

THE WALL STREET JOURNAL.

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NASDAQ 6221.91 ▼ 1.94%

NIKKEI 19702.63 ▼ 0.14%

STOXX 600 376.87 ▼ 0.59%

BRENT 51.03 ▲ 1.51%

GOLD 1286.40 ▲ 0.74%

EURO 1.1742 ▼ 0.22%

What's News

Business & Finance

Long-term joblessness remains a problem in the EU despite economic growth, with many of those who do find work stuck in temporary or low-skill jobs. **A1**

◆ The ECB is wary of ending its large bond-buying program, accounts of its July policy meeting show. **A2**

◆ The eurozone trade surplus grew in June, a sign the euro's recent rise has yet to hinder economic growth. **A4**

◆ Wal-Mart's sales rose last quarter, boosted by an online surge, but its expenses climbed and margins fell. **B1**

◆ China Unicom withdrew a plan to sell \$11.7 billion in shares, just hours after the state-controlled wireless carrier disclosed the deal. **B1**

◆ Elliot has purchased debt that would ensure the hedge fund's ability to block Berkshire's deal to buy power-transmission firm Oncor. **B5**

◆ Three U.S. pension funds sued six major global banks, saying they conspired to block competition in the stock-lending market. **B5**

◆ Inflows have surged in recent weeks for developing-market bond funds as yields remain high compared with developed countries. **B7**

◆ Anbang has run into difficulties with its over-\$1 billion in South Korean deals, testing the Chinese insurer's resilience globally. **B7**

◆ An ex-Bank of America staffer and others face insider-trading charges over tips about potential mergers gleaned from a database. **B8**

World-Wide

◆ A terrorist plowed a van into pedestrians in the heart of Barcelona, killing at least 13 people and wounding another 90, in an attack claimed by Islamic State. It was the first fatal terrorist attack in Spain in more than eight years. **A1**

◆ Trump defended the "beautiful" statues commemorating Confederate leaders and lamented efforts to remove them. **A1**

◆ The president attacked Arizona's GOP Sen. Flake, who wrote a book critical of Trump, and backed his primary challenger. **A5**

◆ The top U.S. general denounced racism and bigotry, joining other senior military officers who have made similar statements. **A5**

◆ A pro-democracy leader in Hong Kong was sentenced to six months, disqualifying him from running for political office for five years. **A3**

◆ South Korea's leader said Trump agreed to discuss options with him before taking any action to rein in North Korea. **A3**

◆ Pyongyang's actions are raising concerns months before the 2018 Winter Olympics, which will be held in South Korea. **A3**

◆ A suspected Islamic State extremist killed a Palestinian security guard in a suicide attack near Gaza's border with Egypt. **A4**

◆ Saudi King Salman has ordered private planes to ferry in Qatari pilgrims for the hajj to Mecca. **A4**

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WORLD NEWS

How India's Debt Could Kill Its Growth

A look at the threat facing the world's fastest-growing large economy in six charts

By Daniel Stacey and Kara Dapena

India is taking a series of aggressive steps to reduce the mountain of bad debts weighing down its banks and threatening to derail the world's fastest-growing large economy. India's parliament last week passed a law empowering its central bank to force some of

the country's largest companies into bankruptcy proceedings. The move follows last year's overhaul of the bankruptcy code, another attempt to make it faster for creditors to get their money back in a country notorious for drawn-out insolvency proceedings.



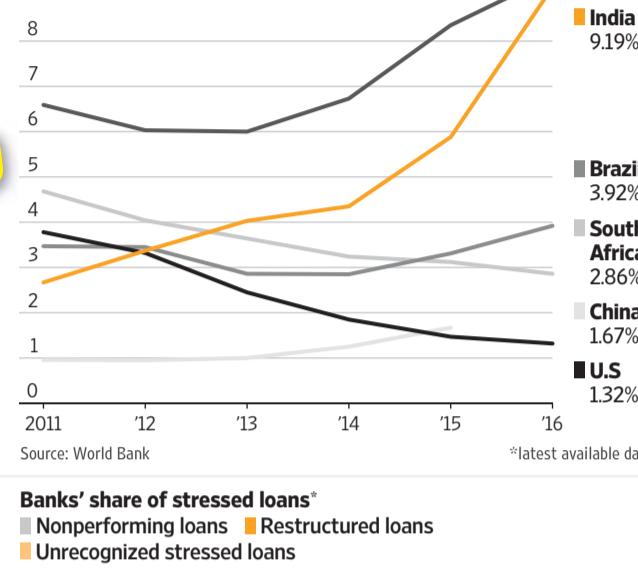
India's efforts come as most of its state banks are struggling with extremely high levels of bad debts, which has dented their ability to make new loans. This, in turn, has pushed down the level of investment to a 13-year low and led economic growth to slow.

Bad loans are piling up

Indian companies borrowed at record levels a decade ago when the economy was booming. But when the 2008 financial crisis hit, many struggled to find the demand they had anticipated, and started falling behind on their loan repayments.

Last year, more than 9% of all bank loans were deemed nonperforming, meaning that repayments were overdue for more than 90 days. That is a significantly higher ratio than in the U.S. or in other so-called Brics—a group that includes the world's largest developing countries—with the exception or Russia.

Nonperforming loans as a percentage of total loans



■ Russia
■ India
■ Brazil
■ South Africa
■ China*
■ U.S.

■ Russia
■ India
■ Brazil
■ South Africa
■ China*
■ U.S.

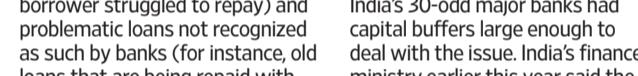
*latest available data

Banks face additional pressure

Compounding the issue, India's state banks—which account for the lion's share of the country's banking sector—may have twice the amount of problematic loans on their books than currently reported, according to Credit Suisse estimates.

The investment bank puts that ratio at above 20%. That number includes restructured loans (loans whose repayment date or amount have been modified because the

Banks' share of stressed loans*



Source: Credit Suisse

*as of March 2017

borrower struggled to repay) and problematic loans not recognized as such by banks (for instance, old loans that are being repaid with new loans), Credit Suisse said in a report released earlier this year.

Credit Suisse said only one of

India's 30-odd major banks had capital buffers large enough to deal with the issue. India's finance ministry earlier this year said the banks' bad-loan problem threatened to "derail India's growth."

THE WALL STREET JOURNAL. Illustrations by Jessica Kuronen

do—but they set the tone, in part through their appointments, for how big industry-changing deals will be received in Washington.

The White House didn't respond to requests for comment.

AT&T's acquisition of Time Warner would turn the giant telephone company into one of the world's biggest media owners, putting CNN, HBO and the Warner Bros. film studio under the same corporate roof as DirecTV and roughly 100 million wireless users.

All along, executives at the companies have said the deal wouldn't hurt competition and can actually help it, because they have little overlap and they hope to become a rival in digital advertising to Alphabet Inc.'s Google and Facebook Inc.

Among the topics raised in the government's review is ensuring that AT&T doesn't discriminate or treat channels that compete with Time Warner's content less favorably, the people close to the situation said.

For example, the government could prevent AT&T from favoring HBO over other premium-TV brands in its

marketing and pricing, the people said.

Another issue is AT&T's control of data on customers, especially its wireless subscribers, which could be used to target advertising. The Justice Department has probed whether that data should be available at a reasonable cost to rivals, the people say.

AT&T is counting on its advertising division to fuel a bigger share of future profits and recently hired Brian Lesser, head of ad agency GroupM in North America, to run it.

AT&T General Counsel David McAtee said it would be inappropriate to comment on discussions with the Justice Department. "We respect the DOJ's confidential process, which allows us to have candid conversations with the professionals at the Department," he said in a statement. "As we have stated previously, that process is on track from our perspective."

Several competitors including the Lions Gate Entertainment Corp.'s premium programming service Starz and

Dish, which competes head-to-head with DirecTV, is worried that AT&T owning HBO could give too much leverage to its No. 1 competitor, a person familiar with the matter said. State attorneys general who are reviewing the deal have been exploring similar issues, this person said.

AT&T is proceeding with confidence about the review. Last month the company shuffled its management structure and tapped DirecTV executive John Stankey to lead Time Warner's companies if the deal is approved. The company said it has no plans to divest CNN, and pledged to support the news network's editorial independence. AT&T has also lined up its financing for the deal, in-

cluding through a \$20 billion bond offering.

Consolidation has been afoot more broadly in media. Discovery Communications Inc. agreed to buy HGTV and Food Network parent Scripps Networks Interactive Inc. last month, a nearly \$12 billion deal that is partly in reaction to the bulking up of distributors like Charter Communications Inc., which completed a \$60 billion takeover of Time Warner Cable last year, and AT&T's pending deal.

Broadcasters have been in on the action as well, with local TV station-owning giant Sinclair Broadcast Group agreeing in May to acquire Tribune Media.

There are still regulatory headwinds to the AT&T-Time Warner, including the Justice Department antitrust chief's empty seat. AT&T executives expected the U.S. Senate to confirm deputy White House general counsel Makan Delrahim as antitrust chief earlier this summer, according to people familiar with the matter. Congress kicked off a recess earlier this month, pushing his confirmation to September at the earliest.



An AT&T store in Boston. The firm may become a media heavyweight.

rival satellite broadcaster Dish Network Corp. have raised concerns about the deal, people familiar with the matter said.

Starz has warned that AT&T could favor Time Warner's HBO in the way it markets the channel and sets prices for customers. After it announced the acquisition, AT&T offered HBO free for a year to some new video and unlimited wireless data subscribers.

Dish, which competes head-to-head with DirecTV, is worried that AT&T owning HBO could give too much leverage to its No. 1 competitor, a person familiar with the matter said.

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DEAL

Continued from Page One

the deal was announced last October. That suggests more investors are betting the deal will succeed.

When the deal was announced last October, Mr. Trump attacked the proposal, calling it "a deal we will not approve in my administration because it's too much concentration of power in the hands of too few." He has since avoided talking publicly about the transaction but complained on Twitter about the way CNN, a unit of Time Warner, covered him.

An approval could underscore the administration's pro-business credentials at a time when Mr. Trump's ties with America's CEOs are under unprecedented stress. Two advisory panels filled with a host of top U.S. executives disbanded this week in response to the president's comments about the violence at a white supremacist rally in Charlottesville, Va.

Presidents don't approve mergers—antitrust enforcers

were quick to say that markets had read too much into the ECB's forward guidance and might prove premature."

"Accordingly there was agreement among all members to retain all elements of forward guidance," the minutes said.

The conclusion follows an awkward moment for the ECB in late June when Mr. Draghi gave a speech in Portugal that market participants viewed as a signal toward more restrictive policy. Some ECB officials were quick to say that markets had read too much into the ECB president's remarks.

The minutes, a summary of the discussion that doesn't provide direct quotes or attri-

bute comments, said that a suggestion was made in the meeting to consider a mild shift in the ECB's forward-looking policy language. The proposed shift could have been interpreted to mean the central bank was moving closer to less generous monetary policy.

The idea was that a small shift in tone now would potentially be less disruptive than an inevitable change in language down the road. The council, however, rejected the suggestion, as "it was generally judged paramount at this stage to avoid sending signals that could be prone to over-interpretation and might prove premature."

"Tapering will come, but somehow the ECB itself does not yet entirely know when and how to do it," said ING economist Carsten Brzeski.

The ECB's forward guidance indicates it expects interest

rates to remain at current levels for an extended period and well beyond the term of its net asset purchases. It currently purchases assets worth €60 billion (\$71 billion) each month and is due to continue at that pace until at least the end of 2017. The ECB also explicitly reserves the option of increasing or extending the program should economic or financial conditions worsen.

"The case was made for proceeding gradually and prudently when approaching ad-

justments in the monetary policy stance and communication, in line with the Governing Council's evolving assessment," the minutes said.

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ECB Is Leery of Ending Its Large Stimulus Program

BY TODD BUELL

FRANKFURT—The European Central Bank is wary of pulling the plug too soon on its large bond-buying program, and worried that any move in that direction will push the euro higher, the accounts of its latest meeting showed Thursday.

The comments suggest that ECB President Mario Draghi will move with immense caution as he approaches two major public appearances in the coming weeks: A speech in Jackson Hole, Wyo., next week and a key policy meeting in early September in Frankfurt.

"The minutes of the ECB's July policy meeting suggest that there will be no fireworks from President Draghi in his Jackson Hole speech next week," Jessica Hinds of Capital Economics said.

A recently rising euro has made one of the central bank's principal challenges more difficult to achieve, namely elevating inflation in the currency bloc that remains meager, despite robust economic growth.

The European Union's statistics office confirmed Thursday its initial estimate for July inflation of only 1.3%. The most

recent ECB staff forecasts, issued in June, show average inflation at 1.5% in 2017 and only hitting 1.6% in 2019. The ECB, which is due to issue new forecasts in September, aims for an inflation rate of just below 2% over a medium-term horizon.

(A stronger currency weighs on inflation by making imports cheaper; a more restrictive monetary policy generally puts upward pressure on a currency.)

Central bank's aim of elevating inflation is complicated by a rising euro.

At their July meeting, council members expressed concern about the exchange rate "overshooting in the future," the minutes showed. A fall in the euro against the dollar accelerated when the minutes were released, with the common currency down 0.9% on the day before regaining some ground.

The minutes, a summary of the discussion that doesn't provide direct quotes or attri-

buting comments, said that a suggestion was made in the meeting to consider a mild shift in the ECB's forward-looking policy language. The proposed shift could have been interpreted to mean the central bank was moving closer to less generous monetary policy.

The idea was that a small shift in tone now would potentially be less disruptive than an inevitable change in language down the road. The council, however, rejected the suggestion, as "it was generally judged paramount at this stage to avoid sending signals that could be prone to over-interpretation and might prove premature."

"Accordingly there was agreement among all members to retain all elements of forward guidance," the minutes said.

The conclusion follows an awkward moment for the ECB in late June when Mr. Draghi gave a speech in Portugal that market participants viewed as a signal toward more restrictive policy. Some ECB officials were quick to say that markets had read too much into the ECB president's remarks.

Indeed, the minutes published Thursday depicted an

ECB that doesn't want to pull the plug too soon on its bond-buying program, especially as inflation isn't yet at its target.

Investors are eyeing comments from ECB officials to look for clues as to how the central bank will unwind, or taper, its bond-buying program.

WORLD NEWS

Hong Kong Protester Jailed

Court sentences student leader to six months, effectively barring a run for office

By NATASHA KHAN

HONG KONG—A student icon of Hong Kong's pro-democracy movement was effectively disqualified from running for political office for five years after being jailed over protests in 2014 that drew world-wide attention.

The imprisonment of Joshua Wong, who became the skinny, bespectacled teenage face of the 79-day demonstrations demanding freer elections, is the latest move by authorities here to sweep away opponents of Beijing's tightening control over the city. Since the protests, Mr. Wong has co-founded a new political party and has become a focal point for democracy campaigners, especially among the city's youth.

The Court of Appeal sentenced Mr. Wong to six months in prison for taking part in an unlawful assembly in 2014, when protesters scaled security gates to access a square outside government headquarters, sparking what became known as the Occupy protests. Mr. Wong was originally sentenced to community service, which he completed, before the city's Department of Justice filed a rare appeal, arguing that the sentence was too lenient.

Under Hong Kong law, anyone sentenced to three or more months' imprisonment is disqualified from running in any election for five years.

