise election win, potential tax and regulatory relief from the new administration gave bank investors a rosier view. Interest rates also started to rise, which helps bank profits.

While bank stocks have flagged a bit in recent months, the KBW index still rose by more than 22% between the election and the end of March, the period of increased insider selling.

Alex Lieblong, a director at Arkansas-based Home Banc-Shares Inc., netted about \$25 million in sales of the bank's stock after the election, com-

Executive Actions



Note: Commercial banks above \$1 billion in market value, excluding largest national banks
Source: WSJ analysis of SEC filings

pared with about \$1 million before the election in 2016. The 66-year-old investor said his estate planners told him that he needed "a little diversification here in case you get hit by the proverbial bus."

Bank insiders still have vast

holdings in their companies. Executives often are given shares through stock or options grants as part of compensation. Sometimes, they purchase shares on the open market or through their retirement plans. In 2016 before the

election, 255 insiders at these lenders bought \$42 million of stock. After the election through the end of March, the purchases amounted to \$5 million from 55 insiders.

Private-equity investors with board seats also sold. Four of them accounted for more than \$310 million of the sales, or about 22% of the total, since the election. These same investors sold \$46 million in 2016 before the election.

While it is relatively unusual for private-equity investors to have stakes in banks due to regulatory restrictions, some got involved during or shortly after the crisis.

Oaktree Capital Management LP and Thomas H. Lee Partners LP, for instance, in 2011 invested more than \$350 million in Puerto Rico-based First BanCorp as a part of a capital raise. The two private-equity investors, which declined to comment, sold about \$257 million of First BanCorp stock in December and February. The stock is up 62% in the last 12 months through Wednesday.

Another recent seller: U.S. Bank CEO Richard Davis, who retired from that role earlier this month. In November and January, he sold \$73 million of stock, netting \$28 million after exercise costs. The bank said the moves were an exercise of options from 2008 and declined to comment further on Mr. Davis's behalf.

PNC CEO William Demchak, meanwhile, sold \$40 million, netting \$21 million.

Both Messrs. Demchak and Davis remain significant shareholders in their banks. The stocks have both reached records in 2017 after steadily recovering since the financial crisis.

Given "the rise in PNC's stock price during this time frame, I viewed it as an opportune time to exercise" stock options that were set to expire in the next two years, Mr. Demchak noted.

Stocks Gain in U.S., Slip In Europe

By AKANE OTANI
AND RIVA GOLD

U.S. stock indexes edged higher as gains in shares of technology companies offset losses in the energy sector.

The Dow Jones Industrial Average rose 6.24 points, or less than 0.1%, to 20981.33 on Thursday.

The S&P 500 rose less than 0.1% and the Nasdaq Composite gained 0.4%, notchng a closing record of 6048.94.

In Europe, the Stoxx Europe 600 fell 0.2%, holding steady after the European Central Bank left its policy unchanged and said rates would remain at present or lower levels well past the horizon of asset purchases.

In the U.S., stocks have generally risen in recent sessions, buoyed by corporate earnings reports pointing to health in U.S. companies. While bets on tax cuts from the Trump administration helped major indexes surge after the election, many investors say future stock gains are likely to be driven by earnings, not policy bets.

"At the end of the day, the market is always about earnings and growth," said JJ Kinnahan, chief market strategist at TD Ameritrade. "If your earnings are good and the economy is performing, that makes up for a lot of other things."

Comcast added 2.1% after it reported growth in revenue and profit that topped analysts' estimates.

Energy shares slid with oil prices. The sector in the S&P 500 was down 1.2% by late afternoon. U.S. crude lost 1.3% to \$48.97 a barrel, as investors weighed concerns of a surplus in petroleum products.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

Tax Cut: Don't Forget the Deficit

In the Red

Federal budget surplus/deficit as a share of gross domestic product



Source: Congressional Budget Office

improved economic growth under lower taxes into account, it is doubtful many tax experts would view Mr. Trump's plan as deficit-neutral. A bigger budget deficit would be in the offing.

For investors trying to determine a potential tax bill's timing, scope and probability of passing, the unveiling of Mr. Trump's plan provides little clarity. Even many basic details have yet to be filled in. Mr. Trump's cabinet

is understaffed and lacks many people with legislative experience. Furthermore, a renewed focus on health-care reform may mean that any move on taxes will have to wait.

But the plan does provide some insight into the contours of what an eventual tax cut might look like, even if it ends up being more modest than what Mr. Trump has proposed.

On the stock-market side,

nearly everyone comes out a winner. Domestically focused companies such as retailers and construction firms, which have among the highest effective tax rates, get a nice break. And many companies that do a substantial amount of business overseas (and tend to have lower effective rates) get to bring money earned overseas back home at a lower cost. So earnings would be higher.

The bond market would find less to love. Larger budget deficits would increase Treasury issuance. And, insofar as the plan might boost growth, it could prompt the Federal Reserve to raise rates more quickly and begin reducing the size of its Treasury holdings sooner. The combination of more Treasurys on the market and tighter monetary policy would push long-term rates higher. That could be bad for the bond market—and cut equities' attractiveness.

There is no such thing as a free lunch and no such thing as a free tax cut, either.

—Justin Lahart

OVERHEARD

Diversification in finance has a whole new meaning.

Aspiring Chartered Financial Analysts must pass three exams on a wide range of asset classes and complex formulas, but the learning doesn't stop there.

The CFA Society of Toronto is hosting a "Self-Defense Tips and Tactics for the Finance Professional" event on May 15.

"Do you work late and walk alone at night? Travel alone?" an ad for the event asks. "From random wrist grabs, to an unwanted hold or knife assault at the bank machine...this Krav Maga self defense workshop is geared to the executive life." Running shoes and comfortable clothing are recommended for attendees, though "these techniques will work no matter what your attire."

It is always good to be prepared. This knowledge may come in especially handy for members, should sky-high asset prices ever fall back to earth.

Deutsche Bank Slogs as Rivals Soar

If Deutsche Bank has found the right balance in investment banking, it is hard to spot the benefits.

The German group failed to catch the same market recovery that boosted bond trading at U.S. rivals and Credit Suisse in the first quarter, while the improvement in its revenue from work on deals and fundraisings also lagged behind rivals.

In the first quarter of 2016, a series of economic concerns combined to hit investment banks' activity, so the start of this year had been widely expected to drive a big recovery.

Deutsche's rivals got it: Fixed-income trading revenues at U.S. banks were up by 24% in the first quarter of 2017 from a year earlier and Credit Suisse's rose 30%.

Deutsche Bank's bond trading was just 11% higher.

The bank missed the rebound in U.S. mortgage-bond trading because it quit that business. Also, Deutsche did enjoy a big rebound in leveraged loans but reports that activity in a different division to Credit Suisse, which includes it in bond trading.

Still, taking Deutsche's markets and investment-banking units in total, revenue fell 4%. Granted, part of the revenue loss is due to the perverse accounting effects of Deutsche becoming safer: A fall in its own funding costs, reflected in a much lower cost to protect its bonds against default, cut its revenue. Even taking that into account, revenue was higher by only 3.5%.

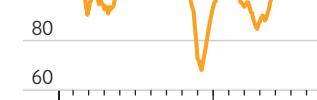
Investors backed management with an €8 billion (\$8.72 billion) capital injection this month. It looks a long, hard slog before they will get a return on that money.

—Paul J. Davies

ECB Keeps Extreme Measures Despite More Ordinary Times

Survey Surge

Eurozone economic sentiment indicator



Source: European Commission

THE WALL STREET JOURNAL.

tive rates and bond buying further if required.

That insurance policy is looking increasingly unnecessary. The eurozone recovery looks resilient, with the

recent commodity-led pickup in inflation is durable.

Headline inflation is set to increase in April after dropping to 1.5% in March, but the underlying core inflation, which excludes energy, food, alcohol and tobacco, is still sluggish.

The euro and German bond yields rose on Mr. Draghi's warmer words on growth but then fell straight back on his comments about inflation.

That shows the narrow path that the ECB is treading: Any real hint that policy settings will change could set off a potentially damaging tightening of financial conditions.

The ECB's quantitative easing has pushed bond markets into uncharted territory; memories are still fresh of the U.S. Federal Reserve's "taper tantrum," a global market sell-off that was sparked simply by the signaling, rather than the action, of cutting back on quantitative easing.

Understandably, the ECB wants to reduce the risk of markets derailing its efforts. That should act as further support for stocks.

But the further the eurozone recovery goes, the greater the challenge the ECB will face in keeping markets onside.

—Richard Barley

Before and
after: How 5
Comme des
Garçons
runway looks
get real **W3**



OFF DUTY



7 insider
wine bars where
sommeliers
spend their
nights off
W6

EATING | DRINKING | STYLE | FASHION | DESIGN | DECORATING | ADVENTURE | TRAVEL | GEAR | GADGETS

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THE WALL STREET JOURNAL.

Friday - Monday, April 28 - May 1, 2017 | **W1**



TAKE MONDAY OFF

Portland Of Plenty

Oregon's determinedly quirky city makes for a boredom-free long weekend—especially on two wheels



DAVE LAURIDSEN FOR THE WALL STREET JOURNAL

ON THE OREGON TRAIL Clockwise from upper left: Tony Tellin leads the tea-making process at Steven Smith Teamaker; bike-share riders pass by Powell's, one of the country's largest bookstores; a 'seafood tower' at Headwaters restaurant at the historic Heathman hotel; the newly expanded Portland Japanese Garden at Washington Park.

BY LUCY FELDMAN

BEFORE PORTLAND, ORE., established itself as a hipster utopia and beleaguered punch line—a land of vegan tattoos, fastidious food-truck chefs and all things crafty and pickled—visitors were already taken with its abundant natural attributes. The Willamette River divides the city, forest trails wind throughout it, and Mount Hood and the coast each sit just over an hour's drive away. A cleverly planned long weekend in Portland will tap both aspects: sampling urban obsessiveness and the abundant verdure of the Pacific Northwest.

On the city's east side is the stuff of "Portlandia"—a cluster of crafting collectives (Welding Basics, anyone?) and shops selling everything from Feminine Divine Tea to taxidermied antelopes. On the tonier west side, you'll find discerning boutiques, stately watering holes, lush gardens and forested parks. Don't miss the riverfront and its 12 bridges, many of which are pedestrian-friendly. In fact, much of the city ministers to pedestrians and cyclists, thanks to extensive public transit and bike lanes, and an enduring small-town ethos. Stand at a crosswalk and just try to wave a car past—you've initiated a stand-off of politeness. Here's our recommended three-day itinerary.

DAY ONE // FRIDAY

5 p.m. Land at Portland International Airport and make note of its oddly high-profile teal carpet (know of any other airport rugs with a fervent Instagram following?) before hopping on the Metropolitan Area Express (MAX) train. It's a 40-minute ride into the city to the cheap-and-cheerful **Society Hotel**, housed in a recently reclaimed 1880s lodging house (*from \$135 a night for a private room, thesociedad-hotel.com*). For more luxurious digs, ride the MAX 10 minutes far-

ther to **Sentinel Hotel**, an elegant mash-up of two historic buildings (*from \$185 a night, sentinelhotel.com*).

7 p.m. Dinner time. The Portland Streetcar loops around the busiest areas of the city on both sides of the river. Hop on a blue line train (pay the \$2 fare with cash or pay through the PDX Streetcar Mobile app), grab a window seat and ride across the water to SE Grand Avenue and Hawthorne Boulevard. An 8-minute walk east brings you to **Teote Areperia**, where a La Cena Carne platter loaded with spicy,

saucy Latin-American shredded meats, beans, fried plantains and hot buttered arepas awaits. Dig in on the patio near the fire pit (*1615 SE 12th Ave., teotepdx.com*).

9 p.m. All that feasting calls for a little healthy movement. Walk 10 minutes to **Pips & Bounce**, a ping-pong social club. Rent a table for 30 minutes for \$15, and have yourself a volley while sipping a "Pong-tail" or an Oregon beer on tap. Friday night is Cosmic Pong—expect black lights (*833 SE Belmont St., pipsandbounce.com*).

DAY TWO // SATURDAY

8:30 a.m. Start your Saturday with a jolt to-go, practically de rigueur in this caffeine-addicted city, from **Case Study Coffee Roasters** (*802 SW 10th Ave., casestudycoffee.com*), then wander south through downtown for about 15 minutes to the **Portland Farmers' Market** at Portland State University, a year-round destination with over 140 vendors at the height of the summer season (*portlandfarmersmarket.org/our-markets*). Please turn to page **W2**

OFF DUTY

THREE FREEWHEELING DAYS IN PORTLAND

Continued from page W1

9:15 a.m. You may have noticed searing-orange bicycles racked around the city. Nike's **Biketown** bike share program allows you to rent one for \$2.50 per 30-minute ride, or \$12 for the day (biketownpdx.com). Pick up your ride outside the Smith Memorial Student Union (between SW Mill St. and SW Harrison St.). Ride over Tilikum Crossing—the newest of Portland's bridges, accessible only to pedestrians, cyclists and mass-transit vehicles—to Clinton Street on the east side.

10:15 a.m. Since you'll be biking around for the balance of the day, carbo-load at **Off the Waffle**. Try the signature Liege waffle, crisply caramelized on the outside (2601 SE Clinton St., offthewaffle.com).

11:15 a.m. Five minutes on your bike brings you to the east side's Division Street, a strip of cult coffee shops, boutiques and a slew of popular dining spots, including **Tidbit Food Farm**, a cluster of food trucks in a charmingly scruffy garden (SE 28th Place and Division St.). Lock up your bike at one of the public racks (locks provided; press "hold" so no one else takes it). Grab another coffee—or at least snap an Instagram—at **Stumptown Coffee's** first location, a landmark in Portland's coffee culture (4525 SE Division St., stumptowncoffee.com), then scope out stationery shop **Little Otsu**, catnip for paper hoarders (3225 SE Division St., littleotsu.com) and nearby art gallery **Nationale** (3360 SE Division St., nationale.us).

1 p.m. Once you hit 38th Avenue, cycle north about 10 blocks to Hawthorne Boulevard, one of the original meccas for the plaid-shirted and wool-beanie-topped natives. **Jackpot Records** carries a vast collection of rock, jazz, hip hop and soul vinyl (3574 SE Hawthorne Blvd., jackpotrecords.com), while quirky little **Perfume House** stocks nearly as many fragrances (3328 SE Hawthorne Blvd., theperfumehouse.com). Finally, check out **Tender Loving Empire**, both a record label and a retail shop with locally made jewelry and beauty products (3541 SE Hawthorne Blvd., tenderlovingempire.com).

2 p.m. For lunch, head to **Fried Egg I'm in Love**, a rock 'n' roll-themed egg-sandwich food truck, featuring local farm eggs and sourdough bread from Portland French Bakery. Order the Yoko Ono—homemade pesto, parmesan and a sausage patty all sandwiched around an expertly fried egg—and take a seat at one of the picnic benches (3207 SE Hawthorne Blvd., friedegglove.com).

3 p.m. Follow that cheesy sandwich with a stop at nearby **Commons Brewery**, which offers 13 beers on tap; typically all but one are made on-site. Sip your way through a flight, with a view of the brewers at work (630 SE Belmont St., commonsbrewery.com).

4:30 p.m. Hop on the bike for a five-minute ride to Stark Street, where you'll find the "vegan mini mall," featuring vegan cafe **Sweat-pea Baking Co.** (1205 SE Stark St.; sweetpeabaking.com), vegan grocery store **Food Fight!** (1217 SE Stark St.; foodfightgrocery.com), vegan boutique **Herbivore Clothing Co.** (1211 SE Stark St.; herbivoreclothing.com) and vegan tattoo parlor **Scapegoat Tattoo**. If you're wondering what makes a tattoo vegan: Scapegoat's inks, unlike standard ones, contain no bone char or other animal products (1223 SE Stark St., scapegoattattoo.com).

5 p.m. Feeling inspired by all this local industry? Around the corner is the "maker space" Art Design Portland, aka **ADX**, a multiroom jungle of equipment, including tablesaws, torches, a laser cutter, jewelry tools and a screen-printing press. Your mission: Build and wire a one-of-a-kind Edison-bulb lamp with the help of an instructor—or dream up a project of your own. Schedule private classes in advance (417 SE 11th Ave., adxportland.com).

8 p.m. Dinner is only a 12-minute ride away, at Pine Street Market in Old Town, on the west side, where the vendors include some of the city's most crowded-about chefs. Ditch today's bike on the rack at SW 2nd Avenue and head inside. Try **Marukin Ramen**, one of the famed Japanese chain's hot bowls, or **Pollo Bravo** for rotisserie chicken and tapas. For dessert, scoop up a



SOAK IT ALL IN Knot Springs spa, with its various hot and cold pools, overlooks the Willamette River.



STUFFED TO THE GILLS From above: Paxton Gate, a taxidermy and gift shop; Tidbit Food Farm and Garden, one of Portland's many food-truck 'pods'; Blue Star Donuts are flavored with seasonal and local ingredients.



Headwaters. James Beard Award winner Vitaly Paley's fourth and newest restaurant in the city, it's embedded in the historic Heathman Hotel. Start with something fresh from the sea bar, like diver scallops served with foie gras, or smoked fish with herring schmear (recipe courtesy of Mr. Paley's grandmother). Follow with halibut en papillote or grilled octopus (1001 SW Broadway, headwaterspdx.com).

9:30 p.m. A lazy 10-minute stroll will bring you to another of Portland's oldest restaurants, established in 1879: **Huber's Cafe**. Order a "Spanish Coffee," which comes with a fiery show—the bartender will fling and light your rum, triple sec, kahlua and coffee cocktail aflame and top it with cream and a dash of nutmeg before sliding it your way (411 SW 3rd Ave., hubers.com).

DAY FOUR // MONDAY



Portland Zoo (explorewashingtonpark.org). Start at the **Portland Japanese Garden**, which recently underwent a \$33.5 million expansion featuring a new cultural village designed by renowned Japanese architect Kengo Kuma (611 SW Kingston Ave., japanesegarden.com).

12:45 p.m. Just below the Japanese Garden is the **International Rose Test Garden**. Sniff around the rows of over 10,000 rose plants (and 650 varieties), and pause on a bench to take in the city views (400 SW Kingston Ave.).

1:30 p.m. A quick downhill ride drops you at **Verde Cocina en la Perla** for lunch. Return the bike at NW Flanders Street and NW 14th Avenue, a block away, before sitting down for a Mexican brunch featuring generous portions of local vegetables, handmade corn tortillas and farm-fresh eggs. Whatever you're getting, add the bacon—or, as they call it, "smoked candy" (524 NW 14th Ave., verdecocinamarket.com).

3 p.m. Stroll around the Pearl District, a former warehouse zone turned stylish retail destination, and pop into **Hunt & Gather**, an art and

home goods store (1302 NW Hoyt St., huntngather.com) and **MadeHere PDX**, which features only locally made items, from leather bags to cooking skillets (40 NW 10th Ave., madeherepdx.com).

4:30 p.m. Make your way to **Powell's**, an iconic bookstore that occupies an entire city block. Duck into the rare book room; at least one title dates back to 1480 (1005 W Burnside St., powells.com).

6 p.m. Just up the street is the **People's Bike Library of Portland**, a public art piece featuring a pole stacked with children's bicycles (corner of SW 13th Ave. and W. Burnside Ave.). The tower is dedicated to Portland's bike culture and specifically the Zoobombers, a cycling group. Every Sunday, the Zoobombers unlock the mini bikes from their pedestal, hop on the MAX train to the top of Washington Park, then speed down through the hills after dark. If you're feeling adventurous, skip the rest of the day's plan and hang around to join up at around 8:30 p.m.

7 p.m. For dinner, head several blocks south for a seafood feast at



The Sentinel Hotel, a mash-up of a 1923 Elks Lodge and a 1902 hotel.

2:30 p.m. At the cavernous **Grand Marketplace**, an eight-minute walk away, drift among the vintage wares and wears, from typewriters to faux furs (1005 SE Grand Ave., grandmarketplacepdx.com).

3:30 p.m. Pick up a new bike at SE 6th Avenue and SE Alder Street for a scenic riverside ride to Mississippi Avenue along the tree-lined esplanade. Don't miss **Paxton Gate**, a taxidermy specialty shop artfully crammed with curios, from shark eyeballs to hanging heads galore (4204 N. Mississippi Ave., paxtongate.com).

4:30 p.m. Before heading to the airport, grab a final beer and a burger at **Ecliptic Brewing**—maybe the farro burger with pickled carrots, since you're unlikely to find one back home (825 North Cook St., eclipticbrewing.com).

DAY THREE // SUNDAY

9:30 a.m. Hop on the streetcar's green line and ride it up to Marshall Street and NW 23rd Avenue, the main shopping drag in the Alphabet District. Your breakfast stop is **Blue Star Donuts**, which uses seasonal local ingredients (921 NW 23rd Ave., bluestardonuts.com). A doughnut needs a friend, so head one block to **Barista** for a cup of coffee (823 NW 23rd Ave., baristapdx.com).

11 a.m. When you're ready to move on, grab a new bike at the Biketown rack on 23rd Avenue and NW Kearny Street (or, if your legs need a break, order an Uber or Lyft) and head over to **Washington Park**. The 410-acre green space features multiple gardens, an arboretum and the

OFF DUTY

Studio To Street

How Comme des Garçons—the focus of a new Met exhibit—translates its runway looks into clothes you can wear

BY MAYA SINGER

A FAIR QUESTION from anyone first encountering a Comme des Garçons collection: *How on earth do you wear that?* Of all the ready-to-wear runway extravaganzas that take place in Paris four times a year, the assertively avant-garde shows staged by the label's much-revered designer Rei Kawakubo are most likely to confound people inclined to think of fashion in terms of durable wardrobe staples.

And yet, Comme des Garçons—subject of the exhibition “Rei Kawakubo/Comme des Garçons: Art of the In-Between,” which opens at the Costume Institute at the Metropolitan Museum of Art on May 4—has a thriving retail business, with a highly varied coterie of dedicated fans.

Ikram Goldman, owner of the eponymous Chicago boutique, stocks everything from the brand's conceptual pieces to items from its more commercially inclined subsidiary labels. The secret, she said, is that Ms. Kawakubo's runway innovations are artfully translated into wearable clothes—a rather utilitarian uniform—before they reach stores.

This lets her achieve the quicksilver balance of art and commerce so many fashion brands seek. “That's Rei's genius as a businesswoman,” Ms. Goldman said. “She respects the uniform, but she keeps refreshing it with new details, new fabrics, new shapes, so it feels like ‘fashion.’” Ms. Kawakubo excels at tailoring staples—blazers, trousers and coats—all of which can take on the personality of a certain collection.

For longtime followers like Suzanne Golden, the brand's clothes do serve as a uniform. Ms. Golden, a spry 70-something New Yorker, discovered Ms. Kawakubo's label in the mid-90s—and never looked back. “There are themes she keeps coming back to, like the baggy pants,” she said. “That is why the clothes are so timeless.” Ms. Golden has amassed quite a Comme wardrobe, merrily mixing recent pieces with ones she's owned for years.

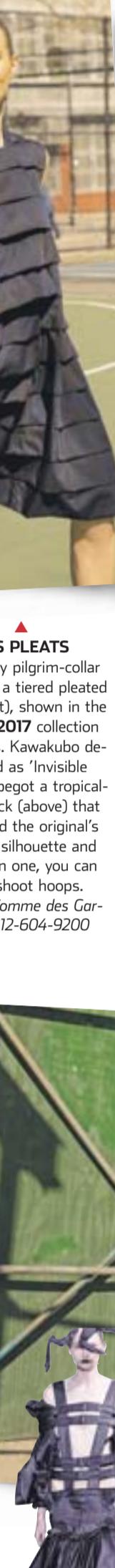
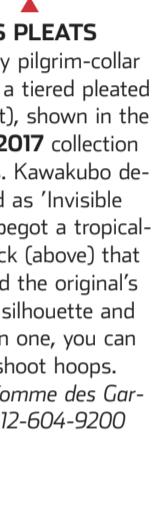
Still, there is also a market for some of the startling runway ensembles the Met will display. Ms. Goldman used to order one look per season just to put in her shop window, expecting to keep it for her archive. “Invariably, someone would buy it,” she said. “It became a bone of contention, for me and my sales team. You can't reorder those pieces! Now I just buy two.”

YES PLEATS

The hefty pilgrim-collar coat over a tiered pleated dress (left), shown in the **Spring 2017** collection which Ms. Kawakubo described as ‘Invisible Clothes,’ begot a tropical-wool frock (above) that borrowed the original's flanged silhouette and pleats. In one, you can even shoot hoops. \$2,182, *Comme des Garçons*, 212-604-9200

CAGE PERFORMER

Ms. Kawakubo told Vogue she set out to not make clothes for her **Spring 2014** show. And yet, pieces like this dominatrix-y frock (right) made the leap into the real world (above). The leather pinafore simply requires an underpinning like this *Comme des Garçons* Play T-shirt, \$100, *Comme des Garçons*, 212-604-9200.



SLIM, SHADED

On the **Spring 2017** runway, this garment with a Rorschach-esque print (left) looked like a dress that had been flattened and then grew matching wings. In stores, the print and a hint of the sculptural sensibility remained (above), while the wings flew away to reveal a fairly flattering shift. \$1,500, *Comme des Garçons*, 212-604-9200



PETAL PUSHING

Ms. Kawakubo would never show florals in a conventional way. All the pretty blooms in the **Fall 2016** show were transformed into armor-like panels and shapes (right). The commercial dress (above) stayed true to that spirit, crafted from strips of stiff floral fabric snapped together with silver hardware.



STRAPPING SPECIMEN

The label is known for imbuing wearable tailoring with a touch of concept, as seen in this blazer's crisscross straps (far left), a distillation of a cooing coat (near left) from the **Spring 2016** collection.



WHEN EVERY COLOR IS GREEN

Seeking nail polish with fewer toxic ingredients? Your choices are growing

FOOTLOOSE, FANCY-FREE and freaked-out about toxic chemicals in your toenail polish: One of these feelings should never be part of your warm-weather outlook.

Nor need it be. In the past several years, polish makers have doggedly removed troublesome (carcinogenic, endocrine-disrupting) ingredients from their recipes. More than a decade ago, “3-free” formulas—devoid of dibutyl phthalate, formaldehyde and toluene—crept into the market. Next came “5-free,” which stripped out formaldehyde resin and camphor. With “8-free” formulas, ethyl tosylamide, xylene and parabens bit the dust.

Now brands such as Sundays and Côte are claiming “10-free” status for polishes without any tert-butyl hydroperoxide or animal-derived ingredients like fish scales or crushed beetles.

Now that pedicure season has arrived, many women will go from one paint job to the next, with little time off in-between. It's time to ask whether your nail polish may be harming your health. The answer isn't easy. With toxins everywhere, said New York dermatologist Dr. Melanie Grossman, teasing

out which chemicals cause the most damage can be a fool's errand. “If we're talking about cancer or endocrine problems from nail polish, it's almost impossible to prove,” she said. “People who polish their nails [might] eventually color their hair. They use a cellphone and eat food with dye in it. At what point are we assigning blame to nail polish versus anything else?”

Still, you might want to err on the side of caution. Chemical-light formulas require few sacrifices. Sundays founder Amy Ling Lin admits she's limited in terms of the colors she can produce, but the brand's 43 shades cover a fairly broad range. Those seeking neon or glitter might gripe.