Two other student leaders, Nathan Law and Alex Chow, were sentenced to eight months and seven months in prison, respectively.

Judge Wally Yeung said strong punishment was needed to deter protesters from breaking the law, to ensure social harmony and preserve public order.



Joshua Wong addressed the media outside a Hong Kong court before his sentencing on Thursday.

All three plan to lodge appeals to the Court of Final Appeal, their lawyers said.

Hong Kong authorities are increasingly using the legal system to silence dissent, having successfully disqualified six other pro-democracy legislators in a separate case over oath-taking, damaging the bloc's ability to veto legislation.

The moves pave the way for controversial laws to be enacted on national security, compulsory patriotic education for schoolchildren, and, for the first time, allowing mainland Chinese laws to be enforced in a new train station for a high-speed rail line connecting Hong Kong to the mainland.

"Beijing and the Hong Kong Secretary for Justice are licking their chops at the moment," said Jerome A. Cohen, director of the U.S.-Asia Law Institute at New York University. "Of course they will be 'political prisoners....Their actions were political, and so was the government's prosecution."

Mr. Wong and his two fel-

low student protest leaders "were convicted not because they exercised their civil liberties but because their relevant conduct in the protest broke the law," a spokeswoman for the Department of Justice said in an email. "There is absolutely no basis to imply any political motive on the part of the Department of Justice in this case."

Mr. Wong, who turns 21 in October, rocketed to fame in his teens by organizing a 2012 rally that led the government to shelve plans to introduce a pro-China curriculum in Hong Kong schools.

During protests that paralyzed the city in 2014, Mr. Wong was one of the first to camp out on highways and was a fiery voice at nightly rallies. That year, he was also on the cover of Time Magazine—the week he turned 18—as "The Face of Protest."

"They can silence protests, remove us from the legislature and lock us up. But they will not win the hearts and minds

of Hongkongers," Mr. Wong said on Twitter on Thursday.

There had been speculation Mr. Wong would run for office after his next birthday when he becomes qualified, said Ho-fung Hung, an associate professor in political economy at Johns Hopkins University.

"If he runs he could easily win, and if the government disqualified him like it disqualified many candidates in 2016, that will become an international incident," Mr. Hung said, citing Mr. Wong's iconic status. "So the ideal strategy of the government is to make his sentence as harsh as possible so that he won't be qualified to run from the beginning."

One risk for Beijing is that detaining Mr. Wong could tarnish his credentials as a leader of the city's pro-democracy fight.

Before the sentencing on Thursday, scores of supporters, some in tears, gathered outside the court, chanting: "We are all Joshua Wong....We are all Hong Kong people."

Seoul Says Trump To Discuss Options

By KWANWOO JUN

SEOUL—South Korea's leader said President Donald Trump agreed to discuss options, including a U.S. military strike, with him before taking any action to rein in North Korea's nuclear and missile programs.

President Moon Jae-in's remarks on Thursday came as the latest round of warlike rhetoric over North Korea's weapons tests appeared to ease following Pyongyang's announcement that it would hold off on a threat to launch missiles at the U.S. Pacific territory of Guam.

Mr. Moon, speaking at a news conference marking his 100th day in office, said Mr. Trump would consult with and secure consent from Seoul before acting to resolve the North Korean issue, but Mr. Moon didn't provide details.

"That is a firm agreement between South Korea and the U.S.," the South Korean president said. South Korean officials said Mr. Moon was referring to the outcome of his trip to Washington in late June for a summit with Mr. Trump, but they declined to elaborate.

The remarks were the first time Mr. Moon confirmed that Washington would seek prior South Korean approval before any military action against North Korea. Previously, Mr. Moon had warned that the U.S. would need Seoul's consent for any military action on the Korean Peninsula.

"No one can determine to take military action on the Korean Peninsula without the consent of the Republic of Korea," Mr. Moon said, using his country's formal name. "We cannot lose everything with war again."

The U.S. Embassy in Seoul declined to comment on Mr. Moon's statements.

Gen. Joe Dunford, chairman of the U.S. Joint Chiefs of Staff, who is on a swing through

Asia, said Seoul would be consulted on any military action on the Korean Peninsula.

"I want to make it clear that South Korea is an ally, and everything that we do in the region is in the context of our alliance," he told reporters on Thursday in Beijing. Gen. Dunford declined to address whether South Korea would have veto authority over the U.S. if it chose to take unilateral action.

South Korea's first left-leaning leader in nearly a decade is seeking a more assertive role for Seoul in addressing the North Korean crisis through dialogue, amid concerns that South Korea has been sidelined by bigger powers such as the U.S. and China.

On Thursday, he reiterated his call for North Korea to stop its weapons tests and return to negotiations. North Korea so far has ignored Mr. Moon's overtures.

President Moon Jae-in confirmed the U.S. would seek approval for military action.

Despite the easing of tensions in recent days, another cycle of escalation could come as early as next week, when the U.S. and South Korea begin annual military drills.

Pyongyang regards the joint exercises as preparations for an invasion—a claim officials in Seoul and Washington reject.

Mr. Moon said on Thursday that he was confident there wouldn't be another war on the Korean Peninsula. The two Koreas fought a war from 1950 to 1953, which resulted in the peninsula's division along a heavily armed border.

Korea Looms Over Games

By JONATHAN CHENG



North Korea's delegation at the 2016 Rio de Janeiro Olympics.

Denis Masseglia, president of the France Olympic Committee, told the Associated Press that the situation would be discussed at a coming IOC meeting, adding: "There is no reason to be too worried at the moment." He added: "Of course if the tension escalates, we'll need to adapt."

Pyeongchang organizers have touted these Games as the "Peace Olympics." Gangwon province, where Pyeongchang is located, was the only province divided by the Korean War, and organizers have held events like a "peace walk" of several hundred international students along the DMZ carrying a "peace banner."

Nancy Park, a spokeswoman for the Pyeongchang organizing committee, noted that South Korea had successfully

hosted the 1988 Olympics and the 2002 FIFA World Cup. "It is important to remember that Koreans have lived under this tension of political relations for decades," she said.

Moon Jae-in, South Korea's newly elected president and the son of North Korean refugees, is a longtime advocate of engagement with Pyongyang. Since taking office in May, he has repeated a constant refrain: The two Koreas should find some way to cooperate at the Olympics.

"Sports have the power of connecting one heart to another," he said last month during his first major policy address on North Korea as president.

"The world will witness peace through the Olympic Games," Mr. Moon said.

Games is a figure-skating duo, Ryom Tae Ok and Kim Ju Sik, who will have to place in the top four at the Nebelhorn Trophy in Germany in September to win a berth at Pyeongchang.

Another possibility, proposed by the South Korean sports minister in June, would be to meld the North and South Korean women's ice hockey teams. That proposal has its own problems. South Korea, which as the Olympic host has an automatic ticket to the eight-team women's finals, ranks ahead of the North Korean team, which it soundly defeated 3-0 in April. Members of South Korea's team have grumbled about the possibility of

having to surrender spots to inferior North Korean players.

There is at least one good reason to root for the North Koreans to qualify, security experts say: The presence of North Korean athletes in Pyeongchang would "almost be like a security guarantee," says Andrew Gilholm, a Seoul-based director of Northeast Asia analysis for Control Risks, a consultancy.

Nancy Park, a spokeswoman for the Pyeongchang organizing committee, said the committee had higher objectives in mind.

"We don't want North Korea here because it'd be safer," she said. "We want as big a celebration as possible."

—Jonathan Cheng

North May Have to Sit on the Sidelines

For the Koreas to compete together, or even walk into the opening ceremonies together, North Korean athletes will have to qualify for competition.

While North Korea is competitive at the Summer Olympics and in global soccer, it isn't exactly a winter sports power. It has sent athletes to only eight Winter Games since the Korean War in the early 1950s, and won just two medals—a silver in 1964 and a bronze in 1992.

Its last remaining hope to qualify for the 2018 Winter

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Another possibility, proposed by the South Korean sports minister in June, would be to meld the North and South Korean women's ice hockey teams. That proposal has its own problems. South Korea, which as the Olympic host has an automatic ticket to the eight-team women's finals, ranks ahead of the North Korean team, which it soundly defeated 3-0 in April. Members of South Korea's team have grumbled about the possibility of

having to surrender spots to inferior North Korean players.

There is at least one good reason to root for the North Koreans to qualify, security experts say: The presence of North Korean athletes in Pyeongchang would "almost be like a security guarantee," says Andrew Gilholm, a Seoul-based director of Northeast Asia analysis for Control Risks, a consultancy.

Nancy Park, a spokeswoman for the Pyeongchang organizing committee, said the committee had higher objectives in mind.

"We don't want North Korea here because it'd be safer," she said. "We want as big a celebration as possible."

—Jonathan Cheng

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WORLD NEWS

Bomber Strikes Hamas in Gaza Strip

Attack comes as
Hamas deepens ties
with Egypt, cuts them
with Islamic State

A suspected Islamic State extremist killed a Palestinian security guard in a suicide attack near a crossing between the Gaza Strip and Egypt, the first deadly bombing by jihadists against Hamas, at a time of shifting allegiances in the Middle East.

By Abu Bakr Bashir in
Gaza City and Rory
Jones in Tel Aviv

Hamas didn't explicitly blame Islamic State for Thursday's bombing. Officials from the Palestinian militant group, which controls Gaza, described the attacker as a jihadist who had either planned to kill its guards or was caught crossing to join Islamic State in Egypt's neighboring Sinai Peninsula.

The attack comes as Hamas deepens ties with Egypt and cuts them with Islamic State fighters. The shift in allegiance is fueled by its desperate need for funding following aid cuts by the Palestinian Authority and an economic blockade imposed by Sunni Arab states on Qatar, the Persian Gulf nation that provides a large proportion of the international money funneled to Gaza.

Hamas has in recent weeks bolstered its forces on the respective border between Gaza and



Hamas fighters carry the body of an officer killed in a suicide attack on Hamas forces near the Gaza Strip's border with Egypt.

Sinai, a bid to prevent Islamic State militants from using Gaza as a haven from the Egyptian forces fighting to defeat them.

In return, Egypt has begun providing financial assistance to Hamas.

Hamas's militant wing had previously focused on strengthening relations with Islamic State fighters in Sinai, using them to smuggle weap-

ons into Gaza, according to Israeli and Western officials. Hamas offered medical support and weapons training to those fighters.

Hamas's support of Islamic State infuriated Egyptian President Abdel Fattah Al Sisi, who came to power promising to serve as a regional bulwark against terror but has been unable to dislodge the flourishing

Islamic State insurgency in his country's north. Some Gazans, including members of the Hamas militant arm, left home and joined the group.

Hamas has also clashed with Islamist jihadists in Gaza in recent years, and has jailed young men who threatened the group's rule.

Like Hamas, jihadists in the Sinai are Sunni Muslim-led, but

Hamas doesn't share the same strict interpretation of Islam and is considered a movement for Palestinian nationhood.

Hamas in recent months pivoted and began seeking help from Egypt as the Palestinian Authority squeezed it financially, spurred by leader Mahmoud Abbas's desire for Hamas to cede control of Gaza to his West Bank-based government.

ATTACK

Continued from Page One

social conditions are at the side of the victims in this violent act," Mr. Puigdemont said. "London, Brussels, Paris and other European cities suffered this same experience. Today it's been Barcelona's turn."

Islamic State claimed responsibility for the attack on its official Amaq news agency, according to the SITE Intelligence Group, which monitors jihadist activity online.

Local police cordoned off the area in central Barcelona, where hundreds of people were evacuated by nervous police officers.

"Run away, it's dangerous—a fugitive is on the loose," a police officer shouted at tourists a block away from the attack site, as paramedics wheeled an injured person into an ambulance.

Police later denied local media reports that the perpetrator of the attack was holed up in a bar.

Arlene Fox, a Canadian visiting Barcelona, said she was getting off a bus with her 15-year-old daughter near the scene when the attack occurred.

"We crossed the park and saw four people down," she said. "People started running."

She said they took shelter in a shopping mall after finding her husband, Luigi Bizzarro.

"This is why we avoided France," Mr. Bizzarro said. "Being from Canada we're not



People flee the area after a van crashed into pedestrians near Plaza de Catalunya on Las Ramblas.

used to it. It's like something you see on TV—you don't expect it at all."

All over the city, police officers and cars moved to block access to train stations and other public places as helicopters circled above.

Gregorio Giménez, a waiter at a restaurant near the scene, said staff and patrons had locked themselves inside. "The whole area is under a police cordon," he said by phone.

"We don't have a TV, so everything we know now is through the internet."

Barcelona is one of Spain's

top destinations and August is a particularly busy month for tourism.

"Barcelona has always been a city of peace, dialogue, democracy, open to the world and proud of its diversity," said the city's mayor, Ada Colau. "It is a cosmopolitan city and will continue to be a cosmopolitan city."

Thursday's attack was the latest in a string of European terrorist attacks in which vehicles have been used as weapons.

In the U.K., vehicles were used in a trio of deadly attacks this year at Westminster

Bridge, London Bridge, and a London mosque.

In 2016, an attacker in Nice, France, used a rental truck to plow into crowds celebrating the French national day along that city's seaside promenade, killing 86. Islamic State later published a guide for vehicle attacks, citing their ability to produce a high casualty count.

Another truck attack took place on Dec. 19, 2016, in Berlin. A Tunisian, who had lived in Germany for many years, hijacked a truck and drove it into a Christmas market, leaving 12 people dead.

Spain hadn't suffered a fatal terrorist attack since July 2009, when the Basque separatist group ETA killed two paramilitary police officers on the island of Mallorca. ETA, which sought to secure an independent Basque homeland stretching from northern Spain to France, announced a cease-fire in 2011, ending four decades of bombings and shootings that left more than 800 people dead.

By the time the cease-fire was announced, Spanish security forces had shifted their focus to Islamic terrorist groups.

Spain suffered what is still the deadliest attack in Europe's postwar history when a jihadist cell loosely controlled by al Qaeda killed 191 in the coordinated bombings of four Madrid commuter trains on March 11, 2004.

Among Spaniards, there was a widespread belief that the bombings were a punishment for then-Prime Minister José María Aznar's support of the U.S.-led invasion of Iraq, where Spanish troops were deployed.

On Thursday U.S. President Donald Trump said on Twitter that the U.S. stood ready to help Spanish authorities. "The United States condemns the terror attack in Barcelona, Spain, and will do whatever is necessary to help," Mr. Trump posted. "Be tough & strong, we love you!"

—Marina Force, Int'l
Landauro, Jason Douglas
and Jon Sindreu contributed
to this article.

JOB

Continued from Page One

Many of those who do find work are stuck in low-skill and temporary jobs from which they will struggle to emerge.

Despite the gloom, Europe's overall economic picture hasn't been so bright in years. On Wednesday, the EU raised its measure of eurozone growth during the second quarter to 2.5% annualized from a first estimate of 2.3%, meaning the region has grown for 17 straight quarters.

Solid growth has in turn brought eurozone unemployment to 9.1%, its lowest in eight years. Joblessness in Germany hasn't been so low since reunification. In Spain, unemployment—which hit 27% four years ago—now stands at 17% and is falling. Last week, Portugal said its second-quarter jobless rate dropped to 8.8% from 10.1% the previous quarter.

Amid fanfare about Europe's comeback, the labor-market scars of the recession present a challenge to policy makers and suggest political discontent in the region isn't going away.