In another decade, women may not even have to make the choice. Nail lacquer veteran Dineh Mohajer started tinkering with non-toxic formulas with her first brand Hard Candy. By the time she launched her latest, Smith & Cult, in 2015, she could deliver an 8-free collection out of the gate. “We want to create formulas that are as safe for customers as possible,” said Ms. Mohajer. “That's kind of a given.” —Dana Wood



GARDEN VARIETY Toxin-free polishes are no longer rarities. From left: 100% Pure Nail Polish in 'Crush,' \$12, 100percentpure.com; Côte Nail Polish in 'No. 20,' \$18, coteshop.co; Sundays Nail Polish in 'No. 2,' \$18, dearsundays.com

OFF DUTY

Almost No One Aboard in Vietnam

While tourist boats swarm Ha Long Bay, a nearby national park offers the same indelible scenery without the scene



DAVID CHOW FOR THE WALL STREET JOURNAL MAP BY JASON LEE

BY HENRY WISMAYER

THE ROCKY islets resolved through the haze at the bow, and the captain slowed the boat so we could take it all in. Some of the islands stood densely packed like monks in conclave, others lone and admonitory like the fins of monstrous sea creatures. As I cruised through Vietnam's Bai Tu Long National Park inventing metaphors, it struck me: This was the first time I'd been relaxed in days.

Just a week earlier, I'd been on another boat, a few miles west in Ha Long Bay, but the atmosphere there had been very different.

Don't get me wrong: Ha Long Bay, the fabled archipelago of limestone pinnacles in the Gulf of Tonkin, off Vietnam's northeast coast, is a thing of wonder, often exalted as the country's most unmissable sight. The problem lay in the circus that all the wonder had attracted. One of a dozen tourists on a three-day boat tour, I'd cruised sulkily between the outcrops, corralled along prescribed routes in an armada of junk-boats (traditional Chinese sailboats) all following the same itinerary. There were gauche light-shows at night and kayak trips, launched from offshore pontoons, by day. There were visits to floating villages that felt like human zoos drifting on cubes of polyethylene. When we went swimming a French traveler turned to me and quipped: "Ever get the feeling you're swimming in a sewer," as we dodged the litter bobbing in the water.

Yes, three days in Ha Long Bay had validated that most cynical of traveler's maxims: The trouble with beautiful places is that everyone wants to see them. Call me mean-spirited, but I've always felt that natural grandeur and crowds are incompatible. Perhaps it's my urban upbringing, but for me a holiday doesn't merit the label un-



less you can escape the crush. And now, a few days later, I had, in another bay just a few miles north.

Bai Tu Long National Park, just 5 miles up-coast from Ha Long, used to be part of a single sprawling limestone plateau. The bedrock eroded over 20 million years to create hundreds of surreal, steep-sided islands jutting from the water. Yet while its celebrated World Heritage site neighbor has been overrun by 5 million tourists a year, Bai Tu Long remains a backwater, seldom visited and little-known.

When we stopped to swim, in water the color of jade, there were no other boats to dodge, no litter to sully the view.

This short trip, a two-day tour arranged through local operator Ethnic Travel with just eight other travelers, had begun like Ha Long excursions, with a minibus setting out from the motorcycle-heavy throng of Hanoi's Old Quarter. But this time, when the cavalcade of minibuses turned off for the chaos

of Ha Long City's tourist wharf, ours continued north. Soon, a whole new array of sea monster shadows rose precipitously on the horizon.

The tour group debarked at the Cai Rong harbor, where lamp-shade-hatted peddlers wove among the rusted fishing vessels that jammed the quay side. Our own boat turned out to be more salubrious, with rattan furniture on the deck, a cabin roof of plaited reeds and twin-booms wrapped in orange sails. A shoeless captain wished us a nice trip, then steered us out into Bai Tu Long Bay.

The vistas, I soon discovered, offered all of Ha Long's scenery without any of the attendant noise and congestion. According to the local creation myth, a celestial dragon, sent by the supreme Jade Emperor to protect Vietnam from sea invasion, plummeted to Earth in Ha Long, then took off again from Bai Tu Long. The outcrops are the eggs she left behind. Blessed with space and quiet, I found myself dreaming up my own legends. What had looked like monsters from the distance seemed more static, more melancholy up close, like the crumbling battlements of an ancient city abandoned to a flood.

Two days cruising in Bai Tu



SO LONG, THRONG Clockwise from top: Cruising Vietnam's Bai Tu Long Bay, a serene alternative to congested Ha Long Bay; an onboard lunch spread; one of Ethnic Travel's junk boat excursions in Bai Tu Long.

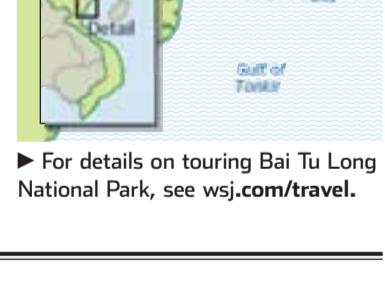
worm popular in Chinese medicine. "Most of us have never tasted it," he said, over green tea in the incense-filled lounge. "That would be like eating money."

I spent my last night in Ha Long with a pillow clamped against my ears to block out the noise of drunken carousing from other tourist junks parked alongside. Tonight we cooked our dinner—spring rolls and rice noodles—in Mr. Sao's tranquil courtyard, and slept like a dream.

It was late afternoon the next day when we made a last stop before returning to the mainland. Our captain weighed anchor in the lee of a group of nameless islands, summits thick with vegetation, bases scoured clean by eons of tide and typhoon waves.

The full privilege of visiting Bai

Tu Long struck me then. The frenetic Vietnam of 90 million people crammed onto a sliver of Asia felt a million miles away. I stepped over the rail, and dove in.



► For details on touring Bai Tu Long National Park, see wsj.com/travel.

BOOKSHELF

CARE TO STEP OUTSIDE?

Now that spring has legitimately arrived, three photo-driven books offer a fresh take on outdoor diversions



'Mobitecture: Architecture on the Move'

Phaidon, \$25

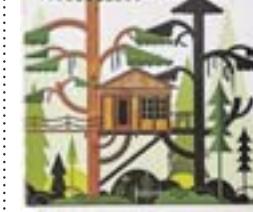
Tempted by the heady idea of life on the open road but find mobile homes hopelessly clichéd? Order this just-released book, by Rebecca Roke, *tout de suite*. Divided into eight chapters, including "Human," "One & Two Wheels," and "Sleds +," the book compiles hundreds of innovative movable shelters, from zany to ingenious, cooked up by architects, engineers and other visionaries. They've reimaged tents, camper vans and, yes, even sleds. Consider, for instance, the wearable tent-cloak, which unpacks from a pair of high-top shoes, transforming its wearer into a human frame for layers of bright pink and blue waterproof fabric. Perhaps you'd prefer the "Foldavan," a lightweight camper that attaches to a bicycle, or a bikeable sauna pod that features classic wooden benches with seating for six. There's nothing clichéd about a shvitz to go.



'Wildside: The Enchanted Life of Hunters and Gatherers'

Gestalten, \$60

A series of essays and arresting images, this rambling tome showcases people who spend their lives and earn their livelihoods in wild places around the world. Among them: Swedish moose huntress Eva Bro-mée, who thrives in the "endless silent wilderness" near the Norwegian border, and mushroom-forager Bruno Augsburger, whose compulsion to discover the next patch has led him from Zurich to Alaska to Iceland. Some of the "hunters and gatherers," such as perfumer Hall Newbegin and cabinetmaker Morten Høeg-Larsen, are more modern nomads than traditional mountain folk. But all are devoted naturalists and wanderers and make a compelling case for spending as much time al fresco as possible, as do the many photos of sweeping landscapes and otherworldly environs.



'Tree Houses: Fairy Tale Castles in the Air'

Taschen, \$70

If your favorite childhood memories are of hiding out in lofty playhouses conspiring with your friends (or you still aspire to do so), Philip Jodidio's photo-heavy coffee table book will turbocharge your longing for a space among the trees. The volume includes 50 tree houses around the world, both private aeries (including one belonging to the Doors' guitarist Robby Krieger) and those open to the public. Among the most unusual and inviting: the Teahouse Tetsu on the grounds of Japan's Kiyoharu Shirakaba Museum, where you can slurp your tea eye-level with the cherry blossoms, or the Yellow Tree House Restaurant, an orb nestled in a redwood in Warkworth, New Zealand. Pining for a sleepover in the pines? Consider the Mirrorcube Tree Hotel in Sweden, which slyly blends in with its woodland surroundings by reflecting them. How's that for a proper hideout? —Lane Florsheim

OFF DUTY

BREAKFAST 2.0

The Rest Is Gravy

The biscuit defines this dish, whether you opt for a topping of sausage or tomato

BY SARAH KARNASIEWICZ

COOKS ARGUE over many things, but about Southern-style buttermilk biscuits there is consensus. Flaky, light and tall as a top hat: These are the signs of an ideal specimen. The daughter of Connecticut Yankees, I'd always thought of superior biscuit-making mojo as akin to perfect pitch or noble blood—you're either born with it or not. Then I met Whitney Otawka and Ben Wheatley.

When it comes to light, flaky biscuits, overthinking, like overkneading, is best avoided.

For the last two years, Ms. Otawka and Mr. Wheatley have been the culinary director and executive chef, respectively, at the Greyfield Inn on Cumberland Island, Georgia. A gilded age "cottage" built by the Carnegie clan on an isolated 17-mile spit of land inhabited by more wild horses than humans, the white clapboard

structure is a Southern fantasy of porch swings and Spanish moss. Sunset cocktails are served from the gun room; a breakfast of biscuits and gravy arrives on fine china.

About those biscuits: I'd be content to eat instant ramen 51 weeks a year if it meant I could afford to spend the remainder at Greyfield, stuffing my maw. Thankfully, Ms. Otawka and Mr. Wheatley—who met working at Five & Ten in Athens, Georgia, and married in 2015—take hospitality seriously. After I pestered them during a recent visit, they generously agreed to tutor me in the biscuiteer's craft.

With his background in pastry, Mr. Wheatley takes the lead on biscuit prep at Greyfield. Inspiration for accompaniments is never far off. In cooler months, when shipments of locally raised pork arrive, a rib-sticking, creamy sausage gravy is the best way to stave off the chill. In the warmer months, the 1½-acre kitchen garden Ms. Otawka and her crew harvest provides plenty of fodder. A riff on the lesser-known but no-less-classic Southern tomato gravy is spiced with piquant harissa



RICH AND CREAMY...
A classic sausage gravy makes an indulgent accompaniment to golden, flaky buttermilk biscuits.



...OR PACKED WITH PRODUCE
Another Southern classic, tomato gravy, gets a spicy kick from harissa and a vitamin boost from kale.

Buttermilk Biscuits

TOTAL TIME: 25 minutes SERVES: 6

Preheat oven to 400 degrees. In a mixing bowl, sift together **2 cups all-purpose flour** and **1 tablespoon baking powder**. Mix in **½ tablespoon kosher salt**. Using the wide holes on a box grater, grate **½ cup unsalted butter, frozen**, into bowl. Use your fingers to massage butter into flour mixture until the size of small

pebbles. Add **¾ cup full-fat buttermilk**, stirring with fork, until dough comes together. //

Dust work surface with **flour**. Turn dough out onto work surface and knead just until it comes together. Gently pat dough into a 1-inch-thick rectangle. Fold dough in half to make a square, then gently pat into a rectangle again. Fold in half again. Pat dough into a 6-by-9-inch rectangle about 1 inch thick. Use a sharp knife or

bench scraper to cut dough into 6 smaller rectangles. Transfer to a baking sheet. Melt **1 tablespoon butter** and brush on tops of biscuits. Bake until puffed and golden, 16–18 minutes.

Classic Sausage Gravy

TOTAL TIME: 25 minutes SERVES: 6

In a large cast-iron skillet over medium heat, cook **1 pound pork breakfast sausage**, breaking up with a wooden spoon, until

crumbly and well-browned, about 12 minutes. //

Stir in **¼ cup all-purpose flour** and cook, stirring frequently, until pan drippings have absorbed flour, about 5 minutes. //

Gradually stir in **2½ cups half-and-half**. Let mixture come to a low simmer and cook, stirring frequently, until thick enough to coat back of spoon. Add a pinch each of **mustard powder**, **ground allspice** and **freshly ground black pepper**. To serve, spoon gravy over warm, split buttermilk biscuits.

Spicy Tomato Gravy and Greens

TOTAL TIME: 20 minutes SERVES: 6

Heat a cast-iron skillet over medium heat. Add **2 tablespoons butter** to pan. Once melted, add **½ white onion, finely diced**, and **1 cup shiitake mushrooms, finely diced**. Cook until vegetables are soft and caramelized, about 5 minutes. Stir in **3 cloves garlic**,

minced, 1 teaspoon chopped fresh thyme and **2 teaspoons Harissa powder** or paste, and cook 1 minute more. Add **4 tablespoons butter**.

Once melted, add **½ cup all-purpose flour** and cook, stirring constantly, until flour has absorbed all the butter and you have a light roux, 1 minute. Slowly add **3 cups whole milk** to pan, stirring constantly to break up any lumps. Bring gravy to a simmer. //

Stir in **1 (14-ounce) can fire-roasted tomatoes**,

drained, and 1 small bunch of curly kale, stemmed and chopped.

Cook until kale is tender, about 3 minutes. Season with **salt** and **freshly ground black pepper** to taste, then stir in **1 teaspoon fresh lemon juice**. Adjust seasoning as necessary. To serve, spoon over warm, split buttermilk biscuits.

—Adapted from Whitney Otawka and Ben Wheatley of Greyfield Inn, Cumberland Island, Georgia

A LITTLE SOMETHING SWEET

PUT THIS CAKE ON YOUR HONEY DO LIST

Moist, rich and not overly sweet, this simple Moroccan dessert gets its complex flavor straight from the beehive

IN MOROCCO, honey features in age-old remedies for all sorts of ailments, and in savory dishes as well as desserts. A lamb tagine may be ever so mildly sweetened with honey; fried dough will be dipped in it before being rolled in sesame seeds. But to my mind, there's no better vehicle for honey's complex sweetness than this almond-strewn Moroccan cake.

The recipe comes from Dee Rettali, pastry chef at the popular London café Fernandez & Wells, who married into a Moroccan family. One afternoon, heading south from Rabat, where they'd gone to buy honey, she and her in-laws needed a rest and a snack, so they stopped the car by the side of the road.

Ms. Rettali watched as her mother-in-law poured honey into a terracotta dish and set it over a small burner she'd brought with her. Having just come from the market, she also had almonds and ingredients for a simple batter, which she poured over the honey and nuts. After cooking, she flipped the cake out of the dish and sprinkled it with orange blossom water.

If you're a camper or happen to cart around a small



pantry in your backpack, by all means try this. But the recipe at right, adapted for the oven, yields the same golden crust and moist interior.

Just don't use the bland gooey stuff found in a bear-shape bottle in the supermarket. Buckwheat or chestnut

honey will lend a pungent depth, whereas a mellow, floral Tupelo honey will murmur Van Morrison. Citrus-blossom and wildflower honeys are always crowd-pleasers. If you like a cake that's not too sweet, try spicy Tasmanian leatherwood honey.

I recently used a Scottish heather honey infused with GlenDronach single-malt whisky—decidedly not a Moroccan approach, but it did make for an irresistibly boozy cake. However inauthentic, it was my kind of medicine.

—Aleksandra Crapanzano

Moroccan Honey Cake

This recipe makes enough batter for a large cake. If you don't have a 10-inch springform pan, don't use a smaller one. Instead, use two loaf pans or a 10- or 11-inch cast iron skillet, and slice the cake directly from the pans or skillet.

ACTIVE TIME: 20 minutes TOTAL TIME: 1½ hours SERVES: 10

4½ sticks butter	baking powder	1 teaspoon orange blossom water, optional
2½ cups sugar	1 cup almond flour	2 cups sliced almonds, toasted
8 eggs	1 teaspoon salt	
3½ cups all-purpose flour	½ cup buttermilk	
2 tablespoons	1 cup honey	

- Preheat oven 350 degrees. Butter a 10-inch springform pan.
- In a large mixing bowl, cream butter and sugar together until pale and light, about 7 minutes. Beat in eggs, one at a time, until thoroughly incorporated.
- In a second mixing bowl, combine flour, baking powder, almond flour and salt.
- Fold dry ingredients into butter mixture. Pour in buttermilk and gently mix until thoroughly incorporated.
- Pour batter into pan and bake until cake springs back when pressed, 45 minutes. Remove from oven. While cake is still warm and in pan, slowly drizzle with honey. (If honey is not pourable, gently heat it until it is liquid.) Allow honey to soak into cake. If using orange blossom water, sprinkle it on now. Then sprinkle on almonds and gently press them into place. Allow cake to cool in pan until ready to serve.
- To serve, remove sides of springform pan but leave cake on pan base, as transferring cake might cause almonds to slip off. This cake is best served at room temperature or still a little warm from baking.

—Adapted from "Rustic" by Jorge Fernandez and Rich Wells

OFF DUTY

ON WINE LETTIE TEAGUE



The Wine Bars That Sommeliers Belly Up To

IF YOUR JOB included selecting, tasting and serving some of the greatest wines in the world, where would you choose to drink wine on your day off? That was the question I posed to seven top wine directors in seven cities across the country. I hoped they'd name some under-the-radar destinations where the wines were well-chosen and well-priced and the staff was knowledgeable without being uptight. The wine directors did that and more, responding with a range of great places that included restaurants with deep cellars of old bottles as well as local hole-in-the-wall favorites. Here, their top picks:

Shelley Lindgren

Wine director and co-owner, A16 and SPQR, San Francisco, A16 Rockridge, Oakland



RECOMMENDS
High Treason,
443 Clement St.,
San Francisco

"It's a little off the beaten path, in a nondescript location," said Ms. Lindgren about her favorite drinking spot. But the wines on offer are anything but nondescript. High Treason's co-owner and wine director, Michael Ireland, an alumnus of Meadowood in Napa and Quince in San Francisco, has assembled a tight list of wine, sake and beer from small producers, and the cider and Sherry selections are large. On Sommelier Mondays, starting around 6:30 p.m. and continuing late into the night, "everyone in the wine business comes by and spins records," said Ms. Lindgren. The evenings came about organically thanks to San Francisco's tight community of sommeliers, who gravitated to the bar soon after it opened last year in the Inner Richmond district. The name refers to Mr. Ireland and his partners, who relish the "treason" of forswearing their fine-dining training to open this simple wine bar.

Maria Garcia

Wine director, République,
Los Angeles



RECOMMENDS
Bar Bandini,
2150 West Sunset
Blvd., Los Angeles

Ms. Garcia's regular wine haunt requires a 20-minute drive. "It's in Echo Park, so it's not super-close to me, but I'll make the trek," she said. The selection is very eclectic and changes fairly often; Ms. Garcia visits a couple of times a month, after work and on her day off. Bar Bandini's wine director and co-owner, Jason Piggott, insisted his list is not "purposely geeky." Instead, it's oriented to natu-



ALICE GAO (TOP); HIGH TREASON (BELOW); ILLUSTRATIONS BY MATTHEW COOK

HIT LISTS Manhattan's Compagnie des Vins Surnaturels. Below: High Treason in San Francisco.

ral wines that are typically lower in alcohol and easier to drink—"gluggable" in Mr. Piggott's terms—like Cabernet Franc from the Loire. Non-professionals and wine drinkers from outside the neighborhood should know that the bar has no phone number to call if they get lost. "What's the point?" said Mr. Piggott. "We wouldn't answer it anyway."

Raj Vaidya

Head sommelier, Restaurant Daniel and the Dinex Group, New York



RECOMMENDS
**Compagnie des
Vins Surnaturels**
249 Centre St.,
New York

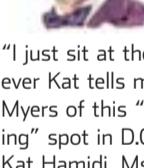
At this chic downtown outpost of a popular Paris wine bar, managing partner and wine director Caleb Ganzer offers plenty of "Scooby snacks for sommeliers," said Mr. Vaidya. By that he means wines that sommeliers like to drink—small-production Champagnes, Chablis, obscure wines from the Jura—and some very good food as well. "In Paris it's a natural-wine bar, but in New York Caleb has taken it to a whole different level: It's more like a restaurant," said Mr. Vaidya. He usually visits on Sundays and Monday nights, when, starting at 9:30, the bar features "mixtapes" of wines and music chosen by guest wine directors, winemakers, distributors and somme-



liers. A recent evening featuring wine-maker Larry Stone included music by Jimi Hendrix, John Coltrane and Pink Floyd, and wines from superstar producers such as Alain Voge, Simon Bize and Jean-Louis Chave.

Andy Myers

Wine director José Andrés Think Food Group, Washington, D.C.



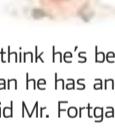
RECOMMENDS
Etto, 1541 14th St.
NW,
Washington, D.C.

"I just sit at the bar and drink whatever Kat tells me to drink," said Mr. Myers of this "delightfully unassuming" spot in D.C. and its wine director, Kat Hamidi. Ms. Hamidi's list has a

very particular point of view, with a near-exclusive focus on wines from Sicily and Beaujolais. The selection includes smatterings of Lambrusco and Prosecco, too, because Ms. Hamidi considers them an ideal match for pizza, and the bar features a wood-fired oven. Quite a few customers seek Ms. Hamidi's guidance, especially if they are unfamiliar with wines such as the 2011 Cottanera Nerello Mascalese "Fatagione," a red wine from Sicily described as "brawny with some chew" on the list. There's a second wine list as well, dubbed "the Holy Trinity" because it features wines from chef/owner Peter Pastan's three favorite Italian producers: Quintarelli, Conterno and Valentini.

Andy Fortgang

Wine director and owner, Le Pigeon, Portland, Ore.



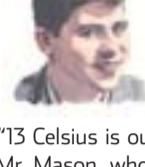
RECOMMENDS
Davenport, 2215
East Burnside St.,
Portland, Ore.

"I think he's been buying more wine than he has any reason to for years," said Mr. Fortgang about this restaurant's wine director and co-owner, Kurt Heilemann. The list is full of "great gems," including many attractive options in the \$50-\$100 range that would easily cost much more elsewhere. Over the last decade, Mr. Heilemann has accumulated an inventory of

well-aged, well-priced bottles, including quite a few prize Burgundies and great Champagnes from producers like Pierre Péters and Ulysse Collin. The 2012 Ulysse Collin Blanc de Noirs Les Maillons, for instance, costs around \$90 retail but a mere \$125 on this list—a markup well under the industry standard.

Jack Mason

Master sommelier, Pappas Bros. Steakhouse, Houston

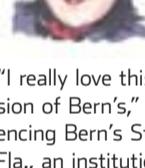


RECOMMENDS
13 Celsius, 3000
Caroline St., Hous-
ton

"13 Celsius is our usual hangout," said Mr. Mason, who drinks and trades tips there with colleagues from the wine world. The place is a favorite in part because of the people but also because "the prices are very affordable," said Mr. Mason. He most often orders a bottle of Champagne and "a little bit of food." (The bar menu features cheeses, salads and panini.) Mr. Mason's most recent order was a bottle of Marc Hebrart Brut Rosé Champagne, at a very reasonable \$82. As for the wine bar's appeal to professionals, proprietor Michael Sammons noted that there was a "straight-up nerd factor" about some of the wines, though plenty of "regular" folk show up as well, especially for 13 Celsius's once-a-month wine classes.

Belinda Chang

Sommelier at large, former managing partner/wine director, Maple & Ash, Chicago



RECOMMENDS
The Village, 71
West Monroe St.,
Chicago

"I really love this place. It's our version of Bern's," said Ms. Chang, referencing Bern's Steakhouse in Tampa, Fla., an institution known for its well-priced older vintages. The list at the Village, an Italian restaurant celebrating its 90th anniversary this year, also runs quite large and features wines purchased decades ago and only gently marked up. "I'm not sure the sommelier, Jared [Gelband], realizes how special the cellar is," said Ms. Chang. I put this to Mr. Gelband, and the 35-year-old wine director assured me he's well aware of how lucky he is. The Village is one of three Italian Village Restaurants at the same address, each with its own bar, and its wine list currently has about 1,100 bottles, ranging from a pleasant, lesser-known Umbrian Grechetto for \$35 to a comprehensive listing of all the great Super Tuscans, including Masseto, Solaia and Sassicaia.

► Email Lettie at wine@wsj.com.

SLOW FOOD FAST SATISFYING AND SEASONAL FOOD IN ABOUT 30 MINUTES

Smoky Chicken Enchiladas



The Chef
Spike Gjerde

His Restaurants
Woodberry Kitchen,
Parts & Labor,
Bird in Hand,
Grand Cru and
Artifact Coffee, all
in Baltimore; A
Rake's Progress,
soon to open in
Washington, D.C.

**What He's
Known For**
Obsessively
researching and
championing Mid-
Atlantic farmers
and foodways.
Unpretentious
cooking rooted in
superb ingredients.

LIKE MANY of chef Spike Gjerde's dishes, this one began with an ingredient he was excited about. "There was this amazing guy harvesting open-pollinated corn with a team of horses," he said. "It was like, 'OK, what can we do with this?'"

He milled the corn at his Baltimore restaurant Woodberry Kitchen and made fresh tortillas. With a stash of chilies and tomatoes on hand, put up in peak season, enchiladas seemed the logical next step.

In this recipe, adapted for home cooks, he calls for layering corn tortillas, lasagna-style, with a chili-tomato sauce, shredded chicken and cheddar. Bake until the cheesy topping bubbles and browns in spots, and garnish with cilantro and scallions.

Mr. Gjerde does not demand that you mill any corn, but he recommends visiting a Mexican market to get the best, freshest tortillas. In a recipe this simple, every ingredient counts. —Kitty Greenwald

TOTAL TIME 35 minutes SERVES 4

2 dried ancho chilies,
stems removed
1/2 cup warm water
1 yellow onion, cut into
wedges
6 cloves garlic
Kosher salt

1 (28-ounce) can crushed
tomatoes
1 pinch of spicy paprika
1 teaspoon dried oregano
14 corn tortillas
1 1/2 pounds shredded
rotisserie, poached or

roast chicken
9 ounces sharp white
cheddar, grated
1 generous handful cilantro
leaves
3 scallions, thinly sliced

1. Place dried chilies in a small bowl and cover with warm water. Cover bowl with a plate and let chilies rehydrate until they become pliable, about 5 minutes.

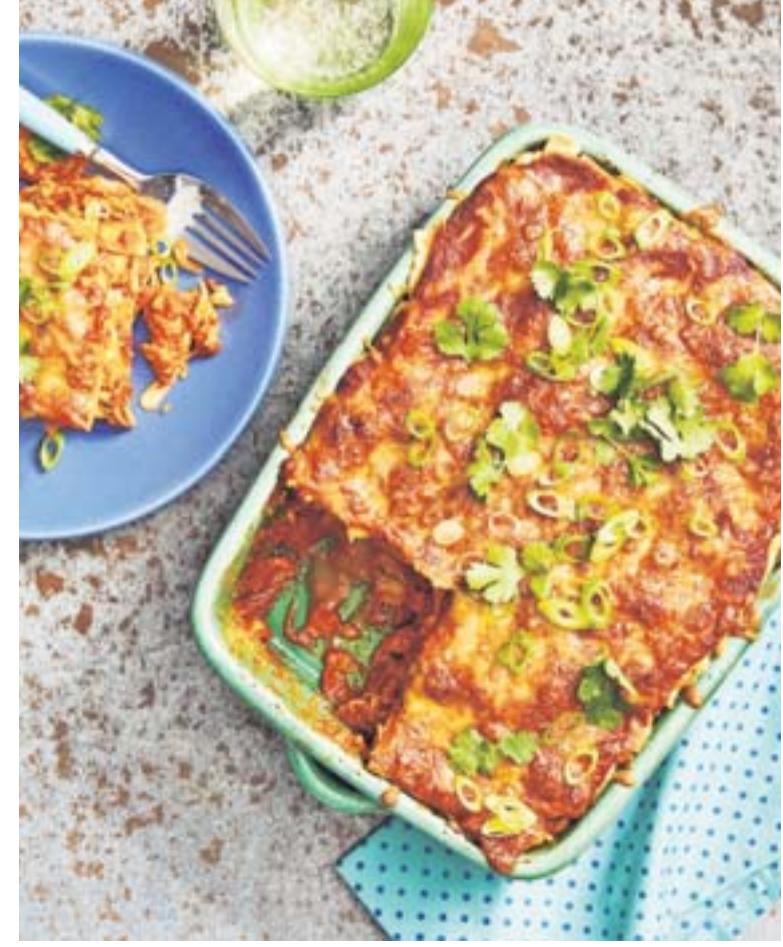
2. Set broiler to high. Season onions and garlic with a pinch of salt. Spread vegetables across a baking sheet. Broil until well charred in spots, 2-3 minutes. Remove from broiler and set aside. Set oven temperature to 425 degrees.