The situation in Spain—the poster child of Europe's recovery and a country on track to record its third year of 3%-plus growth—is a case in point. Though Spain has created

around 1.6 million jobs since 2013, the recovery has come at a price. Around 90% of the new jobs are temporary, some lasting only several days, according to government figures.

It is a decadeslong problem in Spain that postcrisis labor reforms have failed to resolve.

A tourism boom in Europe's south this summer—record arrivals in Spain, Greece and Portugal are powering growth there—is at the center of a debate now over the quality of the jobs recovery. Government officials say higher-quality jobs and more permanent contracts will come as the countries' economic recoveries deepen further. Unions and opposition political leaders say change isn't coming fast enough.

In Spain, a quarter of all new jobs are estimated to be in tourism, according to a government agency analysis. Many are seasonal, low-paying jobs that offer dim long-term prospects.

Greece counts 341,000 jobs in tourism, up around 30% in four years, with hundreds of thousands more jobs indirectly tied to the sector. Tourism enabled Ms. Tsolka to find her job on the Ionian island of Lefkada, and has helped cut Greece's unemployment rate to under 22% from around 28% in 2013.

However, Greek employers are increasingly firing older, more experienced full-time staff, replacing them with inex-

perienced, low-paid seasonal or part-time staff, sector executives said.

But with other jobs scarce, many Greeks are resigned. "The mentality that was dominant back in the '80s and '90s that we don't want to become Europe's waiters has changed," said Manolis Karamolegos, head of the hoteliers association on the island of Santorini.

Even low-skill jobs are a mirage for legions of Europe's long-term unemployed.

Southern Europe fares the worst. In Italy, nearly 60% of the unemployed—or 1.2 million people—have been out of a job for at least a year, the highest of any large Western economy, according to the OECD. A third of all Italian adults are inactive.

Some European countries

have made progress. For instance, Sweden has one of Europe's lowest rates of long-term unemployment as a result of investment in adult education and training.

Elsewhere, a number of factors are instead conspiring to leave millions without the prospect of ever returning to work. The result: Structural unemployment in Italy could be around 10%, say economists. In Spain it may be stuck at as much as 15%, economist Marcel Jansen estimated, compared with less than 5% in the U.S.

One explanation is a lack of skills.

Also, in Italy, a sclerotic economy isn't producing new jobs in services or higher-tech fields fast enough to offset the loss of labor-intensive manu-

facturing jobs that were long the bedrock of the Italian economy.

"Italy is simply not producing a sufficient number of jobs," said Stefano Scabbio, president of Northern Europe, Mediterranean & Eastern Europe for ManpowerGroup Inc.

With the vast majority of private-sector employees working in small enterprises, few get job training that would leave them with marketable skills.

In Spain, some students dropped out of high school or didn't attend university during the country's property boom in the early 2000s, often to pursue jobs in the country's red-hot construction sector. Today, many of them lack the skills to find steady work.

Silvia Maroto, a 27-year-old Spaniard, has had more than a dozen jobs since graduating from high school a decade ago. For the past three years, she has been an administrative assistant with Spain's postal service in Madrid, working about six months at a time.

She would like to take some university courses to improve her job prospects, but the lack of money and a steady schedule make it impossible to juggle classes, she said. Spain's robust recovery feels miles away. "I don't have a vision for the future beyond the months when I have work," Ms. Maroto said.

Mr. Abbas in April slashed wages of Palestinian Authority employees in Gaza, then refused to subsidize either electricity supplied by Israel—or fuel for Gaza's main power plant. The move increased widespread blackouts and has triggered public antagonism toward Hamas and its inability to provide basic services. It has also proved a boon for extremist groups in Gaza who wish to seize power from Hamas.

Egypt in June agreed to provide fuel for the power plant in Gaza in return for the added border security, and is in talks to permanently open the Rafah border crossing from Gaza to Sinai and open a key import channel into the strip. Gazans are currently reliant on supplies of food and other goods that enter via Israel.

In a further blow to the militancy, Israel last week also announced progress on a \$800 million over-and-underground barrier that would blunt Hamas's attempts to build tunnels into Israeli territory and launch attacks.

"A combination of circumstances means that Hamas finds itself under huge pressure," said Kobi Michael, a senior researcher at the Tel Aviv-based Institute for National Security Studies, adding that the group was in its weakest "strategic position" of the last decade.

Hamas's warming relationship with Egypt comes amid fears Qatar is under pressure to cut projects in the strip.

WORLD WATCH

SAUDI ARABIA

King Says Qataris To Be Flown to Hajj

King Salman has ordered private planes to ferry in Qatari pilgrims for the hajj to Mecca this month, as Riyadh tries to contain the diplomatic fallout in the Muslim world of its decision to cut ties with Doha.

An unspecified number of planes belonging to national carrier Saudia will fly Qatari pilgrims at King Salman's expense from the Qatari capital to Jeddah in western Saudi Arabia to take part in the annual hajj, the official Saudi Press Agency reported.

In addition, King Salman reopened the Salwa border crossing between Qatar and Saudi Arabia to Qatari pilgrims so that they can drive into Saudi Arabia to take part in the hajj, which all able-bodied Muslims are called upon to do at least once in their lifetimes.

Qatari Foreign Minister Sheikh Mohammed bin Abdulrahman Al Thani welcomed the decision to open routes of travel but complained that the pilgrimage had been politicized, Qatar's Al Jazeera media network reported.

—Asa Fitch

EUROZONE

Trade Surplus Widened in June

The eurozone's trade surplus widened in June, an indication that the euro's recent rise against other major currencies has yet to hinder economic growth.

The European Union's statistics agency said after adjusting for seasonal patterns, eurozone exports fell 1.9% in June from May, but imports were down 4.1%. As a result, the currency area's exports of goods exceeded its imports by €22.3 billion (\$26.17 billion), after a €19 billion surplus recorded in May.

Without seasonal adjustment, the surplus was €26.6 billion, down from €28.9 billion a year earlier.

The eurozone economy has enjoyed a surprisingly strong 2017, with growth accelerating in the three months to June and becoming more broad based.

That has fueled expectations that the European Central Bank will start to wind down its purchases of government bonds. Since that would slow the supply of new euros, the currency has strengthened against the U.S. dollar and the pound over recent months.

A separate data release from Eurostat confirmed there are few signs the pickup in growth has transformed the outlook for inflation, which at 1.3% in July was well below the ECB's target of just under 2%.

—Paul Hannon



Municipal sanitation workers protest layoffs in Athens in June.

ORESTIS PANAGIOTOU/EUROPEAN PRESSPHOTO AGENCY

U.S. NEWS

Trump Attacks Arizona's Junior Senator

President gives support to Jeff Flake's primary opponent, as he takes on others in his party

President Donald Trump's Thursday embrace on Twitter of a primary challenger to Arizona Sen. Jeff Flake is increasing tensions with Republican lawmakers he needs to pass his legislative agenda and keep the government funded in September.

By Natalie Andrews,
Janet Hook
and Kristina Peterson

Mr. Flake, who wrote a book that included criticism of Mr. Trump, is just the latest GOP senator to be targeted by the president. In the past few weeks, the president has criticized five Republican senators and one Democrat, Connecticut Sen. Richard Blumenthal, largely on Twitter.

"Great to see that Dr. Kelli Ward is running against Flake Jeff Flake, who is WEAK on borders, crime and a non-factor in Senate. He's toxic!" Mr.

Trump tweeted Thursday.

Mr. Flake's campaign brushed off the attacks. "You don't serve Arizona by cutting backroom deals in Washington, D.C. That's why Senator Flake will always fight for the people of our state," said Will Allison, Mr. Flake's campaign spokesman.

Mr. Trump's backing of an incumbent's primary challenger is a sharp departure from previous presidents, who sought to protect and expand their congressional allies, and offers the starker example of the intraparty tensions. Republicans hold 52 seats in the Senate, and Mr. Flake is one of two GOP senators deemed most vulnerable in the 2018 midterms.

White House spokeswoman Sarah Huckabee Sanders didn't respond to questions about how Mr. Trump's attacks are part of the administration's overall strategy.

The National Republican Senatorial Committee immediately moved to back Mr. Flake over Mr. Trump. "The NRSC unequivocally supports Senator Flake in his re-election," said Sen. Cory Gardner (R,



PABLO MARTINEZ MONSIVAIS/ASSOCIATED PRESS

President Donald Trump, a Republican, is at odds with a number of lawmakers in his own party.

Colo.), chairman of the committee.

Speaking to reporters after a luncheon in Chattanooga, Tenn., Sen. Bob Corker, a Republican, said "the president has not yet been able to demonstrate the stability nor some of the competence that he needs to demonstrate in order to be successful." Mr. Corker

said Mr. Flake was one of the "finest human beings I have ever met" and the White House would be "well served to embrace the character, the substance, of someone like Sen. Flake."

Mr. Trump's antagonism toward Senate Republicans will likely complicate the high-stakes fiscal negotiations

looming this fall, and the push to overhaul the tax code. The government's current funding will expire at the end of September and lawmakers will have to pass new funding before Oct. 1 to avoid a partial shutdown.

The president is expected to push hard to include money to build a wall along the bor-

der with Mexico, according to an administration aide, which most Democrats and some Republicans have balked at in the past. In April, Mr. Trump was forced to back off his border wall plans so lawmakers could reach a deal keeping the government running. The House in July passed legislation funding the wall as part of a package that included popular spending for veterans and the military, which kept it from being voted on directly and reduced its chances of defeat.

Already, the president's sway is more diminished in the Senate, where a health-care bill collapsed in late July.

Senate Republicans at the receiving end of his criticism, as well as their colleagues, may be even less deferential to Mr. Trump's wishes this fall, particularly if the push for border wall funding risks sparking a government shutdown. In any scenario, Senate Majority Leader Mitch McConnell (R., Ky.), whom Mr. Trump sharply criticized last week for the health bill's failure, is the key to maneuvering legislation through a highly divided chamber.

President Channels Chief Strategist

By MICHAEL C. BENDER

BRIDGEWATER, N.J.—From trade actions against China to a defense of Confederate symbols, President Donald Trump is doubling down on his nationalist agenda while facing pressure to sever ties with the one member of his inner circle who best represents that ideology.

The spotlight has turned on chief strategist Steve Bannon and his standing in the White House after the liberal political magazine, *American Prospect*, published this week an extended interview in which he referred to white supremacist groups as "clowns," said Mr. Trump's pro-business advisers were "wetting themselves" and—contrary to the president's public positions—dismissed potential military action in North Korea.

People close to Mr. Bannon were concerned Thursday that the interview would lead to his termination.

Less than three weeks ago, an interview with Anthony Scaramucci resulted in his ouster as White House communications director. Mr. Scaramucci, who attacked West Wing colleagues in vulgar terms during an interview with the *New Yorker* magazine, was asked to resign by White House Chief of Staff John Kelly, who has sought to bring more discipline and control to the administration.

While Mr. Bannon didn't use crude language like Mr. Scaramucci did, these people said his contrary position to Mr. Trump on North Korea may prove fatal.

There was no reaction Thursday from the White House to Mr. Bannon's interview. "You're going to need to contact Steve Bannon for any further clarification" on his interview, White House spokes-



Steve Bannon, in an interview published this week, disagreed with the president on North Korea.

woman Lindsey Walters said.

Mr. Bannon didn't respond to a request to comment on Thursday but his allies said he didn't intend his discussion with the *American Prospect* to be on the record. His allies said he stood by the comments in the interview.

As of early Thursday morning, Mr. Bannon hadn't spoken to the president or Mr. Kelly, according to multiple White House officials. Jared Kushner, Mr. Trump's son-in-law and senior aide, and National Economic Council Director Gary Cohn, both more moderate members of Mr. Trump's team, have urged the president to sever ties with Mr. Bannon, according to a person familiar with the conversations.

In the *American Prospect* interview, Mr. Bannon said Mr. Cohn, who is being considered by Mr. Trump to be the next Federal Reserve chairman, was

lobbying against more-restrictive trade policies.

"That's a fight I fight every day here," Mr. Bannon told the magazine.

The surfacing of the interview comes at what appears to be a precarious moment for the man who is credited with shepherding Mr. Trump to victory in last year's election.

Last weekend, Mr. Trump gave friends and advisers the impression that he was ready to part ways with Mr. Bannon, even as the GOP president was preparing to announce his first major trade action against China, an issue with which Mr. Bannon has been deeply involved.

But Mr. Bannon's job status seemed to become an ancillary issue on Tuesday after the president delivered one of the most combative news conferences of his presidency. In the 17-minute news conference,

which was called for him to speak about infrastructure issues, the president defended his initial response to racially charged protests in Virginia, saying both sides were to blame for the clashes.

The news conference came a day after Mr. Trump issued a statement singling out white supremacists for blame. The president had faced heavy pressure for failing to do so over the weekend. One woman was killed during the violence when a car driven by an alleged white supremacist plowed into a crowd of counterprotesters.

Inside the White House, Mr. Bannon had argued against issuing Monday's "white supremacists" statement, telling the president that he would be criticized in the media for changing this position, said one person familiar with the exchange.

—Peter Nicholas contributed to this article.

Earlier this week, Chief of Naval Operations Adm. John Richardson tweeted that "events in Charlottesville unacceptable & mustn't be tolerated @USNavy forever stands against intolerance & hatred." Other service chiefs soon joined in, including Army Chief of Staff Gen. Mark Milley, Marine Commandant Gen. Bob Neller and Air Force Chief of Staff Gen. David Goldfein.



U.S. Joint Chiefs of Staff Chairman Gen. Joe Dunford, left, meeting with Chinese President Xi Jinping at the Great Hall of the People in Beijing on Wednesday.

against the U.S., in defense of states that seceded from the nation Washington and Jefferson founded.

Mr. Trump's tweets on Thursday signal that he is doubling down on that position and seeking to keep the issue in the news.

"Robert E. Lee, Stonewall Jackson—who's next, Washington, Jefferson?" the president posted on Twitter. "So foolish!"

The president's comments come as mayors, governors and activists around the U.S. have responded to the violence in Charlottesville by accelerating efforts to remove statues of generals, Confederate flags and other symbols of the South's insurgency during the Civil War.

While defenders laud the statues as testaments to Southern bravery and memorials to lost lives, detractors consider them inseparable from the violent movement to fracture the U.S. and keep African-Americans in bondage.

Many of these local decisions have followed acts of violence. In the aftermath of the Charleston, S.C., mass shooting in 2015, for example, Nikki

Haley, the state's governor at the time, helped lead a move to remove a Confederate flag from the state Capitol grounds. Ms. Haley now serves as Mr. Trump's ambassador to the United Nations.

In Washington, House Minority Leader Nancy Pelosi (D., Calif.) called on Speaker Paul Ryan (R., Wis.) to remove Confederate statues from the Capitol building, saying there is "no room for celebrating the

violent bigotry of the men of the Confederacy."

Each state gets to display two statues to commemorate notable people. There are about 10 Confederate soldiers and politicians in the Capitol, including a statue of Lee, placed in the Statuary Hall collection by Virginia.

Asked if Mr. Ryan would act on Ms. Pelosi's request, Doug Andres, spokesman for Mr. Ryan, said the matter was up

to the states.

"These are decisions for those states to make," he said.