3. Place tomatoes, paprika, oregano, charred onions and garlic, and rehydrated chilies along with their soaking liquid in a medium saucepan over medium heat. Bring liquid to a simmer and cook until onions and chilies soften, about 7 minutes. Off heat, use a handheld blender or food processor to purée

to a thick, smooth, uniform sauce, taking care with hot liquid. Set sauce back over low heat and gently simmer to keep warm.

4. Coat bottom of a 9-by-9-inch baking dish with a thin layer of sauce. Arrange a single layer of tortillas over sauce, trimming edges to fit. Scatter a loose layer of chicken over tortillas and top with a loose layer of grated cheese. Continue layering sauce, tortillas, chicken and cheese until dish is nearly full. End with a layer of tortillas, a layer of sauce and a final layer of cheese.

5. Bake enchiladas on top rack of oven until cheese topping bubbles and browns in spots, 15-20 minutes. Garnish with cilantro and scallions and serve immediately.



FIRE AWAY Charring the onions and garlic before blending them into the sauce gives these enchiladas a delectable smoky flavor.

OFF DUTY

GARDEN TOUR

Tiers of Happiness

A level-headed designer builds up to maximize the tiny backyard of a Dublin row house—and counters dreary Irish weather with defiant cheer

BY DEBRA JO IMMERGUT

IN HIS MEMOIR "Angela's Ashes," Frank McCourt noted that, while his family's hometown in Ireland gained a reputation for piety, it was actually the rain that drove the townspeople into the church, "our only dry place." Dublin designer Roisin Lafferty also knows the challenges of Ireland's "unfortunate weather," as she calls it. But the inhospitable climate hasn't discouraged her clients from wanting in on the current trend toward seamless indoor-outdoor living. She tackled this conflict when revamping a client's 1817 Georgian row house in Dublin's Ranelagh neighborhood. Her mission: transform its tiny, hemmed-in back garden into a highly functional space that would beckon even on the bleakest of days.

Ms. Lafferty developed some smart strategies for maximizing utility and beauty in the 840-square-foot plot, from carving the space into distinct multilevel zones to cleverly deploying pattern and color (not to mention mirrors). They should prove helpful for any homeowner who craves an al fresco experience but wrestles with a lack of square footage, privacy or fine-weather days. Whether you are sunning yourself amid its virtuosic tile work or gazing at its tiers through the gloom, said Ms. Lafferty, "that garden can't help but lighten your mood."

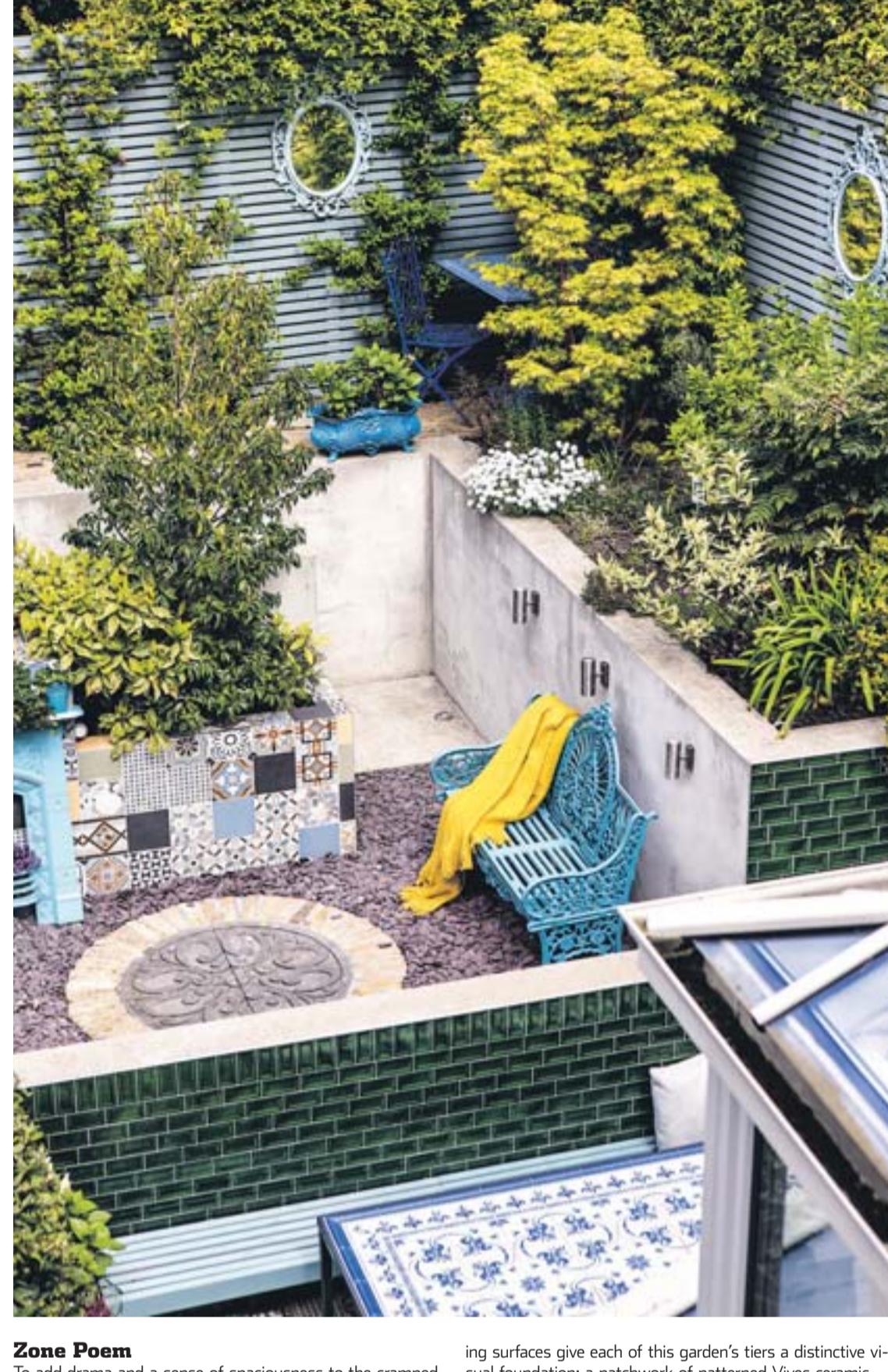
One Mantel, Hold the Fire

Ms. Lafferty referenced many elements of the home's interior design (also her handiwork) in the garden, unifying inside and out aesthetically and making the combined spaces appear larger. "The back of the house is all glass," she said, "so we designed the garden very much as an extension of the house, as an outdoor room." Since the home boasts multiple mantelpieces, the designer wanted one for the second-tier sitting nook at the garden's heart as well. She sourced a cast-iron Victorian piece from Dublin's Macs Salvage Yard, then had it stripped and coated with metal-friendly aqua Hammerite paint that relates to a blue-heavy interior palette. She propped the piece against a retaining wall tiled with Vives ceramic squares, another design element borrowed from indoors. "We wanted you to feel like you're in a living room, very much cocooned," noted the designer.



Bold in the Cold

A garden that exudes visual energy even in lousy weather demands bright finishes and plantings with personality, said Ms. Lafferty. Hewing to a blue-and-green scheme, the designer cloaked the dining area in emerald Equipe Evolution InMetro subway tile, whose glistening concavities bounce light into the oft-shady spot. A custom table inlaid with azure Mainzu ceramic tiles evokes sunny Spanish afternoons. Contrasting plants, such as the white-leaved Cornus Alba and a purplish Aubrieta, crown the dining nook. Climbing the garden's rear wall, Pyracantha "Orange Glow" and "Fire Red" provide evergreen foliage and hot-hued berries. Plastic-framed IKEA mirrors add sparkle and depth, reading almost as windows, for "an Alice in Wonderland feel," the designer said.



Zone Poem

To add drama and a sense of spaciousness to the cramped yard of a Dublin row house, local interiors architect Roisin Lafferty borrowed a strategy from her work designing restaurants. Eateries, often subdivided into zones (bar area, booth seating), offer "a physical journey as you walk through." Here, a lower-level dining area and two tiered sitting areas were created partly via excavation, but any small space can be easily carved into zones, noted Ms. Lafferty, by using different materials to define each area. The floor-

ing surfaces give each of this garden's tiers a distinctive visual foundation: a patchwork of patterned Vives ceramic tile on the dining level, plum-colored gravel and slate for the middle tier, and mellow salvaged yellow brick, manufactured a century ago in the city's Dolphin Barn factory, for the top level. For a clean background to this complex mix, Ms. Lafferty had retaining walls sculpted from extra-white Ecocem cement and boundary walls clad in treated cedar slats painted an understated blue-green, Cuprinol's Seagrass. The horizontal strips handily support vines.



A Separate Peace

Angled across a corner at the space's highest level sits what Ms. Lafferty called "a surprise element": a vintage limestone fountain discovered at a local architectural salvage. The hand-carved font can't be seen from much of the garden, but it can be heard, and the cheerily murmuring water helps create a sense of sanctuary in a space that's cheek-by-jowl with neighboring properties. The landscaping on the upper tiers further screens sound, provides a bit of airy coverage and blurs the garden's rectilinear lines. Delicate trees that fit well in diminutive spaces include crimson-hued Acer Palmatum "Bloodgood" and narrow-leaved Prunus Angustifolia. A climbing rose, Rosa Banksiae "Alba," veils the boundary walls with soft foliage and snowy summer blooms.

FRESH PICKS



THE FABRICS Cloth Encounters

In May, F. Schumacher & Co. will relaunch—and expand—Frank Lloyd Wright's first (and only) textile collection. The line-up: six of the architect's original 1955 prints, some updated with a more contemporary color palette, plus six never-released patterns culled from his archival sketches, which the company's creative director, Dara Caponigro, said still feel "new and fresh. Good design is good design." The textiles are suitable for upholstery as well as window treatments. From about \$200 per yard, D & D Bldg., 212-759-5408 x 204

ALL'S WRIGHT WITH THE WORLD

Frank Lloyd Wright would have turned 150 this June. Three ways to join the party

THE EVENT

Tour de Force

As part of Chicago's annual Wright Plus Housewalk tour (May 20), architecture buffs get special access to four privately owned Wright-designed homes in Oak Park (including the Arthur B. Heurtley house, below). Full-fledged enthusiasts might want to opt for the Ultimate Plus Weekend Package (May 18-21), which includes tickets to an intimate 7-course dinner served inside a Wright home. \$100 for housewalk and \$2,650 for weekend pkg., flwright.org



THE EXHIBIT

Held in High Regard

To mark the anniversary, New York's Museum of Modern Art has amassed nearly 400 works for a Wright retrospective, beginning June 12. Highlights include: a model of an East Village apartment that never came to fruition (right), restored by conservators over 450 hours; renderings of the architect's Prairie-style homes; and dining chairs from Tokyo's now-demolished Imperial Hotel.

moma.org
—Kelly Michèle Guerotto



OFF DUTY

RUMBLE SEAT DAN NEIL



BMW C 650 GT: Too Powerful to Call a 'Scooter'

IT'S FAIR TO OBSERVE that motorcycle enthusiasts aren't very smart. If we were, we wouldn't ride motorcycles, would we?

This year, thousands of Americans will diligently research their first bike purchase, read all the road tests, compare all the features, then wobble away on a machine that will make them miserable. Too big, small, fast, heavy, too...motorcycle-y.

I have ridden the bike these soon-to-be unsatisfied consumers really want, whether they know it or not. It is the friendliest, most practical and cooperative two-wheeler that's ever showed up at my house: automatic transmission; automatic parking brake; heated seats and grips; power-adjustable windscreens; Bluetooth; lockable storage for two helmets and yet more stowage concealed in the bodywork.

Yet for all this bike's virtues as a life appliance, its design is strikingly uncompromised, virile and dramatic, a crystal-nosed bullet trailing shock waves in two-tone composite bodywork. The pride of ownership factor would be insane.

But thousands of undersatisfied bike owners will never know, because the BMW C 650 GT isn't a motorcycle at all but a scooter. An uncommonly fast, powerful, heavy and costly scooter, but a scooter nonetheless—which, in America, makes



HE SCOUTS, HE SCORES
The 2017 BMW C 650 GT, left, and C 650 Sport have the engineering and construction of a full-fledged motorcycle.

this roundly superior transportation device culturally inferior. I would like to change that.

Yes? I see a hand in back? As per Corradino D'Ascanio's original conception for the Vespa, a scooter's defining features include a step-through frame, which makes mounting and dismounting the machine easy (even if you're Audrey Hepburn in a tight skirt); a rear-mounted engine concealed in bodywork; and full front fairing with integrated floorboards shielding feet and legs from wind and road spray.

In Postwar Europe, scooter

ers emerged as cheap, basic transportation, a role they still play around the world. But the times and mission have changed. BMW Motorrad invokes the challenges of "urban mobility." The target audience is young, upscale European commuters trying to eel their way into the business centers of Paris, London and Rome while keeping their trousers clean.

To the bones of the scooter phenotype, BMW added layers of Bavarian muscle and sinew, starting with a strong, selfless 647-cc parallel-twin cylinder engine, producing 60 hp at a fervid 7,500 rpm and a top speed over 100 mph, depending on the headwind. Ease off the right-hand twist-throttle a bit and the GT will find its happy place, cruising at 80 mph at around 5,000 rpm, sounding a rich, breathy thrum, the diamond-bladed lawn mower of the gods.