Charlottesville's City Council voted in February to remove its Lee statue. After the

clashes in Virginia, Baltimore Mayor Catherine Pugh ordered Confederate-linked monuments to be removed, dis-

patching contractors in the middle of the night, she said, to avoid protests.

A plaque honoring a Confederate leader was removed from a San Diego park on Wednesday morning,

and the mayor of Birmingham, Ala., ordered the covering up of a Confederate memorial to block it from view.

The debate was already prominent in Richmond, Va.—a former capital of the Confederacy—before the violence in Charlottesville. Mayor Levar Stoney formed an advisory group in June to redefine what he called the "false narrative" of the Confederate statues lining the city's grand Monument Avenue.

On Wednesday, the Democrat said the new commission will also examine removing or relocating some, or all, of the statues.

"These monuments should be part of our dark past and not of our bright future," Mr. Stoney said. He said the decision process on their future will include public input.

Two great-great grandsons of Confederate Gen. Thomas "Stonewall" Jackson urged the mayor and monument commission to remove the statues in a letter Wednesday.

"Last weekend, Charlottesville showed us unequivocally that Confederate statues offer pre-existing iconography for racists," wrote William Jackson Christian and Warren Edmund Christian.

Confederate monuments like the Jackson statue were never intended as benign symbols, they wrote. "Rather, they were the clearly articulated artwork of white supremacy."

Mr. Trump said the Confederate symbols should serve as reminders for Americans to learn from history. "The beauty that is being taken out of our cities, towns and parks will be greatly missed and never able to be comparably replaced," he wrote.

Natalie Andrews contributed to this article.



Workers removed monuments to Confederate generals from a park in Baltimore this past week.

ALEC MAGILL/PROPUBLICA/REUTERS

IN DEPTH

CISCO

Continued from Page One

Now, the fighting is unfolding in court, where Cisco, once the world's most valuable company, has accused Arista of stealing its technology. Arista has denied the allegations, saying the Silicon Valley giant sued only because it lacked smart ideas to regain business. Each side has notched incremental wins over the past 2½ years with no sign of a resolution.

By the time Mr. Chambers handed over the CEO position to Chuck Robbins in 2015, Cisco had been through its fifth consecutive year of layoffs, various restructuring and other cost cuts. It is struggling to regain the market share captured by Arista and other competitors, particularly in Cisco's crucial switching business, which links together computers on corporate networks.

Mr. Robbins said Cisco is now repositioning itself to build products with more automation and security.

"Because we see companies that get disrupted, you can disappear in a hurry in today's world," he said in a recent interview. In June, Cisco promoted a new line of automated and programmable switches. Mr. Robbins told a gathering of 28,000 partners and customers the company was on a journey "to change everything."

His predecessor, Mr. Chambers, has said he made mistakes during his tenure as CEO. Cisco, he said in court testimony, was too slow to react to a fast-changing market. He declined to be interviewed for this article, as did Ms. Ullal.

On Wednesday, Cisco reported that revenue fell for a seventh straight quarter.

This account of how a Cisco insider became one of its fiercest foes is based on interviews with current and former executives of Cisco and Arista, court testimony and records, and unpublished corporate documents and emails reviewed by The Wall Street Journal.

Mr. Chambers, 67, now Cisco's executive chairman, is credited with the company's extraordinary growth phase in the 1990s, largely by buying smaller companies, including Crescendo Communications where Ms. Ullal worked.

Ms. Ullal, who rose to become one of Cisco's most valuable executives over her 15 years at the company, ran the switching division, which allows companies to shuttle data at high speeds. By the time she left, switching was Cisco's biggest business, with more than \$10 billion in annual revenue, a big reason why Cisco recovered from the dot-com bust.

Mr. Chambers and Ms. Ullal made a strong team, partly because they are both extremely competitive, according to former executives who worked with them. Their priorities and styles sometimes clashed. Mr. Chambers, a soft-spoken West Virginian, was a managerial guru and a salesman whose gracious manner skewed more senatorial than Silicon Valley. Ms. Ullal, raised in India, was an outspoken engineering and marketing whiz who disliked rigid rules.

Ms. Ullal grew frustrated as Cisco began moving beyond its core switching and routing



BRENDAN McDERMID/REUTERS

Arista CEO Jayshree Ullal raises a gavel after her company's listing on the New York Stock Exchange on June 6, 2014.

business into areas such as high-end videoconferencing and consumer electronics, former executives who worked with her said. About a year before she left, Mr. Chambers had created dozens of internal councils and boards, which was at odds with her command-and-control approach.

Cisco's engineering team knew Ms. Ullal's departure would be bad news, say former co-workers.

Arista was a better fit. The Santa Clara, Calif., startup, founded in 2004 by former Cisco executives, was small and entrepreneurial. When Ms. Ullal joined as CEO in 2008, it had shipped its first product, an unusually fast networking switch for Wall Street trading networks. The market was worth only about \$50 million but it gave Arista a foothold.

Mr. Chambers didn't see his protégé as a threat until it was too late.

It was also a segment of the market Cisco hadn't prioritized. Ms. Ullal urged her employees to avoid attracting Cisco's attention at first, said a person familiar with her thinking. As the giant in the field, Cisco could have "destroyed us with a stray thought," this person said.

In public, Arista said it planned to focus on narrow markets such as high-frequency trading. Privately it was working on building a flexible and easy-to-program switch that could be sold to large internet companies that were Cisco customers.

Mr. Chambers didn't see his protégé as a threat until two years later, when it was too late. In 2010, Arista was on the verge of winning about \$2 million of business from Microsoft, one of Cisco's biggest customers, according to a March 2011 briefing document for Mr. Chambers and his own court testimony. The amount was small, but to Cisco it was a "canary in the coal mine," the briefing document said.

The Arista product was faster at moving data than Cisco's hardware, and cost less, according to internal Cisco documents. Cisco feared

that Arista could end up with as much as \$100 million in future annual sales to Microsoft. Cisco was already concerned about losing business after missing its annual revenue estimate for the first time in eight years.

Microsoft remains a big Cisco customer. But for the past six years, Microsoft has been Arista's largest customer, accounting for 16% of its total revenue last year, or \$181 million.

Mr. Chambers felt betrayed by Ms. Ullal, a former Cisco executive said. "To John, it was a relationship question—'Why would you do such a thing?'"

He told executives to keep Arista from winning any new business from Cisco customers, according to former executives. Mr. Chambers also sent a 1,500-word memo to employees in April 2011 saying Cisco was too slow to make decisions and lacked discipline.

That month, the sales team created a "Tiger Team" to track Arista's every move, thwart its marketing efforts and forestall its initial public offering plan, according to internal presentations and emails. As many as 70 salespeople and engineers participated in "war room" calls where no detail was too small.

In 2012, Mr. Chambers asked four top Cisco engineers who had created some of its past hit products to secretly start a new company to compete directly with Arista's offerings. Cisco invested \$135 million in the company, Insieme Networks, and later bought it.

Arista's technology was faster, more flexible and less expensive than Cisco's, according to customers and internal sales documents. Facebook engineers described Cisco as "behind the curve and on target to become irrelevant" in the data center, according to a Cisco engineer's email to executives in March 2013. Facebook, now a customer of both Arista and Cisco, declined to comment.

A Cisco employee presented the slide deck with Ms. Ullal's photo on a bull's-eye a few months later, calling for "zero loss tolerance against Arista."

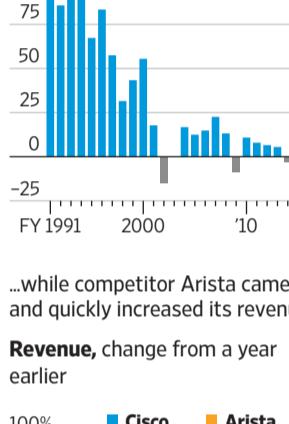
Other customers started complaining. An email from a customer support engineer in August 2013 to dozens of senior managers, including Mr. Robbins, the future CEO, said

Networking Business

Cisco went public in 1990 and built itself into a giant in the markets for network switches and routers...

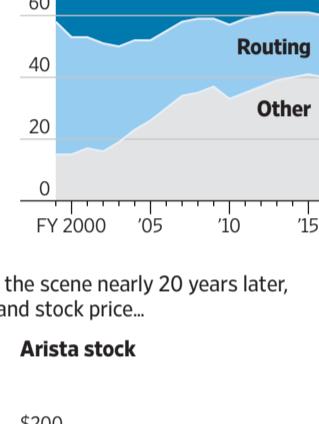
Cisco sectors

change from a year earlier



Cisco sectors

change from a year earlier



Switching

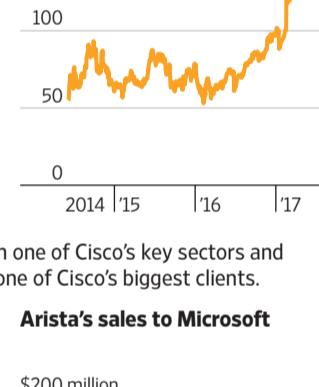
Routing

Other

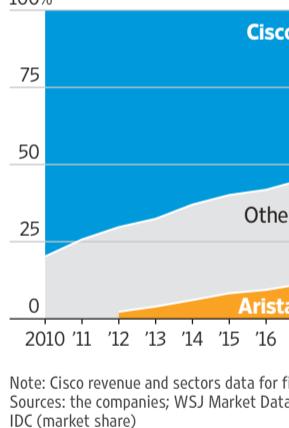
Revenue, change from a year earlier



Cisco stock



Arista stock



Arista's sales to Microsoft

Note: Cisco revenue and sectors data for fiscal years ending in July. *First quarter

Sources: the companies; WSJ Market Data Group (stock); IDC (market share)

DATA-CENTER SWITCHING MARKET SHARE

100%

Cisco

Other

Arista

25

50

75

100

125

150

175

200

225

250

275

300

325

350

375

400

425

450

475

500

525

550

575

600

625

650

675

700

725

750

775

800

825

850

875

900

925

950

975

1000

1025

1050

1075

1100

1125

1150

1175

1200

1225

1250

1275

1300

1325

BOOKS

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Soviet insurgency by nationalist partisans, a war still unresolved when she was born in 1948. Her father had served on the Soviet side. Later, when her family returned to Belarus, she lived among other un-

attack it's better not to look at faces.... They themselves cannot raise their eyes to each other."

Part of the women's reticence in these interviews came from disgust. "I saw so many cut-off arms and

winning her Nobel Prize, "it is a huge common grave and a blood-bath."

The unique style that won that prize is on display throughout this book. Ms. Alexievich's gentle, open-

viet army's record of mass rape, Prussia, for instance, nor of the demographic venereal disease.

There is a further problem with the women's picture of themselves. When Ms. Alexievich collected

which the Russian émigré collection stories, 30 years after the war, deeply sexist Soviet culture emerged, the right-wing didn't

the first t
evich, the futur
was able to get

was able to get past the book's censors. In the mid-1970s, however, after she set out to

the stories of women who fought in the Great Patriotic War

by some locals who were still alive. The myth of victory in a redemptive war must have rung hollow in the streets of Minsk.

For all that, it took years and many miles of traveling to find and capture all the testimonies here. Ms. Alexievich never tries to simplify: This is no moral fable. She struggles with the women's silences, their canny fear they might say too much. As the spools of her tape recorder turn between the team things and the photographs, she waits. "I was so young when I left for the front," a doughty veteran begins to say. "I even grew during the war." It took great stamina to listen. "The tape recorder records the words," the author muses, but "when a person speaks, something

more takes place than what remains on paper. I keep regretting that cannot 'record' eyes, hands."

That may be true, but we still end up feeling that we have been sitting at her side. With her, we hear the memories of partisans guerrilla fighters trapped behind the lines. Their land, like Belarus, was occupied in the first months. "The Germans rode into the village," remembers one, "on big black motor cycles.... They laughed all the time. They guffawed! My heart stopped at the thought that they were here, on

Soon everything around these women was on fire, including churches with whole populations locked inside. "To this day," another adds, "the scream of a child who is thrown down a well still rings in my ears. . . . And to see a young fellow cut up with a saw. . . . After that, when you go on a mission, your heart seeks only one thing: to kill them, kill as many as possible, annihilate them in the cruelest way."

as nurses, doctors or radio and telegraph operators. Some willingly remained there, perhaps to avenge dead father or sweetheart. But there was little sweetness in their world. "Heavy combat.... That is a horror," a medical assistant remembered. "They break each other's bones. There's howling, shouting. Moaning. And that crunching!... The crunching of bones. You hear a skull

With scrupulous respect for the service these women gave, Ms. Alexievich identifies each by spe-

Alekhinevich identifies each by squalor, socialism and rank. But she imposes neither pattern nor hierarchy. “I write not the history of war,” she insists, “but the history of feelings. I am a historian of the soul.” The censor clearly hated souls. “We don’t need your little history,” she was informed. “We need the big one.”

More than enforced lies, fake histories helped some women cope

history. The history of the victory. That admonition must have seemed absurd to someone who had listened to real pain and anger, terror and remorse. “There is only one path,” Ms. Alexievich concludes. “To understand through love.”

The censor let her print her book, but passages were cut. Though Russia's forests had run with blood, he could not stomach images of women coping without sanitary pads (although it was the state's own fault there were none in the kitbags). He struck out anything that might offend a prudish Soviet patriarch: a mother drowning her own baby to prevent its crying out, a partisan assuaging hunger by consuming human flesh. "We didn't shoot [prisoners]," another censored testimony runs. "We stuck them with ramrods like pigs, we cut them to pieces. . . . I waited for a long time for the moment when their eyes would begin to burst from pain."

Such stifled memories would shape the Soviet consciousness Ms. Alexievich understands so well. "If you look back at the whole of our history, both Soviet and post-Soviet,"

Confabulation is one of these. Even giving credit to each testimony—he

giving credit to each testimony—no approach leaves little choice—the author denies us the opportunity to ask wider questions. The memory of trauma is notoriously insecure. Some people lock the horror in the deepest darkness of their minds, others recall no more than glimpses, flashbacks, cinematic stills.

les of a noble war
with monstrous memories.

In the 1990s, when I interviewed hundreds of Soviet veterans myself—the supposedly first-person testimony I was recording sometimes turned out to have been borrowed from war films or popular fiction. The narrators were not lying; they had simply corralled their own shapeless, terrifying memories into a more manageable frame. By the time I met them—admittedly a decade later than Ms. Alexieva did—some could no longer recognize the difference between their own lived nightmares and a prefigured tale.

The choice of women as respondents may have mitigated this, but time and politics play tricks with every human soul. The traditional war hero was certainly a male, but women were also exposed to the mesmeric influence of myth. Indeed, after the war they were encouraged to embellish it, donning uniforms to speak in schools and appearing at public remembrance ceremonies.

In Ms. Alexievich's book, the choice of what to credit is hers alone. She leaves us to guess exactly how many women fought, and what they saw but could not speak.

'More help to the front!'

of bandages, of gallant kisses, small hands. "I smiled all through the war," a former surgeon fides, "because a woman always

fides, "because a woman should bring light.... [Her] strongest medicine is love." But light and goodness were rarities during the *stalag*. Before it, too, the peasant culture from which many women came was not conducive to hand-kissing or floaty skirts.

surviving women often worked animals, pulling ploughs because there were no horses left. Women villages lived without men. The women may have dreamed of bringing light, but that was a privilege reserved for the town-born minority.

were recalling the best years of their lives, their youth. No one could wish to relive Stalin's era, but they were yearning for a common cause and courage, thrifty lost virtues. It was that year when the Soviet Union collapsed that inspired Ms. Alexievic to write her masterpiece, "Second Hand Time."