It's here, on the interstate, where you will find the GT's first surprise: superior wind protection and absence of buffeting at speed. Even on BMW's big tourer, the K 1600 GT, I have to hunch a bit to keep my helmet below the slipstream rising off the windshield. The C 650 GT's oversize, height-adjustable screen directs the lashing wind overhead. The scooter's enveloping fairing ahead and full-length floorboards below also help create a remarkable pocket of calm at the rider's

position. I do believe I could light dad's pipe in there.

BMW calls the GT—and its sister bike, the C 650 Sport—a "maxi-scooter" but at this point the nomenclature fails us, especially the naff and unserious "scooter." For all its maximal-ness, the C 650 GT presents as neither scooter nor motorcycle but a perfecting gene-splice of both, a moment of branching evolution on our way to motorcycle 2.0.

One thing it's not is budget-sensitive transportation. You could buy two fine commuter motorcycles for the price of the GT. But it is a fully vested BMW, a match in materiality, construction and design to the mainline bikes: a stiffer-than-hell tubular-steel, trellis-style frame; single-sided aluminum swing arm; beefy upside-down telescopic front forks held with twin yokes and single rear coil-over strut, yielding 4.5 inches of suspension travel front and rear; dual floating front brakes and a single disc rear; wide and sporty 17-inch tires.

Nor can it be called small—with an overall length of 87.3 inches, the GT measures within 4.3 inches of the dreadnaught K 1600 GT—or light (it's 575 pounds). And if you're thinking of lane-splitting in Los Angeles, know the GT is also broad of beam, just 3.5 narrower than the K-ship. Is it fast? Better to say it's fast enough, plus 10%. For maximum ease of use, the GT combines an automatic trans-

mission—a belt-style CVT—and a centrifugal clutch. This arrangement, common to scooters, is essential to their step-in, twist-and-go ease.

Departing from a stop, the first quarter-turn of throttle is answered with a fairly soft, elastic response. The rising revs and pace soon marry, the torque engages and the bike surges forward nicely. Note: Tandem riders especially will appreciate the seamless acceleration compared to the snatching jerks of a conventional gearbox.

No, alas, the GT will not carry a wheelie off the line—at least, I don't think. But

The design is uncompromised, virile and dramatic.

with 0-60 mph acceleration under 7 seconds, it moves out quite smartly. No apologies to make there.

To my surprise, our spiffy tester also displayed more-than-respectable handling chops—agile at low speed, overachieving in corners, feeling settled and serene at both ends, thanks to its low center of gravity and sport-tuned suspension. It leans so effortlessly it could actually use a bit more side clearance. ABS and stability control are standard.

But mainly, transcendently,

the GT is more comfortable than a motorcycle. Any motorcycle. It's a matter of posture: Aboard the GT, the rider sits on the soft, molded-leather saddle with feet hip-width apart, knees bent at 90 degrees or less (the scooter has forward-position floorboards), elbows close to the body, hands low. Even more than the heated grips and seat, the GT's ergonomic comfort is what qualifies it as a long-distance machine.

Here afoot is a provocative notion: Motorcycles are uncomfortable as a matter of inherited and obsolete design (inherited from horse riding and cycling, by the way). In prototypical form, a motorcycle requires the operator to hike a leg over the central mass, straddle the engine and gas tank, legs spread, arms extended to the handlebars, knees kinked, with feet balanced on narrow pegs.

This is a posture, a pleasure, one can bear for only so long. In the first hour, sure, that Ducati Panigale between your thighs is going to feel amazing. By hour three it's going to feel like you are giving birth to it.

The BMW poses a simple, Why? Here is a machine that looks amazing, handles like a sport bike, and sits like the most coveted chair in the conference room. Maybe it isn't a motorcycle, but it isn't a scooter either.

Whatever it is, I feel smarter just riding it.

A FETCHING NEW SPIN ON SATCHELS

Whether you're peddling to the farmers' market or an after-work affair, these chic bags will sit just as stylishly on your bike as they will on your shoulder



THE CLASSICIST
Hill & Ellis Sherlock Bag

This oxblood leather option hides its universal pannier clips inside a nondescript leather enclosure that won't betray the bag's ability to hop on a bike. A clever addition: Two strips, trimmed with chrome, clip onto the side of the bag and can be positioned to display either a reflective material (for safety) or matching leather (for discretion). Waterproof, reflective rain-cover included.

\$250, hillandellis.com



THE SYBARITE
Hermès Saddle Bag

Hermès, the luxury Parisian purveyor of all things luxury, fashioned this bike bag from the brand's signature Clemence bull calfskin. The bag offers two belted straps that can conveniently be adjusted to fit your bike or your arm. An included bike pump slips neatly into a loop on the bag's exterior. Also available: a small smartphone-size tool kit (\$950), complete with a leather-wrapped wrench.

\$4,275, hermes.com



THE TRANSFORMER
Alfie Douglas Rawstock Utility Case

Handcrafted from two pieces of vegetable tanned leather, this sturdy case, which will be available this summer, is minimal yet versatile. The thick metal loops on the bag's back as well as its removable straps allow it to easily transform from a pannier into a sleek briefcase, shoulder bag or backpack. Choose from navy, black and natural leather.

\$590, alfiedouglas.com



THE EASY RIDER
Brooks B3 Bag

Though best known for premium cycling saddles, Brooks England has also been making bike bags since the 19th century. A collaboration with London's Royal College of Art, this modern take is produced using the same machinery and techniques as the brand's bike saddles. Classic button-stud closure straps help secure the bag to your bike's main frame or rear rack. \$285, brooksengland.com

—Lauren Ingram

White Bisou Bike, \$695, and Matte Gold Ace Hotel Limited Bike, \$875, tokyobike.com

MANSION

HOMES | MARKETS | PEOPLE | UPKEEP | VALUES | NEIGHBORHOODS | REDOS | SALES | FIXTURES | BROKERS

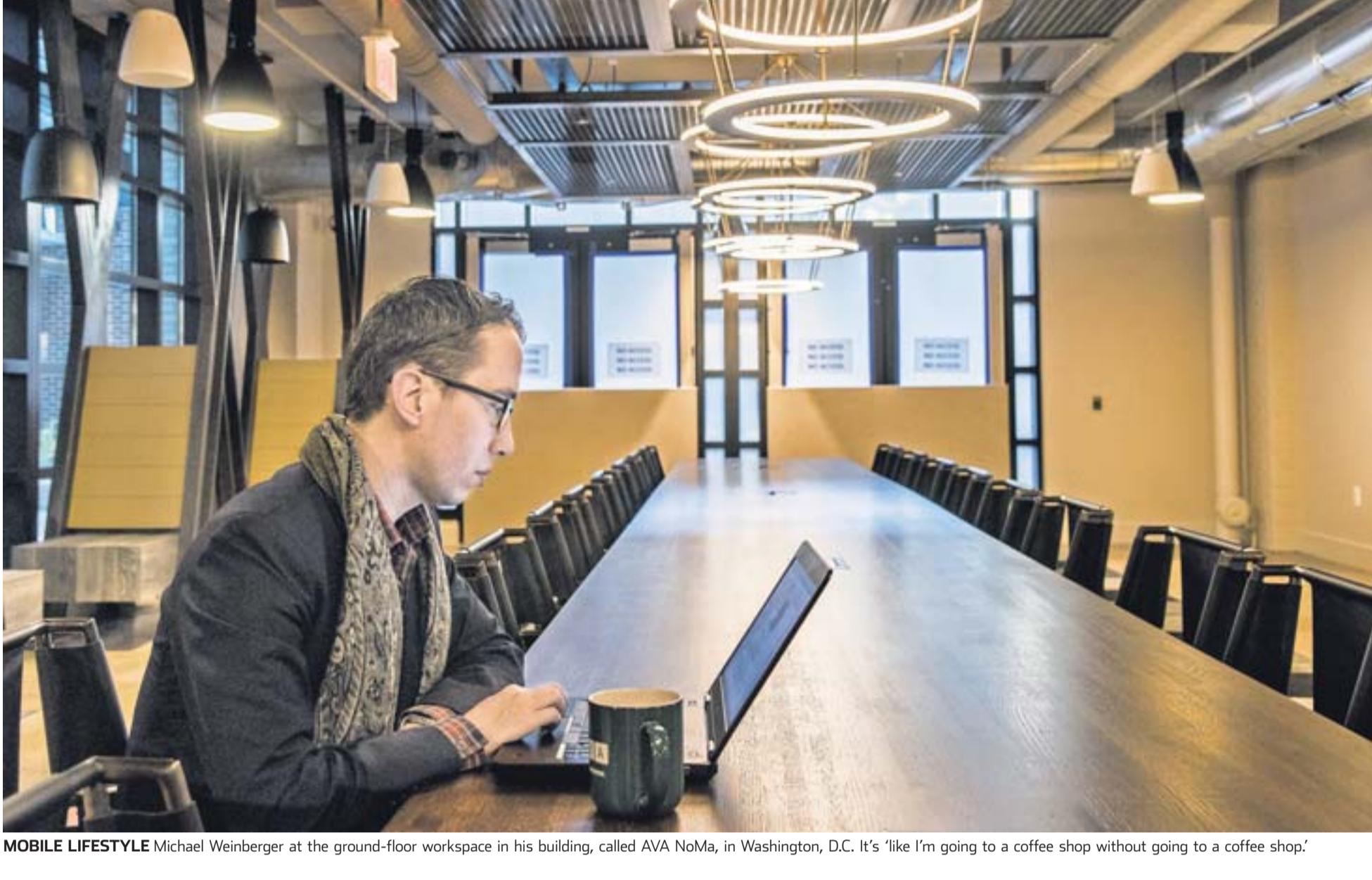
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THE WALL STREET JOURNAL.

'Wherever technology reaches its fulfillment, it transcends into architecture.'

—Ludwig Mies van der Rohe

Friday - Monday, April 28 - May 1, 2017 | W9



MOBILE LIFESTYLE Michael Weinberger at the ground-floor workspace in his building, called AVA NoMa, in Washington, D.C. It's 'like I'm going to a coffee shop without going to a coffee shop.'

Kiss the Commute Goodbye

Residential developers welcome workers with communal office spaces equipped with Wi-Fi, 3-D printers and private spots for Skype calls; a coffee-shop vibe at home.



AT THE OFFICE The 40th-floor workspace at 1001 South State, a Chicago building where Joshua Bryan, far right, rents an apartment.

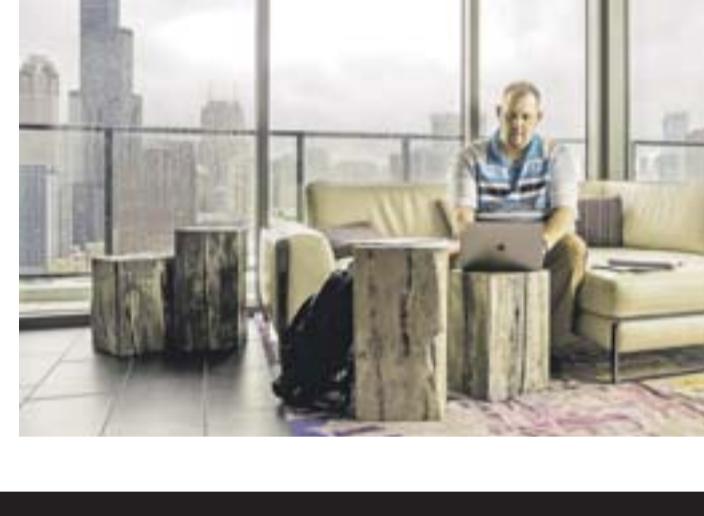
BY CECILIE ROHWEDDER

WHEN JOSHUA BRYAN leaves his apartment to go to work, he travels up three stories, to the 40th floor of his building in Chicago's South Loop neighborhood. There, he settles into a workspace with television screens, a kitchenette and sweeping views of Lake Michigan.

For meetings, Mr. Bryan books a first-floor conference room with teleconference equipment and interactive white boards for presentations. The building also has a fifth-floor "Makerspace," a shared office area with personal computers, a 3-D laser printer and a computerized milling machine for cutting and shaping metal or wood.

"The communal workspace is pretty much the reason I chose this building," says Mr. Bryan,

Please turn to page W10



LIFE INSIDE A TIME CAPSULE

Some buyers seek out homes that are seemingly frozen in time—built and maintained in their original style, sometimes for decades. Celebrating Formica countertops, shag carpeting, popcorn ceilings and pink bathroom tile.



BY LEIGH KAMPING-CARDER

TED THOMAS'S childhood home in Los Angeles has barely changed since his parents built it in the late 1940s. There is the same oak paneling—fashionable at the time—on the walls. The bedrooms have the same Formica-top built-ins. The same postwar sofa, chairs and Herman Miller coffee table sit in the living room. The animation desk of his late father, Frank, a Walt Disney animator, sits untouched. Mr. Thomas's mother, Jeanette, died in 2012.

Now, Mr. Thomas, a 65-year-old producer, writer and



FROZEN In Los Angeles, the home of Ted Thomas, above left with wife Kuniko Okubo, has barely changed since the late 1940s.

director, is listing his 3,500-square-foot, four-bedroom house for \$3.228 million, betting that the home of his youth will appeal to buyers.

He could be right. Some buyers go out of their way to find time-capsule homes—in-tact single-owner properties, many of which boast de-

cades-old décor. Rather than being refurbished or updated, like many Midcentury Modern houses, or left to fall into disrepair, like many

fixer-uppers, these homes are meticulously maintained in their original style. Buyers say that forgoing contempo-

Please turn to page W14

HOUSE OF THE DAY
wsj.com/houseoftheday



United Kingdom
A restored English mansion in Hampshire



United States
A contemporary home in Greenwich, Conn.



United States
A California Victorian with a waterfall

MANSION

BALANCE SHEET

A Win for Minimalism

In a \$700,000 condo renovation, his desire for austere design triumphs over her fondness for clutter



KEY COSTS

Demolition

\$6,000

Structural improvements

\$15,000

Millwork and specialty framing

\$245,500

Doors, windows

\$52,000

Kitchen

\$95,000

Louvered divider and bench

\$18,000

Lighting

\$32,000

BY NANCY KEATES

PHILIP HALL GREW UP in a minimalist, modern home dotted with Danish furniture. His wife, Cristina Miller, spent her childhood in a house stuffed with antiques and knickknacks, including a giant ceramic elephant collected by her parents on a trip to India.

Balancing these divergent influences was the architectural challenge behind the \$700,000, 14-month renovation of their condo in Manhattan's NoMad neighborhood.

"I lean towards clutter. But Philip has helped me see the beauty in minimalism," says Ms. Miller.

Mr. Hall, 39, and Ms. Miller, 38, bought the 1,979-square-foot space for \$2.3 million in 2014 in the Pell Building, a former warehouse built in 1909. The couple—he's a managing partner of a private-equity firm and she's the senior vice president for dealer relations at online retailer 1stdibs—were immediately drawn to the 11-foot high ceilings and the 24 windows on all four sides of the unit. A low-lying electrical substation across the street is protected from future development, preserving their view of the Empire State Building.

But the unit's decrepitude posed hurdles, including a toilet in the middle of a main room, and a small, cluttered room ostensibly used as a darkroom but that looked to them like a meth lab.

The building's developer, Fiam Building Associates, offered to renovate the space for an estimated \$500,000, but the couple wanted to create something more distinctive. They turned to architect Aaron Schiller of New York-based Schiller Projects. "It was a disaster structurally," he says, "but it presented an incredible opportunity."

Their project started with four months of prep work that involved tearing out rotted wood, leveling the floors, expanding the vertical shafts to accommodate the plumbing, and exposing the brick walls. To maximize light, they took down many of the interior walls and added a window in the master bedroom in back.

The goal was to design separate living areas (living room, dining room, kitchen and family room) in one open space to accommodate a family.

In the entryway, the elevator opens up on a wood-louvered partition with a



built-in bench designed by Mr. Schiller. Behind the partition is the kitchen, which the couple wanted to be the centerpiece of the home.

Much of the kitchen cabinetry came in by crane through the windows because the elevators were too small.

Mr. Hall, a co-founder of Spotlight Equity Partners, which invests in U.S.-based enterprise-software firms, was born in Denmark, ergo his affinity for Danish design.

His parents, both professors, moved to Israel and then Newark, Del., where they taught at the University of Delaware and lived in the sparsely decorated modern home that so influenced their son.

For a self-described hoarder like Ms. Miller, whose parents, both economists, live in Washington, D.C., managing relations with the some 3,000 dealers who supply products for 1stdibs presents constant temptations. She regularly visits showrooms around the world filled with choice specimens of modern and antique furniture and art.

"I'd have 10 times more

stuff in here" if she could, Ms. Miller says of her home.

It might seem at first glance that Mr. Hall's preference for sleekness and minimalism won out over Ms. Miller's love of stuff. The apartment is overwhelmingly white, with bleached ash floors and tightly curated furniture, either built by Mr. Schiller or carefully selected from 1stdibs dealers by him and Ms. Miller.

But, much to Ms. Miller's relief, it didn't go as far as it might have: Mr. Hall had asked Mr. Schiller to design what he half-jokingly describes as a glass enclosed, Apple store-like home office. That idea was nixed four months into the design process when the couple found out they'd be having a second child.

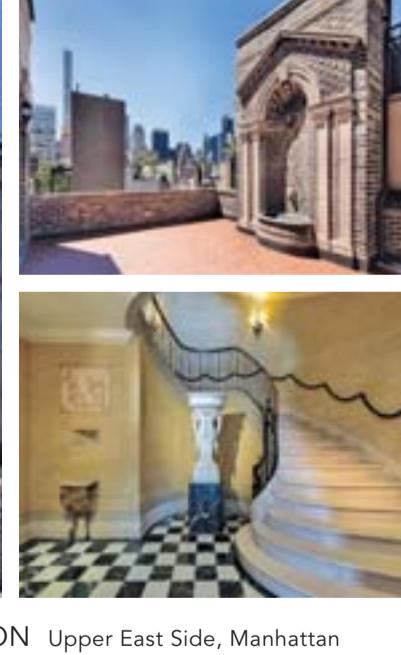
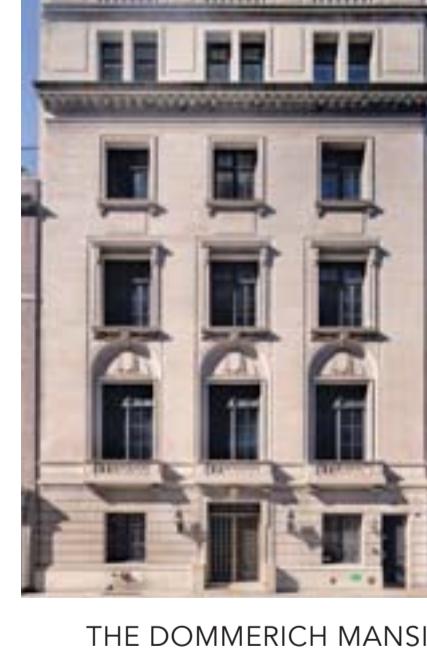
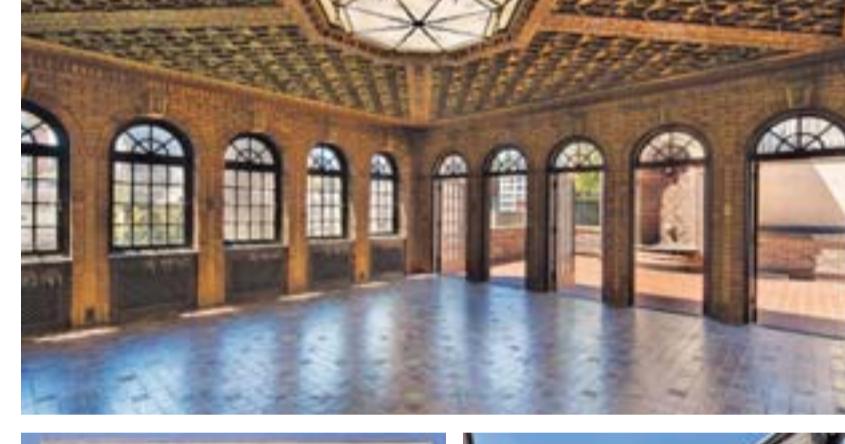
For now, the giant ceramic elephant Ms. Miller grew up with remains in her parents' house, along with other sentimental objects like her wedding dress. One day these items will move to the New York home—something she's certain her husband suspects. "He knows I want that elephant," she says.

WIDE-OPEN SPACES Clockwise from above, the open-plan living area; the kitchen sink faces a vertical garden; homeowners Philip Hall and Cristina Miller with their children, Celine and Sebastian; and the cooktop and vent hood.



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MANSION

HOUSE CALL | CAL RIPKEN JR.

The 'Iron Man' Shows His Softer Side

The Hall of Fame ballplayer on his early expertise in precision landscaping, the merits of an open kitchen and the strain of house-hunting

Lately I've been thinking about moving, so I've been spending a lot of time looking at houses. When I played shortstop and third base all those years, I never had trouble with my knees. Now, climbing some of those stairs while house-hunting can go right to my kneecaps.

To stay in shape, I recently bought a mountain bike. I ride 15 to 20 miles a day on the open road. I love the freedom to go wherever I want and explore. I love that my helmet and sunglasses give me anonymity, which is rare for me in the area near my home.

I grew up in Aberdeen, Md., in a white split-level house with black shutters. Before the area was developed for houses, it had been farmland, so there were still plenty of fields around us. We had lots of space to play baseball.

My father, Cal Sr., was a professional baseball player who was employed by the Baltimore Orioles his entire career. From 1957 to 1964, he played in their minor-league system. Then he was a manager, reaching the majors in 1976 when he coached for the Orioles. In 1985, he became the team's manager.

When I was growing up in the 1960s and early '70s, baseball took my dad away from us a lot. In the summer, when my brother Fred and older sister, Ellen, and I were out of school, we joined him with my mom and our little brother Billy.

During the season, my dad was at the ballpark every single night, so we'd have our big meal in the middle of the day. When I was little, he'd ask me to carry his briefcase to the car or let me struggle with his suitcase.

Then he'd say to me, "Take care of the family while I'm gone." I knew early that it was important to do all the things he asked and to be responsible.

I remember the moment I wanted to be a ballplayer. It was in 1972, when I was 11. My dad was managing the Asheville Orioles in North Carolina, a Double-A minor-league team. At that age, I was old enough to go to the ballpark with him. I was a batboy.

At some point, the umpire behind home plate asked for five new balls, so I ran out with two in one hand and three in the other. When I returned to the dugout bench and sat down, I looked out on the field and realized that playing baseball was what I wanted to do.

At home, my dad was a drill sergeant with compassion. He was a doer, so I had to be doing things all the time. I had specific chores or I had to help him around the house. If they were new things, he'd teach me how to do them.

He had particular ways he wanted things done. For example,



our property was hilly, but the lawn's lines when mowing still had to be straight. He stressed that keeping the lawn looking crisp was important.

He also wanted the driveway edged. We didn't have an electric edger, so I had to use a string and sharpened hatchet to chop back the grass and create a razor-sharp line along the driveway.

Dad was a teacher in the minor leagues and a teacher at home. After I'd finish a task, he'd come and survey the work. If he wasn't pleased, he'd explain what he wanted done. If he was happy, he'd say, "Look how good that looks."

I soon started to take personal pride in everything I did. Which meant the results often exceeded the job I did previously. Dad always stressed the pursuit of perfection, a lesson I never forgot.

My mother, Violet, was the disciplinarian. She had four kids who were close in age, and she was often alone with us. As a result, she had to keep our minds busy. She did things like put us in bowling leagues or taught us to play cards.

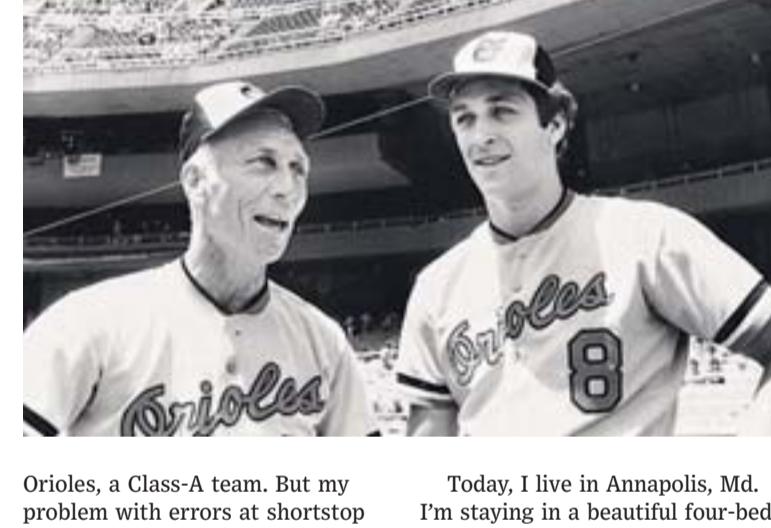
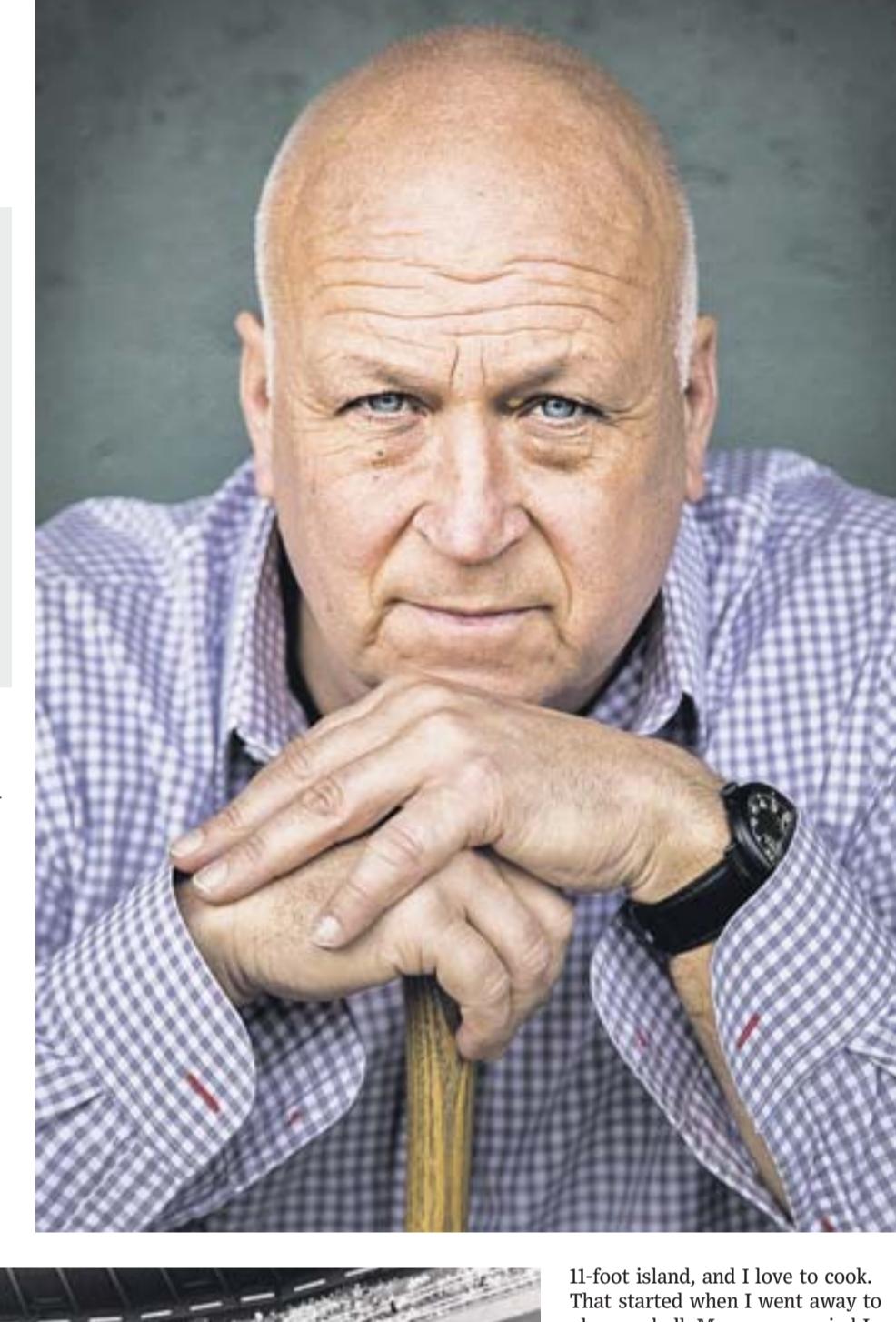
I started playing baseball in high school. When I was a junior, my father saw me play and said, "Cal, you have a chance to play pro ball." It still gives me chills thinking about that line. It motivated me to work hard.