Ms. Merridale is the author of "Lenin on the Train" and "Ivan's War," an oral history

BOOKS

'What we call the beginning is often the end / And to make an end is to make a beginning, / The end is where we start from.' —T.S. Eliot

1922 and All That

The World Broke in Two

By Bill Goldstein

Bloomsbury Circus, 351 pages, £25

BY MICAH MATTIX

WHEN DID MODERN literature begin? Was it in 1897, with the publication of Stéphane Mallarmé's long experimental poem "Un Coup de dés," as R. Howard Bloch argued in last year's "One Toss of the Dice"? Or was it 1910? ("On or about December 1910," Virginia Woolf once wrote, "human character changed.") Perhaps it was 1913, with the publication of the first volume of Marcel Proust's "A la recherche du temps perdu."

In "The World Broke in Two: Virginia Woolf, T.S. Eliot, D.H. Lawrence, E.M. Forster, and the Year That Changed Literature," Bill Goldstein picks 1922. Part group biography, part literary criticism, the book gets its title from Willa Cather's remark that "the world broke in two in 1922 or thereabouts," separating a new kind of writing—internal, experimental and sexually frank—from the old.

For Mr. Goldstein, a literary journalist based in New York, the year was significant not only for the publication of James Joyce's "Ulysses" and the first English translation of Proust, but also for the creative breakthroughs made by his four writers. Each began the year in crisis, and while Eliot was the only one to publish a landmark work ("The Waste Land") during the next 12 months, the others experienced, Mr. Goldstein argues, a "spark of vision" that would light the way toward more innovative work.

Both Woolf and Forster started 1922 depressed and writing little. The previous year Woolf had been sick the entire summer, suffering from insomnia, headaches and "frets." She had improved in the fall, but by January was sick again, this time with the flu, and was looking back on her previous work with disappointment. "I have made up my mind," she wrote in February, "I'm not going to be popular . . . I'm to write what I like," and critics are "to say what they like. My only interest as a writer lies, I begin to see, in some queer individuality."

The remark would prove prescient. Inspired by what Mr. Goldstein describes as Proust's use of "memory and experience to illustrate a character's state of mind," Woolf began idiosyncratically adapting his techniques in the short story that would become the first part of her 1925 novel "Mrs. Dalloway."

Forster, too, was impressed by Proust, whom he had discussed at length with Woolf. "Would that I had the knack of unrolling such an em-



NATIONAL PORTRAIT GALLERY LONDON

WE MODERNS T.S. Eliot and Virginia Woolf, photographed by Lady Ottoline Morrell. The society hostess frequently entertained Eliot, Woolf, Forster and Lawrence.

broidered ribbon," he wrote in his diary shortly after returning from a second trip to India in early 1922. He hadn't worked on what would become "A Passage to India" since 1913. When he visited the Woolfs in March, Virginia recorded that she and her husband, Leonard, thought he was "depressed to the point of inanition": "To come back to Weybridge . . . to an ugly house a mile from the station, an old, fussy exacting mother . . . without a novel, & with no power to write one—this is dismal, I expect, at the age of 43."

Yet, within two months, that power did arrive. In April, he decided to burn the erotic stories he had been writing

because, he said, "they clogged [him] artistically," and in May, he returned to his Indian novel with "careful & uninspired additions . . . influenced by Proust." These aren't exactly the diary jottings of an artist who has regained his confidence, but the small progress gave him a resolve that his life "should contain one success." He would finish "A Passage to India" at the beginning of 1924.

It is the linked portraits of Forster and Woolf, two friends who each, to their own ends, found a way forward in their work through the example of Proust, that form the most persuasive and valuable part of Mr. Goldstein's book. The chapters on Eliot and Law-

rence are somewhat less successful.

Mr. Goldstein's treatment of Eliot is largely a rehearsal of the well-known story of the publication of "The Waste Land," the definitive account of which is found in Robert Crawford's recent "Young Eliot." By the end of 1921, Eliot had completed the poem, which he had worked on for several years, in Lausanne, Switzerland, where he was recuperating from a nervous breakdown. In January, Eliot stopped in Paris to show the poem to Ezra Pound, who would help him edit it over the next few months. Although Mr. Goldstein gives a tantalizing account of a June 1922 dinner at Hogarth House after

which Eliot "sang," "chanted" and "rhythmed" his poem for the Woolfs, he has little to say about what, if any, influence "The Waste Land" had on Woolf's writing.

D.H. Lawrence is the odd man out in this quartet, and Mr. Goldstein's claim that things changed radically for him in 1922 doesn't convince. While Mr. Goldstein touts Lawrence's highly personal novel "Kangaroo," which he wrote during a three-month visit to Australia in that year, he has little to say about how any of the literary innovations of 1922 contributed to this or to his later, more important works.

Four English writers rocked by the newness of Joyce's 'Ulysses' and the techniques of Proust.

More than anything else, what separates the works of these writers from what had come before, Mr. Goldstein argues, is their sense of "dislocation in time and consciousness" following the Great War and their attempt to capture "the texture and vitality of a new landscape of the mind." Perhaps. What the book does show convincingly—and somewhat unexpectedly given Mr. Goldstein's focus on the "creative struggles" of these talented but fragile writers—is how important the help of friends and family was in supporting them. Leonard Woolf cared for his wife during her frequent bouts of illness and repeatedly encouraged Forster to return to "A Passage to India." Pound worked tirelessly on Eliot's behalf to bring "The Waste Land" to light, and Lawrence's wife, Frieda, provided the volatile writer with the stability he needed to do his work.

"Thereabouts" would sound terrible in a book title, but it's the right word to use when dating modernism, or any literary period for that matter. Changes in literary taste are messy, and dates somewhat arbitrary, drawn from historical events or keyed to the publication of a single work. Still, "The World Broke in Two" makes a convincing case that things were changing for Woolf and Forster, at least, even if those changes wouldn't be visible in their work for several years. This, combined with the publication of "Ulysses," "The Waste Land" and Proust in translation, make 1922 as good of a year as any for the beginning of this thing we call modern literature.

Mr. Mattix is an associate professor of English at Regent University and a contributing editor at the *Weekly Standard*.

FICTION CHRONICLE: SAM SACKS

An Atlantis Called Manhattan

TO LIVE IN a city as changeable as New York is to live in a place that is always on the cusp of disappearing and being replaced by some new version of itself. This means that its denizens tend to exist in a state of perpetual nostalgia. Renowned city blogger Jeremiah Moss opens his recent book "Vanishing New York," a full-throated lament for the city's bygone charms, by writing, "One of the great

A brilliant re-creation of a disappeared New York of cheap rents, club kids and Bret Easton Ellis.

tragedies of my life was that I had the misfortune to arrive in New York City at the beginning of its end." He's speaking of 1993, the halcyon year just before the twin scourges of Giuliani and gentrification started to squeeze out the thriving counterculture of radicals and misfits.

Appearing as both a companion and a rejoinder to Mr. Moss's book is Jarett Kobek's brilliant "The Future Won't Be Long" (Serpent's Tail, 399 pages, £6.99 on Kindle), which is set mostly in Lower Manhattan between 1986 and 1996. This novel takes a far darker view of that prelapsarian age, depicting the chaos and cruelty that invariably at-

tended the wild parties and protests. It delivers a killshot to the urge to romanticize the past. "Everyone in New York complains about how the city was better ten years ago," one character says. "Or some

indeterminate period before

their own arrival, whichever comes first. But it's never better, not really. It's always the same."

"The Future Won't Be Long" is a prequel to Mr. Kobek's self-published 2016 Silicon Valley satire "I Hate the Internet." It's about Baby, a gay orphaned farm boy who comes to New York from Wisconsin. On his first day there, after his bag is stolen in an East Village flophouse, he meets Adeline, a student at Parsons School of Design, who has just been humiliated by her junkie boyfriend. Baby is vulnerable, inexperienced and prone to fistfights. Adeline, a Pasadena blueblood, is trying to break her dependency on her mother's money. As if to ridicule her posh background, she speaks like a midcentury Hollywood starlet. ("Why, Baby, I'm a positive fraud. My accent is as affected as yours. It's sheer insecurity, darling.") They bond immediately and she invites him to move into her dorm room.

As Mr. Kobek follows the evolution of their friendship, he revives the grubby touchstones of the lost city. The chapters, alternating be-

tween the perspectives of Baby and Adeline, visit a pornographic movie house on Third Avenue; the Jones Diner, famous for its \$1.50 cheeseburger deluxe; the homeless shantytown in Tompkins Square Park; the

less mocked, as is Brooklyn Heights poohbah Norman Mailer.

Writing with encyclopedic authority and striking equilibrium, Mr. Kobek punctuates the glamour of these cultural signifiers by threading his narrative with grisly real-life crimes.

Baby and Adeline rub shoulders with Daniel Rakowitz, the Tompkins Square vagrant who butchered his girlfriend and served her in a soup, and with the notorious club promoter Michael Alig, who took part in the murder and mutilation of his drug dealer. In the midst of ongoing transformations, horror is one of the only things that can be relied upon. "If life is a cycle," Baby says, "then it's the worst things that repeat."

But there's one other constant in the novel, and that's the friendship that Baby and Adeline sustain through their succession of boyfriends and jobs and mental breakdowns. Mr. Kobek sensitively traces the convoluted paths they take toward forging their careers—Adeline becomes an illustrator, Baby a writer of high-concept science fiction—and even, in Adeline's case, toward starting a family. The disappearance of the city where they came of age coincides with the end of their misspent youth. You can't stop time's passage, this absorbing novel reminds us. You can only find someone to love to help you survive it.



1985 An abandoned Building at 66 Avenue C in New York City. 'Stop Displacement and Gentrification! Save the Lower East Side!' read the signs.

Sophocles' "Antigone" provides the template for Kamila Shamsie's "Home Fire" (Bloomsbury Circus, 276 pages, £16.99), which centers on three British siblings, Isma, Aneeka and Parvaiz, whose deadbeat father abandoned them to pursue jihad in Afghanistan and then died en route to the prison in Guantanamo. Lacking a strong paternal influence, Parvaiz is beguiled by the lofty promises of an Islamic State recruiter who delivers the young man to Syria. Though he quickly discovers that he doesn't have the stomach for terrorism, his return is blocked by the British government's aggressive home secretary, Karamat Lone. The plot thickens when Aneeka takes up with Lone's pampered son, Eamonn—an Anglicization of his Muslim name, Ayman—scandalizing the politico and turning him against his son.

Ms. Shamsie develops crosscutting lines of loyalty to family, faith and public duty. Isma and Aneeka are divided on the question of whether their responsibility is to report their wayward brother to officials or try to covertly secure his return. Lone, the book's most complex and intriguing figure, has won the acceptance of the suspicious populace through unforgiving crackdowns of his fellow Muslims. ("I hate the Muslims who make people hate Muslims," he explains.) Alas, Ms. Shamsie disperses much of the tension in these conflicts by fragmenting the story among different points of view. "Home Fire" is thoughtful and thought-provoking, but too piecemeal to build to a satisfying tragedy.

BOOKS

'The most effective way to destroy people is to deny and obliterate their own understanding of their history.' —George Orwell

Europe's Scramble for Africa

Empires in the Sun

By Lawrence James

W&N, 391 pages, £12.99

BY CAROLINE ELKINS

NEARLY 75 YEARS AGO, the Trinidadian scholar Eric Williams published his landmark study "Capitalism and Slavery." Dismissing the idea that the end of the slave trade and slavery were moments of moral triumph for Britain, Williams attributed them mainly to economic forces. Once 19th-century industrial capitalism began to flourish, Williams argued, it destroyed the workings of 18th-century commercial capitalism, including slavery. "Without a grasp of these economic changes," he concluded, "the history of the period is meaningless."

Williams's thesis was revolutionary in 1944. Despite the eloquence of the empire's many defenders, one of His Majesty's subjects had irrevocably shattered Britain's myth of altruism. And despite decades of reconstructive efforts, its pieces have never been fully reassembled.

How, then, does one today script a laudatory narrative of abolition and, with it, Britain's leading role in the carving-up and "civilizing" of Africa in the 19th and 20th centuries?

Lawrence James, an independent historian of the British Empire, shows how it can be done. In "Empires in the Sun" he sets out to write a history of Africa under European rule and, in doing so, turns his analytical clock back to about 1940. With this temporal sleight of hand, Williams disappears and goes the way of other people of African descent whose round peg of iconoclasm doesn't fit into Mr. James's square hole of African backwardness and neediness.

From the get-go, Mr. James gazes into his historical crystal ball and declares how, without European colonization of Africa—formalized in Berlin in 1884-85—the continent would have descended into horror. Africa's partition was an act of European mercy. Had it not occurred, "Africa's subsequent history might have followed the pattern of Europe's in the Dark and Early Middle Ages, with intermittent regional wars for political supremacy and consolidation."

Mr. James's subtitle, "The Struggle for the Mastery of Africa," tips his historical hand. "War had always been endemic in Africa," the author avers, as had an Islamism "untroubled by slavery." In contrast, "Britain was the



A WORLD RENT ASUNDER The French and the British tear Africa apart.

friend of the weak and the oppressed and a nation deeply aware of its collective Christian duty."

Putting aside these inaccuracies, what gives one pause is Mr. James's claim that he has "tried to avoid retrospective morality and its present-day repercussions." It is his historical argument for British superiority—moral, political and economic—that frames "Empires in the Sun." In

Mr. James's world, not only was Britain the standard bearer of all things modern, so too was it light years ahead of its European rivals, particularly the French.

Where writers choose to begin and end their stories tell us a great deal. The book's opening with France's sacking of Algiers in 1830 is an unorthodox point of entry for a history of Europe's African exploits. It signals, however, one of the author's overarching themes: "The events in Algiers and the reactions of Frenchmen set the pattern and tone for over a hundred years of European conquest in Africa."

To be fair, Mr. James does suggest that Britons, too, got their hands dirty, but the infelicities are framed within the moral rectitude of the mid-Victorians and their humanitarianism. Gen-

eral Kitchener is largely given a pass, particularly at Omdurman; and Alfred Milner's creation of a web of labor exploitation in southern Africa—the disruptive effects echo down to the present day—is left unmentioned.

It's here that Mr. James's failure to acknowledge revisionist histories that undercut abolitionist triumph is thrown into relief. This underemphasis of contrarian scholarship is carried forward, not only with the absence or minimizing of certain historical episodes, but also with the overemphasis of other Europeans' avarice and exploitations.

Take, for example, the Mau Mau Uprising in Kenya, which began in 1952 and ended in 1960. The author offers up a few pages on the events, and ends with brief comments on the torture that British officials perpetrated in the colony's detention camps. Mr. James concludes "bad men did many bad things in Kenya," though it was more than just a few bad apples.

In fact, after four years in the dock and two courtroom defeats, the British government, in 2013, paid out £20 million in a settlement to more than 5,000 former detainees. The charge was systematized torture; moreover,

Foreign Secretary William Hague read a statement of "sincere regret" into the parliamentary record, a point Mr. James omits. In contrast to Mau Mau, he gives us a long chapter on France's deployment of similar, systematized methods of violence while decolonizing from Algeria.

An unfashionable argument for the moral, political and economic superiority of the British among the colonial powers.