By the end of my senior year, I was 6-foot-2. Then from 18 to 21, I grew another 2 inches. After high school, I was drafted by the Orioles and played on one of their minor-league teams.

I had been a strong player in high school, but now I was scared. Other players were stronger, and I made a ton of errors at shortstop during my first season.

In '79, I moved to the Miami

ON DECK Cal Ripken Jr., right, at the Ripken Experience youth-baseball facility in Aberdeen, Md.; in 1982, below, with his father, third-base coach for the Orioles at the time; and in 1967, above on the left, in Miami with his siblings, Fred, Ellen and Billy, and his mother, Violet.



Orioles, a Class-A team. But my problem with errors at shortstop started all over again. Lance Nichols, the manager, moved me to third base, and from then on everything clicked. I began playing for the Baltimore Orioles in 1981.

Today, I live in Annapolis, Md. I'm staying in a beautiful four-bedroom house on the water as I look for a home to buy. Out back, I have a panoramic view of the Spa Creek inlet and the city's historic district.

I like the open kitchen. It has an

11-foot island, and I love to cook. That started when I went away to play pro ball. My mom worried I wouldn't eat right. So she wrote out the recipes for my six favorite meals and gave them to me in a binder. The recipes served six or eight so I'd have plenty of leftovers.

When I'm in meetings at my office nearby, I often find myself distracted by the landscapers outside. If they're working, they'll catch my eye and I'll think of ways they can do the job more efficiently. I suppose that's my dad whispering in my ear. He died in 1999. I still miss him.

—As told to Marc Myers

Cal Ripken Jr., 56, played 21 seasons for the Baltimore Orioles and holds the record for most consecutive games played—2,632. Known as the "Iron Man," he is a member of the Baseball Hall of Fame and today runs Ripken Baseball, which operates youth camps and tournaments in three cities.

IN THE TRENCHES

Does Sex Sell? Properties For Sale That Bare It All

Real-estate agents describe uncomfortable experiences showing homes where the owners have furnishings that could be rated X

ceilings, had great furniture and a lot of very beautiful paintings. But a few of the paintings were very disturbing, with an element of darkness, and they were overtly sexual. They were also huge—maybe 6-by-7 feet.

They might have been OK in wild party loft in New York City, but these were very edgy for a house in Ross. I suggested that the seller remove them to appeal to a broader base of buyers. He said no, he thought they were integral to the home's décor.

Everyone who saw the house sort of had the same

reaction like, "Oh wow." And every time I'd show the house to a family on the weekends, I'd have to warn the parents that there might be some art that's disturbing for children. Or I'd try to re-route the kids when we'd go into key rooms like, "Hey do you want to go play outside?" One time, I was not successful and I heard, "Mommy, what's that?"

I did sell the house, even though it was not a good time in the market. It sold for \$2.95 million in 2011.

Philip Reynolds, real-estate agent, Triplemint Real

Estate, New York:

I was representing buyers a couple of years ago and we were checking out a \$1.1 million listing for a co-op on Park Avenue.

My buyers were an older couple who were super-conservative types. We walked into the apartment and noticed immediately that it had blood red walls, which made the apartment seem much smaller than it was and was also just kind of shocking.

The seller had lots of pictures of his family everywhere—grandparents, kids, his wife—so many pictures that you started to learn who

was who by the end of the thing.

Then, in both the living room and the bedroom, he had these paintings of his wife that were about 3½ feet wide by 4½ feet tall—completely buck naked. There was also a nude statue of his wife.

My clients were definitely in shock and the listing agent was super stoic about it, so I decided the best way to handle it was to make light of it. I said, "So, do those come with the apartment?"

The home didn't sell and later came off the market.

—Edited from interviews



BY CANDACE JACKSON

Q: Have you ever had a listing that was challenging or awkward to show?

Tracy McLaughlin, luxury property specialist, Pacific Union International, Christie's International Real Estate, Marin County, Calif.:

I had a \$3.25 million listing about six years ago in Ross, Calif. The seller wrote very dark murder mysteries.

The house, a Midcentury Modern home with very tall

Everyone who saw the house sort of had the same

CLOCKWISE FROM TOP RIGHT: RYAN DONNELL FOR THE WALL STREET JOURNAL; ASSOCIATED PRESS; CAL RIPKEN JR.

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MANSION

LIFE INSIDE A TIME CAPSULE

Continued from page W9

rary layouts and embracing some kitsch is worth it to get quality construction, distinctive design and a dose of nostalgia.

"The number of people looking for time-capsule houses [has], I'll go out on a limb and say, exploded," said Pam Kueber, who maintains an archive of time-capsule homes on her remodeling blog RetroRenovation.com. She cited a small but growing number of real-estate agents who specialize in midcentury or un-remodeled homes and an increased interest among readers for preserved details once considered tacky.

Ed Murchison, of Virginia Cook Realtors in Dallas, said that over the past five years, more young buyers have sought out Midcentury Modern homes—an area in which he specializes—and some are willing to pay a premium for the style. He said "Mad Men," the AMC television show that showcased a glamorous version of 1960s life, inspired many buyers.

After her divorce, Robin Miller didn't expect to go back in time—until her brother suggested she look at a 3,600-square-foot house seemingly frozen in the past. "As soon as I walked in the door, it was pretty amazing," said Ms. Miller, a 62-year-old bookkeeper.

The four-bedroom home had only one previous owner, who built it in the early 1960s during a construction boom in Weaverville, Calif., now a rural part of the state about a 3½-hour drive north of Sacramento. Popcorn ceilings, shag carpeting, peach bathroom tiles and baby-blue cabinets were intact.

Earlier this month, Ms. Miller paid \$232,300 for the home, which had most recently been asking \$289,500. She said she plans to leave the retro elements untouched, save for fixes like fresh carpeting and enlarging the bathrooms. "It's almost like the less you do the better because it almost distracts from the architecture that's already there," Ms. Miller said.

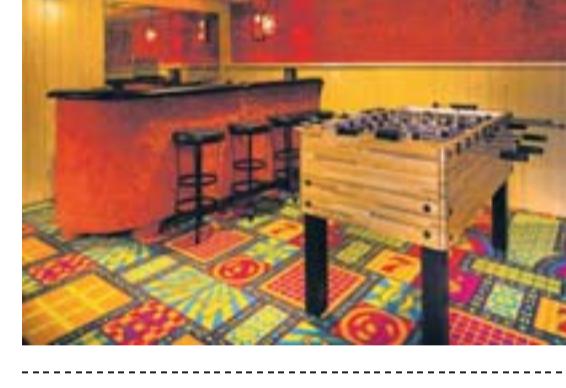
Many time-capsule homes date to the post-World War II housing boom, particularly in company towns where residents spent decades with the same employer, Ms. Kueber said. Today, as members of that generation downsize or pass away, their children are selling their longtime homes, many of which are located on tree-lined streets in desirable, central parts of town.

Traditionally, Americans picked a style and stuck with it, investing in entire rooms of furniture that would last for generations, said Miro Copic, a marketing professor at San Diego State University.

Today, homeowners are much more likely to be in a constant state of improving and remodeling their homes, as they look to keep up with design trends, or to add value to their homes through kitchen and bathroom upgrades. As a result, time-capsules are disappearing without being replaced by versions from later eras like the 1980s—even as demand increases. "We may be seeing the last era of true time-capsule houses in America," said Ms. Kueber.



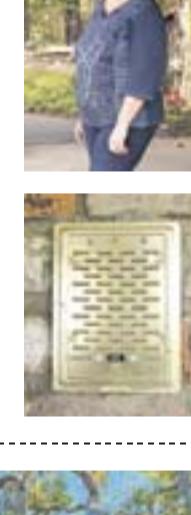
MIDCENTURY, NOT MODERN The Portland, Ore., home of Sean Saul and his family. Mr. Saul, seen below right with children Fiona, 10, left, and Aidan, 15, right, fell in love with the home's perfectly preserved 1960s basement, below left.



BILL PURCELL FOR THE WALL STREET JOURNAL (3)

WAY BACK

Robin Miller, far right, recently paid \$232,300 for this Weaverville, Calif. home. Built in the early 1960s, it comes with many original details intact, including this intercom, also far right. Ms. Miller said she plans to leave the retro elements untouched, save for fixes like enlarging the bathrooms.



RYAN ANGEL MATA FOR THE WALL STREET JOURNAL (3)



COASTAL HOMES PHOTOGRAPHY (2)

FOR SALE Mylène Moser is asking \$4.395 million for her family's vacation home in Sarasota, Fla. A buyer will likely tear it down, the listing agent said, since rebuilding is easier than renovating on the water.

Javier Ordaz, 29, and his husband, 27-year-old Jake Lasprugato, said they are on their third retro apartment, an \$850-a-month one-bedroom in Stockton, Calif. The couple, who run an online vintage store called Atomic Living, seek out

throwback rentals where they can replace or hide non-period items.

Their current home has pink bathroom tiles and a 1940s gas range. They installed a 1951 refrigerator with copper and chrome accents and swapped out the light

fixture in the dining room for a foliage-shaped chandelier. Not coincidentally, the result resembles their grandparents' houses.

Like many fans of time-capsule homes, Mr. Ordaz and Mr. Lasprugato are motivated by nostal-

gia, as well as aesthetics and quality. The 1925 home's finishes were built to last, the appliances meant to be fixed, rather than thrown away. "That generation just tended to keep everything," Mr. Ordaz said. "They're proud of their homes."

Despite their nostalgic appeal, time-capsule homes can come with complications. They often need repairs. After decades of a single resident, they may be chockablock with knickknacks. They may also lack newer comforts like stainless-steel appliances or walk-in closets. (Proponents would counter these amenities are easy to add.)

Buyers should also assess for building-code violations and safety hazards, including lead paint, asbestos and untempered glass in windows or showers, Ms. Kueber said.

Still, renovating before listing a time-capsule home isn't always the most cost-effective strategy, according to some real-estate agents.

Mylène Moser, 73, is asking \$4.395 million for her family's vacation home in Sarasota, Fla. Her husband's parents built the four-bedroom, 3,890-square-foot home in 1974, and it still includes the Formica kitchen cabinets and candy-colored wallpaper (the appliances have been updated).

Though the home is being sold furnished, a buyer will likely tear it down and build a megamansion, since rebuilding is easier than renovating on the water, said listing agent Lynne Koy of Coldwell Banker Residential Real Estate. The asking price largely reflects the value of the land, one of the largest plots in the luxury neighborhood of Bird Key, Ms. Koy said.

Alyssa Starelli of Portland, Ore.-based Living Room Realty, who specializes in midcentury homes, counsels sellers against spending money on replacing kitschy finishes. Buyers will either do their own renovation or, increasingly, fall in love with the retro elements and want to preserve them, she said.

"Once you remodel a house out of its time period you have to perpetually remodel every 10 years to keep up with what's fashionable," Ms. Starelli said. "But if you maintain it in the period it was, it always suits the house."

One of her clients, Sean Saul, fell in love with a perfectly preserved 1960s basement in the Portland home that he purchased for \$319,000 in November.

Previously owned by a family, the three-bedroom, 2½-bathroom, 2,132-square-foot home is "all business" on the main floor, said Mr. Saul, 45. But down the stairs there is a wet bar and walls partly covered in orange shag, faux wood paneling and a board-game-patterned carpet with accompanying playing pieces.

Mr. Saul, a motion director at Drive, a boutique creative and merchandising agency, enjoyed picturing the story behind the room, which he conceded some might consider a "disaster."

"It was just captivating to imagine someone making that choice, which is a choice that, were I in that time and place, I would have made," he said.

PRIVATE PROPERTIES

Guns N' Roses Bassist Lists Longtime Home

Duff McKagan, the bass guitarist for the rock band Guns N' Roses, is listing his longtime home in the Sherman Oaks neighborhood of Los Angeles for \$3.85 million.

Mr. McKagan, 53, bought the Spanish-style hacienda in 2005 for \$2.975 million, according to public records. He and his wife, model and swimsuit designer Susan Holmes McKagan, raised their two daughters there, Ms. Holmes McKagan said.

The roughly half-acre property contains a number of structures, according to Marcie Hartley of Hilton & Hyland, who has the listing with Donovan Healey at John Aaroe Group.

The five-bedroom, roughly 4,200-square-foot main house was built in the 1930s. The

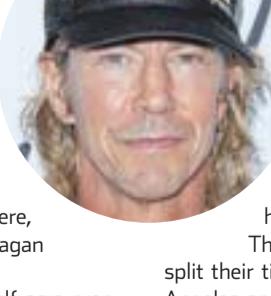
McKagans turned a former stable building into a gym. There's also a one-bedroom guesthouse where Mr. McKagan has written and recorded songs, and which Ms. Holmes McKagan also used for work.

An underground wine cellar has its own entrance. Since Mr. McKagan is sober after battling substance abuse in the 1990s, the couple mostly used the space for storage, his wife said.

The family has always split their time between Los Angeles and Mr. McKagan's hometown of Seattle, his wife said.

Now that their daughters are older, the couple is planning to spend more of their time in Seattle, although they have another property in Los Angeles which they plan to keep.

—Candace Taylor



FROM LEFT: FILMAGIC; MARK SINGER PHOTOGRAPHY