In the end, the point should not be about who was better or worse in their "Mastery of Africa," but rather why was this happening in the 19th and 20th centuries, and in what ways is it still continuing down to the present day?

On this topic Mr. James gives us little new other than a lyrical account of British superiority in Africa. This is understood through a Whiggish prism of Africa's shortcomings and leadership failures. Language is everything, and Africans are consistently charac-

terized as "egotistical" compared with British paragons of "bravery" and "faith" such as David Livingstone and General Gordon. Still, insofar as Mr. James provides an example of how history, politics and national identity can be wedded to both the art of forgetting and the craft of storytelling, "Empires in the Sun" is exemplary.

Ultimately, it's the historical events that Mr. James omits or shortens that offer much to think about. The question of industrial capitalism, and with it the twinned birth of liberalism and imperialism, provide a window into a complicated ideological position that can, at once, liberate and sustain inequalities.

Liberalism and imperialism are two sides of the same capitalist coin. It's in unpacking this all-embracing conundrum that understanding Africa under colonial and postcolonial rule becomes ever more important to our grasp of the world as it exists today.

Ms. Elkins is a professor of history at Harvard University, a visiting professor at Harvard Business School and the Pulitzer Prize-winning author of "Imperial Reckoning: The Untold Story of Britain's Gulag in Kenya."

The Race Across the Water

Steam Titans

By William M. Fowler Jr.

Bloomsbury, 358 pages, £22.90

BY CHARLES R. MORRIS

STEAM POWER WAS the magic elixir of the Industrial Revolution. By the turn of the 19th century, giant coal-fed steam engines powered England's mines and mills, and canny inventors were expanding steam's ambit to travel by water and rail. British industrialists regarded steam power as an imperial preserve and were badly disconcerted when they were bested by the Americans in a contest to provide the fastest steam passenger service across the Atlantic. "Steam Titans," by William Fowler, a longtime chronicler of maritime history, offers a vigorous account of the rivalry.

The standard bearer for the American side was Edward Collins, a resourceful merchant and sea captain who had proved himself in the pirate-ridden Caribbean trade. Returning to New York to take over his father's shipping firm, he created a fleet of sail-driven "packet ships" carrying mail and other goods between New Orleans and New York. Then, in 1836, he launched a large and beautifully appointed ship, the Shakespeare, on the New York to Liverpool route, aiming to carry both passengers and commercial cargo.

The timing was near-perfect, playing to England's demand for cotton as well as to a swelling appetite on both sides of the Atlantic for international travel. The Shakespeare was quickly followed by three similar ships, along with the firm's novel promise to maintain strict schedules. Collins used theatrical names for his ships—the Garrick, for

instance, joined the Shakespeare—so the press dubbed his operation the "Dramatic Line."

Sniffing opportunity, Samuel Cunard, a wealthy Canadian merchant and investor, secured a lucrative contract from Britain's royal mail in 1839 to provide regular service from Liverpool to Halifax, Nova Scotia, with a terminus in Boston. By contract, though, Cunard committed himself to providing service with steamships, for their speed and smoother passages. For his engines,

Since the U.S. and U.K. steamship lines ran the same route, a speed contest was inevitable—as was a contest for commercial success.

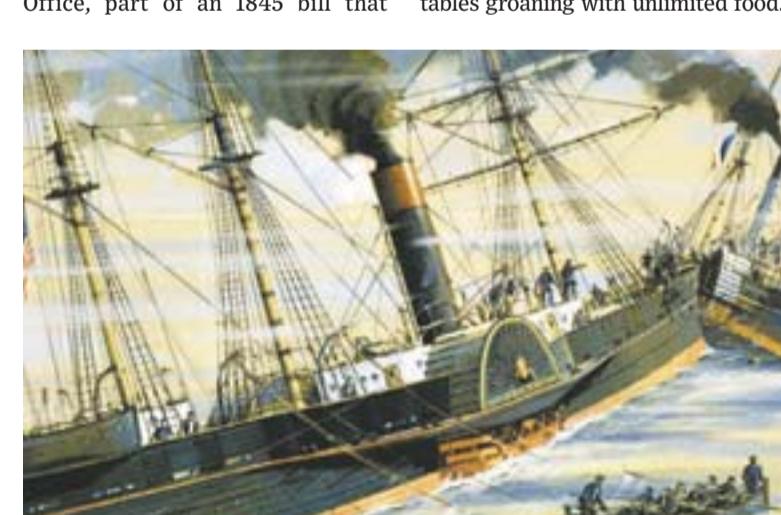
he contracted with Robert Napier, arguably the top naval steam-engine manufacturer.

By 1842 Cunard had put four large steamships into service that halved the average times of sailing ships. Boston rallied behind him in the hope of toppling New York from its position as the country's premier commercial city.

For Collins, Cunard's entry into the lists, with steamships instead of sail, looked like a lethal challenge. He had long hoped to convert his operations to steam, but the costs were daunting. The power for sailing vessels was free. But ocean-going steamships required massive steam engines, 24-hour coal heating and machinists to deal with frequent breakdowns, on top of full sail rigging and rigging crews to conserve fuel and take over when the engine went down.

Inevitably, Collins, like Cunard, turned to government for help. In Washington, Henry Clay and other public-works stalwarts in Congress took up the cudgels, money furiously changed hands and Collins got his subsidy from the U.S. Post Office, part of an 1845 bill that

made a spectacular showing. They were among the largest afloat, and their engines had the largest piston dimensions. No others were so lavishly furnished and provisioned. The dining saloons were "large, airy and beautiful," as Mr. Fowler writes, the tables groaning with unlimited food.



AHEAD, FULL OF STEAM The Arctic sinking after a collision in 1854.

funded "Transportation of the Mail Between the United States and Foreign Countries."

Collins promised to match Cunard's twice-a-month service with the same four-ship rotation. Cunard's steam-powered ships had been performing splendidly for roughly three years. Still, he did not break even until he returned to Parliament in 1846 and secured an increased subsidy to finance another four-ship schedule terminating in New York rather than in Boston.

Collins didn't get his four ships on the water until 1850, after a long battle to get his subsidy through Congress. Once up and running, however, the Collins steamships

since Cunard and Collins were now both running New York to Liverpool service, speed contests were inevitable. Collins's ships decisively outpaced Cunard's again and again. But time was running against Collins in another way. His operational losses forced him back to Congress for more subsidy, which he got—but it was a close thing. The lavishness of the Collins services undercut his case. Cunard provided commodious, but not lavish, services at much lower cost.

Tragedy struck when one of Collins's premier ships, the Arctic, sank after a collision in the fog. The colliding ship's iron prow, Mr. Fowler writes, "sliced through Arctic's

wooden hull at the waterline, splintering the thick pine planks."

The Arctic found itself listing badly. "On deck the passengers and crew watched the water lapping up toward them as they cornered themselves on the port quarter." One passenger who survived remembered seeing "the deep seated thoughtful look of despair on their faces."

Members of Collins's family were lost in the disaster, including his wife, as were family members of his leading investors. The next year, another of the Collins ships was lost at sea with barely a trace, probably from an encounter with ice. With only two remaining ships, on top of a drastic reduction in subsidy, the Collins lines were forced into bankruptcy in 1858. Cunard's thrift and caution had won the day.

With "Steam Titans," Mr. Fowler has crafted an enjoyable book, with enough technical detail and colorful tales to appeal to the casual weekend sailor and skilled mariner alike. The only cavil might be that he does not, toward the end of his tale, make enough of the strides in British naval technology in the 1850s. The Crimean War (1853-56) persuaded the Admiralty to shift wholesale to coal-conserving, screw-driven ships with compartmentalized iron hulls. These were much more resistant to ice and other accidents, and Cunard rapidly shifted its fleet to the same designs.

By then, the United States had turned its manufacturing capacities to opening the "West," the resource-rich lands between the Appalachians and the Mississippi River, leaving the ocean to the British for most of the next century, until America emerged as the world hyperpower.

Mr. Morris's latest book is "A Rabble of Dead Money: The Great Crash and the Global Depression: 1929-1939."

OPINION

REVIEW & OUTLOOK

This Time, Terror Hits Spain

Terror attacks in Europe have been concentrated in the north in recent years, but Thursday's attack in Barcelona shows that the danger continues elsewhere. The incident, in which one or more attackers drove a van into a crowd, bears the hallmarks of the terrorism afflicting Britain, France, Belgium and Germany. Islamic State (ISIS) claimed responsibility.

Officials say at least 13 people have died and dozens have been injured. The attack occurred on Las Ramblas, a wide pedestrian boulevard popular with tourists in the height of Europe's summer vacation season. Terrorists have discovered that vehicles can be effective weapons. Trucks killed 86 in Nice, France, and 12 in Berlin in 2016, and cars and vans featured in a spate of deadly sprees in London and Paris. ISIS offers a how-to manual online for this type of attack.

Spain last suffered a major attack in 2004, when al Qaeda killed 191 on commuter trains in Madrid. That group was trying to punish Spain for joining America's coalition against the Taliban in Afghanistan and to sway an election. But

Spain remains an Islamist target no matter its foreign policy. The Iberian peninsula was under Islamic rule for centuries, and extremists aspire to reconquer it.

They lack the military means to do so, but an internet connection is the only tool groups such as ISIS need to radicalize individuals or small groups. Such cells can act quickly and with little of the planning and coordination that might call them to the attention of police.

Defeating ISIS in Syria and Iraq will diminish the group's power to inspire. But authorities warn that it could take a generation or more for extremism to burn itself out in the West. Governments in Europe in particular will have to accelerate their crackdown on funding for extremist preaching and ramp up support for deradicalization.

Europe has also come late to the use of big data, tighter border checks and other counter-terror techniques. The dangers are continental, not national, and authorities across Europe have to better coordinate their efforts to protect their public squares from mass murder.

Hong Kong's Political Prisoners

China's crackdown on Hong Kong's opposition escalated Thursday as a court jailed student pro-democracy leaders. By imprisoning the three popular figures, the government is blocking them from running in the next legislative by-elections and it marks another step in the slow but relentless strangulation of Hong Kong's freedoms.

Joshua Wong, Nathan Law and Alex Chow received sentences of six to eight months for leading hundreds of thousands of protesters who occupied the city's downtown for 75 days in late 2014. Hong Kongers were angry that Beijing reneged on its promise to allow the city to elect its chief executive by universal suffrage. Instead of allowing an open system of nominations, Chinese authorities wanted to pick a lineup of candidates based on their loyalty to the central government.

For their role in the civil disobedience, the student leaders were sentenced last year to community service and a suspended jail term by a lower court. They completed their punishments and the case seemed to be closed. But then this year the government appealed to the High Court for tougher sentences, including jail time.

This is part of a wider effort to marginalize the opposition after September's legislative election. Beijing was alarmed that opposition candidates, including some who called for greater autonomy for the city, won 58% of the popular vote and secured 30 of the 70 seats. The opposition had the votes and the mandate to fil-

ibuster legislation and pressure the government for more democracy.

In May, China's third-ranking Politburo Member, Zhang Dejiang, said in a speech that Beijing was determined to consolidate its control over Hong Kong. First the National People's Congress reinterpreted the city's constitution, the Basic Law, to disqualify six opposition legislators, with eight more at risk of losing their seats.

With the opposition now lacking the votes to filibuster, pro-Beijing lawmakers changed the legislature's rules to prevent future blocking of new laws. One Chinese official hailed these decisions as "the rainbow after the storm."

Mr. Zhang also reiterated Beijing's stand that the judiciary is subordinate to the executive branch and judges should "learn the Basic Law." Other officials criticized Hong Kong's use of foreign judges, who are supposedly too sympathetic to separatist elements.

Chinese officials have stepped up pressure for the city to pass antisubversion laws that would make advocating greater autonomy a crime. That would make it easier to suppress opposition politicians and their supporters.

Hong Kong now has its first political prisoners, and if Beijing has its way they will be followed by many more. That will force the city's residents into a stark choice of whether to continue fighting for the rights China promised when it guaranteed 50 years of Hong Kong autonomy or accept that the former British colony's special status is fading into history.

Coal Makes a Comeback

Not long ago liberals hailed the demise of coal as inevitable while the Obama Administration strangled the industry with regulation. But don't look now, Tom Steyer, because coal is showing signs of a revival and breathing economic life into West Virginia and other coal states.

Former Environmental Protection Agency Administrator Gina McCarthy proclaimed in 2015 that coal "is no longer marketable." She planned to be the lead undertaker. The Obama Administration worked tirelessly to fulfill her mission and may have succeeded had Hillary Clinton become President. "We're going to put a lot of coal miners and coal companies out of work," the 2016 Democratic nominee famously promised.

Yet the Trump Presidency seems to have lifted animal spirits and coal. Weekly coal production has increased by 14.5% nationwide over last year with even bigger bumps in West Virginia (19%), Pennsylvania (19.7%) and Wyoming (19.8%). Exports were up 58% during the first quarter from last year. Apparently coal can be marketable if regulators let it be.

* * *

The Obama Administration first targeted coal consumption with rules on mercury emissions and ash disposal that would have made it next to impossible to build a new coal-burning power plant. Then came the 2015 Clean Power Plan that would have forced the existing fleet of coal plants into early retirement.

Finally, the Obama anti-coal warriors sought to shut down coal's export potential. Thick-seamed coal on federal land in the Powder River Basin overlying Wyoming and Montana is relatively clean-burning and inexpensive to mine. The Obama Interior Department suspended new coal leases on federal land last winter and then reassessed royalty payments—thereby reducing investment and profitability. In December came the *coup de grâce*: Interior's stream rule usurping state authority over permitting.

President Trump has called a cease-fire to his predecessor's "war on coal." In February he signed a resolution repealing the stream rule under the Congressional Review Act. The Supreme Court stayed the Clean Power Plan in February 2016, and EPA Administrator Scott Pruitt is dismantling the power rule as well as the ash and mercury rules. Interior Secretary Ryan Zinke has reopened leases and rescinded the royalty revaluation.

Meanwhile, coal is becoming more competitive as a fuel source relative to natural gas, whose price has risen 63% since March 2016 amid an expanding market. The Energy Infor-

mation Administration says the U.S. will be a net exporter of natural gas this year.

Growing pipeline networks have boosted gas exports to Mexico and are providing new domestic outlets for gas trapped in the Marcellus and Utica Shales. Pipeline export capacity to Mexico is expected to nearly double by 2019. Several interstate pipe-

lines are under review to deliver gas to the Midwest, eastern Canada and the Gulf Coast for export. Liquefied natural gas exports have increased six-fold in the past year, and five new terminal projects are expected to be completed within three years. While coal and natural gas compete as electric-power fuels, they can both prosper if energy markets expand.

This is all horrifying to the climate-change lobby, but they might note that U.S. coal exports are rising to countries that claim climate-change virtue. Exports to France increased 214% during the first quarter of this year amid a nuclear power-plant outage. Other European countries such as Germany and the U.K. are utilizing U.S. coal to stabilize unreliable renewable sources and make up for electric capacity lost from the shutdown of nuclear plants. First-quarter coal exports were up 94% to Germany and 282% to the U.K. Et tu, Angela Merkel?

* * *

The bigger story is that there's still demand for U.S. coal if regulators allow energy markets to work. The Energy Information Administration in June projected that U.S. coal power generation will increase by 13% by 2025 "as the existing fleet of coal-fired generators can be more fully utilized and fewer coal-fired generators are retired." With the Obama Clean Power Plan, the EIA had forecast a 2% to 16% decline.

Coal production will likely never return to its heyday of decades ago. Recent bankruptcies that have made coal companies leaner and more competitive also mean that fewer workers are needed to produce the same output. But even the current modest rebound is helping coal states.

During the first quarter, West Virginia (3%) ranked second in the nation in GDP growth after Texas (3.9%), according to the Bureau of Economic Analysis. New Mexico, another heavy mining state, came in third (2.8%). Mining resurgences began in West Virginia, Kentucky and New Mexico last summer after the Clean Power Plan was stayed. After plummeting last year, Wyoming and Montana's mining industries grew during the first quarter.

Two or three quarters of economic data don't make a long-term trend, but all of this is still good news for coal states that have experienced two years of little or negative growth and years of political assault.

Britain Sings The Brexit Blues



POLITICAL ECONOMICS
By Joseph C. Sternberg

Any good country-western singer can tell you that in affairs of the heart, you never know what you have until it's gone. So it is with Britain, whose vision of its post-Brexit economic future is starting to look suspiciously similar to its in-the-EU status quo.

Debate is now starting in earnest over what sort of trade deal Britain could strike with the European Union. The oddity of the palaver about customs unions, tariffs, imaginative technological solutions and seamless borders is that Britain keeps insisting it's trying to invent the wheel here. It's not.

A template exists for precisely the type of arrangement Britain seeks, in which tariffs are zero, regulations don't impose barriers to trade, services can flow more or less freely across boundaries and enforcement is light-touch and easy for businesses to comply with. That template is the EU.

Cutting tariffs to zero is the easy part. Consider everything else the EU does for trade within the bloc. Its harmonized product standards eliminate one of the most common sources of friction between industrial trading partners. Its uniformly enforced restrictions on subsidies eliminate another. Its legal system creates a method for adjudicating economic disputes that other trade agreements so far have not been able to replicate.

Whether a blob like Brussels is the best possible free-trade arrangement barely matters. It's the only arrangement devised to date that achieves the contradictory goals of trading freely while humoring both the regulatory ambitions of the modern state and the welfare demands of the modern voter.

Only a supranational institution such as the EU has the heft and malish determination to override national attempts to impose banana uniformity, vacuum-cleaner-motor wattage limits or standards for automobile safety systems. Classical liberals point to such rules as examples of regulatory overreach from Brussels. Ample experience elsewhere shows that the rules will happen anyway.

Japan and South Korea—and America—impose their own senseless regulations, which become sticking points in trade talks. This is obvious in the U.S.-U.K. trade negotiations that haven't even begun but are already fumbling on British regulations concerning raw poultry and America's ill-starred Dodd-Frank financial law. Brussels could do with more wisdom on whether, when and how it regulates, but at least in the EU the rules apply equally to every member country and don't inhibit internal trade.

Plenty of other countries muddle through without EU-style trading arrangements and Britain could too, in a

pinch. But the carrot that induced European governments to surrender so much authority to Brussels is the realization that only the radical free trade the EU facilitates can finance the welfare spending Europe craves. Britain is not immune from this reality.

The economic rents EU members extract from membership in the bloc—the efficiency businesses gain from zero tariffs and no border red tape and the flexibility economies acquire from the free movement of labor—are the last thing standing between Europe and insolvency. No precise methodology exists, but economists generally and plausibly estimate that EU membership has boosted the GDP of European states by several percentage points over the years. Consider the significance of that increase in the economic baseline for governments, including Britain's, that can barely pay their bills as it is.

A template already exists for the type of free-trade deal London wants to negotiate with Brussels. It's the EU.

This is an important point, often forgotten as the EU serially bungles trade negotiations with partners such as the U.S. The EU is a free-trade zone of a scale and ambition yet to be achieved anywhere else.

There is an alternative, as the smarter crop of Brexiteers have recognized all along. Britain could abandon trade talks with Brussels and look instead for efficiency gains within its domestic economy that could replace the economic rents Britain inevitably will lose as it leaves the EU.

Britain could reduce the fiscal and economic drag of entitlements such as the National Health Service, and it could abandon European-style energy regulations that impose crippling gas and electricity prices in service of green piety, and it could reduce taxes. This is how the Hong Kongs and the Singapores of the world thrive outside grand trading blocs.

Then again, we saw how the last election turned out. Voters rebuffed reform to funding for old-age care and rewarded a far-left Labour leader promising free university tuition.

Britain is not on track for the sort of deregulatory bonanza that would obviate its looming trade problem with Europe. Instead it is in thrall to less thoughtful or more cynical pro-Brexit politicians who still hope they can extract sufficient trade rents from a new-look deal with the EU to avoid politically difficult reforms at home.

That way lies the madness of another 18 months of fitful trade talks with a European Union that already gave Britain the option to enjoy the benefits of trade with the bloc, before Britain decided to leave.

LETTERS TO THE EDITOR

Identity Politics Is the Poison of Public Life

Regarding your editorial "The Poison of Identity Politics" (Aug. 15): Did anyone consider ignoring the white supremacists instead of making them newsworthy again? I applaud President Trump for addressing the hate without mentioning the organizations and thus giving them the notoriety they seek. There were enough hate groups in Charlottesville, Va., on both the right and left. The president was talking to both sides who were expressing hateful things toward each other.

The reason these groups need to bus people in from other states is because most of us wouldn't waste our time participating. The liberal press is never going to be satisfied with anything Mr. Trump says or does, so I ignore all this. The important thing is that those who are responsible for violence against others are punished to the full extent of the law.

TERRY LARSON
Seffner, Fla.

Funny that those same people who today are damning President Trump for his so-called silence didn't also damn President Obama as he steadfastly refused to call out Islamist terrorism by its name for what it is. Today's so-called Nazi fellow travelers, to the extent that they think at all, hate all that is decent. To juxtapose their hatred with Mr. Trump and conservatism is wrong. Conservatives need to call out those who do so for what they are—ill-informed at best, liars at worst.

NEIL McCAFFREY
Fort Collins, Colo.

I always thought celebrating "diversity" meant appreciating and even reveling in the traditions, food and music of other people, and socially interacting with those from other racial, cultural and ethnic backgrounds. Perhaps traveling to other countries and trying a bit of

their language fits in, too. That kind of diversity results in seeing how similar we really are despite looking, sounding and acting a bit differently.

Now "diversity" has come to mean exploiting differences and using them as a cudgel to extract advantages based on national origin, skin color or sexual preferences. The problem with this kind of "diversity" is that it divides, pitting groups against each other. It's now an act of hostility, in effect stigmatizing anyone who doesn't confer privileges to the self-defined oppressed group.

As a result, diversity moves us further away from Martin Luther King Jr.'s dream of brotherhood among different peoples and equal justice under the law and in the eyes of God.

TOM O'HARE

Boston College

Boston

One may well wonder if the Klansmen and Neo-Nazis who came to Charlottesville might ever comprehend that they executed a self-defeating argument for white supremacy—perhaps their only redeeming accomplishment last weekend.

The inspiration of their ostensible cause, Gen. Robert E. Lee, would have been appalled. After his Appomattox surrender, Lee held that the Almighty's judgment had prevailed. He spent the rest of his life trying to heal national divisions. These present-day louts could take a lesson.

RAYMOND J. BROWN

Londonderry, N.H.

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OPINION

America's Got Talent, but Not Nearly Enough

By Edward Conard

President Trump has proposed cutting the number of U.S. green cards issued each year to 500,000 from one million and issuing them based on skill levels. This approach gets it half right. Increasing skills-based immigration would be good for the U.S. economy. But if America issues green cards based on skills, cutting the number would squander the best opportunity for economic growth.

Trump is right to back skills-based immigration. But fewer green cards would defeat the purpose.

Without substantial immigration, the U.S. simply can't produce enough growth to pay for retiring baby boomers without inflicting considerable damage on the economy—and, by extension, on national security. The Congressional Budget Office expects federal spending as a percentage of gross domestic product to increase by nine points as baby boomers retire over the next 30 years. Together with state and local spending, total government spending is projected to rise to 45% of GDP. A spending level that high, especially one largely driven by entitlement spending, will slow growth significantly. The notion that the younger electorate can outvote baby boomers to reduce their benefits significantly is highly doubtful.

American companies already employ many of those engineers, who work remotely using tools like Skype. When companies employ these workers offshore, Americans don't enjoy

With the Chinese economy expected to surpass America's in size within 10 to 15 years, the U.S. needs to do more than pay for retiring baby boomers. It needs to grow quickly enough to maintain a strong national defense. Boosting growth with high-skilled immigration is the only viable alternative.

If innovation is the primary driver of growth, and the most productive workers are the primary drivers of innovation, doubling the number of workers who currently represent the top 5% of America's talent could double the U.S. growth rate. America has 125 million full-time workers, so the top 5% is just over six million. The U.S. currently issues a million green cards a year. By targeting the most talented would-be immigrants, the U.S. could double its high-productivity pool in short order.

To minimize competition with the domestic workforce, the U.S. could recruit and employ the rest of the world's best engineers. The highest-scoring American students have increasingly moved away from STEM fields—science, technology, engineering and math—toward business and law. America's success relative to Europe and Japan—both of which produce a greater share of STEM graduates—indicates that innovation requires a combination of STEM and commerce to succeed. The rest of the world is racing to educate more business majors but continues to graduate a disproportionate number of engineers.

American companies already employ many of those engineers, who work remotely using tools like Skype. When companies employ these workers offshore, Americans don't enjoy



BARBARA KELLEY

the benefit of the income-tax revenues they'd pay—for the top 20% of U.S. taxpayers, \$50,000 a year more than the government services they consume. America needs that revenue. Nor does the rest of America's workforce get the opportunity to teach their children, wait on their tables or treat their medical needs. Growth can raise wages across all skill levels.

It's an error to suggest that a greater share of Americans could do these ultra-high-skilled jobs. Competition demands the highest-IQ problem solvers. Companies who need problem solvers like that can't settle for less. They will continue to re-

cruit these workers wherever they find them.

Can America's education system produce the necessary increase in ultra-high-skilled workers? Decades of effort have produced no significant increase in academic scores. A large share of high-scoring American students avoid the difficulty of STEM careers despite rising wages. And any educational improvement is likely to come gradually and suffice into the workforce slowly. America needs growth now.

In truth, America has a shortage of talent. Some 25% of American workers score in the top third globally on comparable international tests of ac-

ademic skills, according to data from the Organization for Economic Cooperation and Development. Forty-five percent score in the bottom third. There is approximately one high-scoring adult American for every two low-scorers.

By comparison, Germany has a roughly equal number of high- and low-scorers—about a third of each—giving Germany almost twice as many high scorers for each low scorer than America. Scandinavia has three times as many high scorers per low scorer as America. Japan has almost five times as many.

The economic effects of this talent deficiency hurt low-skilled workers, who depend on high-skilled workers to design and manage competitive products and processes that employ them.

American institutions amplify the productivity of America's most productive workers more than elsewhere, through on-the-job training and with synergistic communities of experts like Silicon Valley. But the higher productivity these institutions create leads to higher wages, which draws scarce talent away from supervising low-skilled labor.

An influx of talent could increase the quality of talent devoted to low-skilled supervision. A larger talent pool would help the economy grow and make everyone more productive, allowing baby boomers to retire without damaging the country.

Mr. Conard is an American Enterprise Institute visiting scholar, a former Bain Capital partner, and author of "The Upside of Inequality: How Good Intentions Undermine the Middle Class."

More Sunny Days Are Likely Ahead for the U.S. Economy

By Alan S. Blinder

Every op-ed should have a simple take-away, one that's easy for readers to remember. Here's mine: Economic expansions don't die of old age—they go on until something kills them.

As the current expansion approaches its 100th birthday (measured in months), many observers assume its days are numbered. The U.S. National Bureau of Economic Research, whose chronologies date to 1854, shows only two U.S. expansions that lasted longer than this one, which began in June 2009.

The great expansion of the 1960s went on for 106 months. We'll almost certainly beat that. But the granddaddy of them all was the remarkable 120-month expansion from 1991 to 2001. To top that, the economy would have to continue growing past June 2019—a very tall order.

The good news is that the end isn't nigh: Economic indicators suggest growth will continue for the foreseeable future. These signals aren't entirely reassuring, however, because recessions can't be predicted well in advance. But economists do under-

stand how they begin and end. Therein lies the better news: No serious threat is in sight.

The most common cause of U.S. recessions in the postwar era has been monetary tightening by the Federal Reserve as a means to fight inflation. If policy makers execute perfectly, they can engineer a "soft landing" from today's low interest rates. That's what the Fed did in 1994-95, when skillful monetary tightening led into a boom.

More historical instances of Fed tightening, however, have been followed by recessions. In some cases central bankers actually sought that outcome, as when Paul Volcker sent interest rates skyrocketing to vanquish inflation in the 1980s. In others, they just goofed.

Will the Fed kill the current expansion? That seems unlikely. There's no inflation in sight. Janet Yellen and her colleagues are trying to extend the good times by raising interest rates as gradually as possible, ready to pull back if signs of a slowdown emerge. The Fed is fallible, obviously; it could make a mistake. But I doubt it would be a big one.

Other recessions have been

caused by "oil shocks"—sharp increases in oil prices that hurt businesses and consumers. Big oil shocks preceded the world-wide recessions in 1973 and 1979, spurred by the Arab oil embargo and then the Iranian revolution.

Economic expansions tend to go on until something kills them. Today, not many dangers lurk.

Will an oil shock end the current expansion? Your guess is as good—or, more accurately, as worthless—as mine. Oil shocks are unpredictable. That said, neither markets nor experts seem to expect one.

What about a financial ruction of some sort, such as a stock-market crash? Many of today's worry warts focus on the long and allegedly excessive run-up in stock prices since 2009. I won't enter the debate over whether stocks are overvalued, because no one can predict the market. But a far simpler point is germane: It

takes one hell of a stock-market crash to cause a recession.

Recall the way the economy reacted when the tech bubble burst in 2000-02. The Standard & Poor's 500 fell by almost half, and some \$9 trillion of wealth was wiped out. But the subsequent recession lasted only eight months and was so mild that annual data show no drop in real gross domestic product.

What about 1929? Didn't the Great Crash beget the Great Depression? Not quite. The stock collapse was one of many causes of the Depression—and by no means the most important. In their monumental "Monetary History of the United States," Milton Friedman and Anna Schwartz placed more blame on the Fed, which allowed the supplies of money and credit to contract violently. Ben Bernanke echoed that criticism while serving as a Fed governor in 2002, when he said at Friedman's 90th birthday party: "You're right, we did it. We're very sorry. But thanks to you, we won't do it again."

If any financial calamity does derail the current expansion, it will be more likely to emanate from the credit markets—as happened in both

the Great Depression and the Great Recession. Fortunately, there are few signs of credit markets behaving badly, unlike in 2007. Households and businesses are less leveraged, banks hold a lot more capital and financial regulations are much tougher. Those of us who lived through 2008 will never say "never." But if a credit volcano is rumbling beneath the surface, it's pretty quiet.

What's left on the worry list? Every once in a while, for reasons that become obvious only after the fact, something shakes consumer or business confidence, causing spending to plummet. When that happens, a recession is all but inevitable. Right now, Americans and companies are both feeling sunny. But as storm clouds gather over North Korea and investigations threaten the White House...

As I said, expansions don't die of old age—they go on until something kills them.

Mr. Blinder is a professor of economics and public affairs at Princeton University and a visiting fellow at the Brookings Institution. He was formerly vice chairman of the Federal Reserve.

Welcome to the Politics of Pointlessness

By Daniel Henninger

With Charlottesville as a warning, the warning is that America's politics is steadily disconnecting from reality. Our politics is starting to seem psychotic.

Generally people get into politics to accomplish something concrete or achievable—the passage of a piece of legislation or of identifiable public policies whose purpose is to make things better. In a word, progress.

The right and the left have disagreed for centuries on what works, but they at least shared a belief that the point of their political activity was to accomplish something real.

Charlottesville was a political riot. Is Charlottesville the future?

Some may say the Charlottesville riot was the lunatic fringe of the

right and left, with no particular relevance to what falls in between. But I think Charlottesville may be a prototype of a politics that is drifting away from traditional norms of behavior and purpose.

Street protest has become the politics du jour. Groups form constantly in the streets to chant slogans. America's campuses live amid perpetual protest.

The protests no doubt are based in belief or sentiment of some sort, but it is more often than not difficult to recognize any political goal normally associated with conservatism, liberalism or progressivism. Much of it looks like acting out or pleas for attention.

In January the weekend that Donald Trump was inaugurated, I watched a group of protesters sit down and block traffic at a main intersection in Santa Barbara, Calif. It seemed like a play date. The cops watched like bemused adults.

Charlottesville wasn't a play date. It was a pitched battle between two organized mobs—the white nationalist groups on the right and the badly underreported Antifa, or "antifascist," groups on the hard-as-stone left. Stories about Antifa's organized violence are trickling out now, but there is no conceivable journalistic defense for having waited so long to inform the public about this dangerous movement.

The phenomenon that enables politics without purpose is the internet. It is the group-organizing tool for psychologically disassociated young people on the left and on the right, like James Alex Fields Jr., who allegedly drove his car into a crowd, killing Heather Heyer. She won't be the last casualty.

Fields makes me think of the lone-wolf jihadists in America and Europe who explode out of the general population in a homicidal rage. These are people who sit endlessly in front of a computer screen, brainwashing themselves with online propaganda until they snap to make a "political state-

ment." The internet— websites, social media, message boards—is elevating political paranoia and delegitimizing normal politics.

Earlier this week, Britain's head of counterterrorism policing, Mark Rowley, described the new reality: "What

Charlottesville may be a prototype of politics drifting away from normalcy.

we're wrestling with today is something which is more of a cultish movement where they are putting out propaganda and saying 'anybody and everybody, act in our name and you're part of our terrorist campaign.'

But, the argument goes, these behavioral extremes have no relevance to or effect on the rest of public life. I'm not so sure. There have been a series of events lately that suggest the most basic requirements of intellectual or political seriousness are losing ground inside institutions

that once provided ballast against the extremes.

The Google firing of James Damore was one of these big events. Its meaning was that the goal of diversity, whatever its original intent, has become mostly a totem. Mr. Damore was the little boy in the folk tale "The Emperor's New Clothes," who shouts, "But he doesn't have anything on!" Google's emperors banished James Damore for unmasking their diversity conceit.

Also certain to enter the era's annals of anti-politics is the Republican party's health-care meltdown.

All the endless hours that pour into political organizing, fundraising and campaigning are meant to win elections and then exercise political power. After winning control of Congress in the 2016 election, Republicans degenerated into what was essentially a traffic-blocking protest—against their own majority!

A young person new to politics and paying attention to what the Republicans did with ObamaCare reform, or to the Democrats' content-free "resistance," could reasonably conclude Congress is no longer about politics, but about something else. TV face-time or maybe Twitter, but not politics.

Traditional politics is being overtaken by a cult of self-referencing. From the nonstop street protests to what is going on in Washington—everything now is just a selfie.

Amid this torrent, an odd paradox emerges: People are consuming more content and detail about politics than ever, and more people than ever are saying, "I have no idea what is going on." Someone is at fault here, and it isn't the confused absorbers of information.

Charlottesville is being pounded into the national psyche this week as a paroxysm of white nationalism. On current course, the flight from politics is going to look like rational behavior.

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Notable

LIFE & ARTS

FILM REVIEW

Funny, Bloody 'Hitman' Is a Near Miss

Ryan Reynolds and Samuel L. Jackson star in Patrick Hughes's predictable, formulaic action comedy

BY JOHN ANDERSON

THERE ARE a lot of close calls in "The Hitman's Bodyguard," the closest being the movie's proximity to really, really funny. It probably looked like a great recipe: Ryan Reynolds as a suave, handsome and long-suffering "security specialist," Samuel L. Jackson as the sarcastically foul-mouthed hitman who needs to get to The Hague. Bomb blasts. Evil doers. International intrigue. Then the cooks assembled, apparently by the hundreds.

The film has its moments, to be sure, with each lead actor in his respective wheelhouse, along with a director, Patrick Hughes ("The Expendables 3"), who seems to know his way around a truck full of high-grade explosives. Mr. Reynolds is Michael Bryce, a "triple A-rated" bodyguard to the world's leading oligarchs and corporate criminals until he loses a client to a bullet on a tarmac.

Two years later, he's sleeping in his Ford and escorting coked-up paranoiacs (Richard E. Grant, in a hilarious quasi-cameo) through exploding buildings and crowds of hired killers.

Then, as we knew it must, destiny calls in the person of Michael's lost love, Amelia (Elodie Yung), now an Interpol agent offering him a job: Escort a witness from London to the World Court, for the genocide trial of Belarusian mass-murderer Vladislav Dukhovich (Gary Oldman). And make sure to keep the witness—hitman Darius Kincaid (Mr. Jackson)—alive. After a bit of back and forth, Michael takes the job. As we somehow knew he would.

What follows was probably formulaic when Martin Brest did it in



Samuel L. Jackson and Ryan Reynolds in 'The Hitman's Bodyguard,' above; Salma Hayek, left



SUMMIT ENTERTAINMENT/MILLENIUM MEDIA

"Midnight Run" (1988): Two profoundly incompatible comic figures, sidestepping their pursuers and each other's barbed insults, while trying to cross a problematic expanse of geography. They hate each other, till they don't. The bromance is always on the horizon, in this case a European horizon, featuring collapsing London office buildings and speed-boat chases on Dutch canals.

One has to give Mr. Hughes credit for the numerous, creative and explosive obstacles he puts in the way of Michael and Darius, not

so much for the scattershot tone of the movie as a whole. Both lead actors can deliver a laugh line, and occasionally do. Salma Hayek, who as Darius's imprisoned wife, Sonia, shows a flair for eloquent vulgarity, is consistently funny. Of course, she has an advantage over Mr. Jackson, for whom a steady torrent of expletives is his stock in trade. No one expects such colorful language to spew from the comely Ms. Hayek.

But you can't help feeling that, with a little directorial tweaking, "The Hitman's Bodyguard" would have been much funnier because, on paper, Tom O'Connor's script

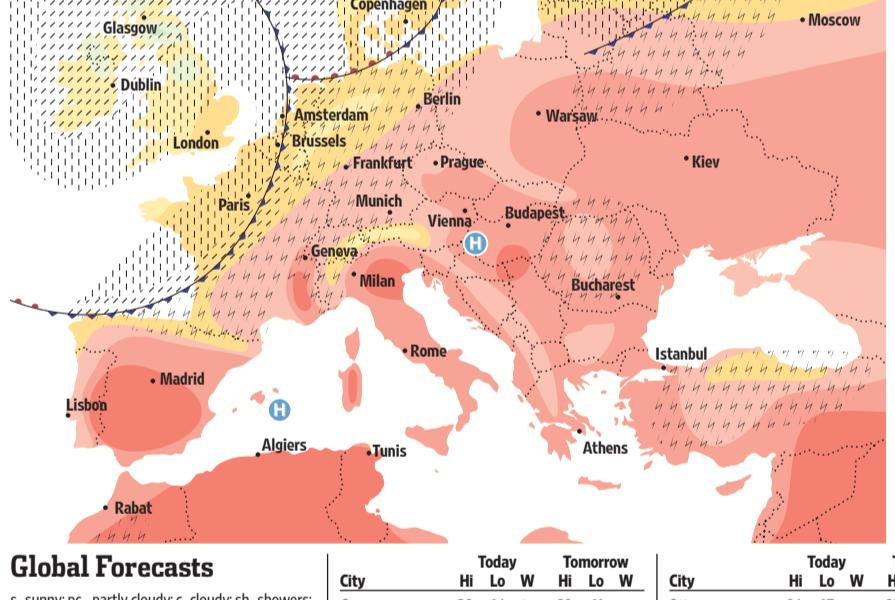
was probably a scream. What adds to the unevenness of the whole affair is a propensity for extreme violence that just seems incompatible with what is ostensibly a comedy. Dukhovich murders the wife and child of one character, Professor Asimov (Rod Hallett), in front of his eyes. Sonia slits a guy's throat during what is otherwise a comedy bar brawl. In a flashback, Darius recalls a preacher in his hometown being beaten to death with a tire iron. (It's done as shadow play, but nevertheless.) Darius explains to Michael, during one of their few respite moments, that the preacher's

murder set him on the path to killing what he claims to be 250 people. All bad guys. It's the kind of rationalization that sets a viewer's teeth on edge.

The sense one gets is that "The Hitman's Bodyguard" was intended as a pastiche of buddy movies and action thrillers, with the various ingredients overdone to the point of spoof. What they neglected to elevate, probably because it's a lot harder than blowing things up, were the laughs.

Mr. Anderson is a Journal TV critic. Joe Morgenstern is on vacation.

Weather



Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	20	14	r	18	14	sh
Anchorage	14	10	c	14	10	sh
Athens	33	26	s	34	25	s
Atlanta	32	23	t	33	23	pc
Bahrain	48	31	s	47	30	s
Baltimore	30	21	t	30	19	pc
Bangkok	32	26	t	31	26	t
Beijing	29	21	pc	28	21	sh
Berlin	26	16	r	20	12	pc
Bogota	20	10	r	19	9	sh
Boise	33	16	s	33	16	s
Boston	23	21	r	28	20	t
Brussels	21	12	r	19	12	sh
Buenos Aires	23	12	pc	17	4	c
Cairo	35	26	s	36	26	s
Calgary	27	10	s	19	7	pc
Caracas	32	25	pc	32	26	pc
Charlotte	34	22	t	34	22	pc
Chicago	28	18	pc	28	18	t
Dallas	36	26	t	37	26	pc
Denver	31	15	pc	33	15	t
Detroit	27	16	pc	27	17	pc
Dubai	41	32	s	41	33	s
Dublin	16	10	r	18	11	pc
Edinburgh	16	10	r	17	9	sh
Frankfurt	25	14	r	21	12	pc

AccuWeather.com



City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	30	16	t	22	11	pc
Hanoi	31	25	sh	32	25	t
Havana	33	23	pc	31	23	t
Hong Kong	34	29	t	33	29	s
Honolulu	32	24	s	32	24	pc
Houston	36	25	s	36	25	s
Istanbul	31	22	s	30	23	t
Jakarta	32	24	pc	33	24	t
Johannesburg	15	2	s	16	4	s
Kansas City	30	18	t	31	19	s
Las Vegas	40	26	s	40	26	s
Lima	21	14	pc	20	15	pc
London	20	13	s	20	12	pc
Los Angeles	27	18	pc	27	18	pc
Madrid	37	21	pc	35	20	pc
Manila	34	27	t	32	26	t
Melbourne	12	6	sh	12	4	pc
Mexico City	24	13	pc	24	13	pc
Miami	33	27	pc	30	27	t
Milan	34	19	s	31	16	t
Minneapolis	25	16	t	29	19	pc
Montreal	36	21	pc	36	21	s
Montreal	24	18	r	26	16	pc
Moscow	26	17	pc	29	17	t
Mumbai	31	27	c	29	27	sh
Nashville	32	20	pc	33	22	pc
New Delhi	38	28	s	35	28	t
New Orleans	33	25	pc	32	25	t
New York City	27	23	t	31	22	pc
Washington, D.C.	32	24	t	31	22	pc
Zurich	29	14	t	20	9	s

The WSJ Daily Crossword | Edited by Mike Shenk



WHO'S MISSING? | By Matt Gaffney

The answer to this week's contest crossword is a famous 20th-century American.

Across

- 1 *With 70-Across, 2012 Best Picture nominee
- 5 "____ hand?"
- 10 Mighty Ruth
- 14 Nero's love
- 15 Director of "Sleeper" and "September"
- 16 "Up and ____!"
- 17 It's bad in Baja
- 18 "Boogie Nights" music
- 19 Don January's sport
- 23 *de la Cité
- 24 Publisher of American Rifleman
- 25 Failed miserably
- 27 "Same with me!"
- 29 Challenging for cyclists
- 33 Way off
- 34 Doctors Without Borders, e.g.: Abbr.
- 36 Low wiggler
- 37 Meadow's dad
- 38 *Band fronted by actor Jared Leto

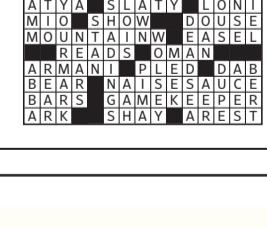
► Email your answer—in the subject line—to crossovercontest@wsj.com

by 11:59 p.m. Eastern Time Sunday, August 20. A solver selected at random will win a WSJ mug. Last week's winner: Matt Kaspar, Pflugerville, TX. Complete contest rules at WSJ.com/Puzzles. (No purchase necessary. Void where prohibited. U.S. residents 18 and over only.)

Puzzle Contest

- 62 Playbill features
- 63 "The Gladiator March" composer
- 64 Costing nothing
- 65 Magazine founder Eric
- 66 Olympus rival
- 67 "Dies ____" (hymn that translates to "Day of Wrath")
- 68 Raven's predecessor
- 69 Current fashion
- 70 See 1-Across
- 71 Express sincere regret about
- 72 Jay's follower
- 73 Take a crack at
- 74 How much 1990s music was stored
- 75 "Who's there?" response
- 76 Parking space
- 77 Some August births
- 78 Atop
- 79 Perfume since 1932
- 80 Wisdom
- 81 Weakenings
- 82 Recommended actions
- 83 Poly-
- 84 Silk trap
- 85 Leisure activity, for short
- 86 Christmas—(December, roughly)
- 87 Two-ton Nissan
- 88 "My heavens!"
- 89 Ask for again, as permission
- 90 Feature of many atlas pages
- 91 Tolerate
- 92 "____ that so?"
- 93 Hard-boiled genre
- 94 Microwave
- 95 Passport chip
- 96 Loafer

Previous Puzzle's Solution



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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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Friday - Sunday, August 18 - 20, 2017 | B1

Euro vs. Dollar 1.1742 ▼ 0.22%

FTSE 100 7387.87 ▼ 0.61%

Gold 1286.40 ▲ 0.74%

WTI crude 47.09 ▲ 0.66%

German Bund yield 0.425%

10-Year Treasury yield 2.197%

Wal-Mart Keeps Sales on Track

By SARAH NASSAUER
AND AUSTEN HUFFORD

Wal-Mart Stores Inc.'s sales rose in the latest quarter, boosted by an e-commerce surge and strong grocery sales, as the world's largest retailer continues to brush off the malaise afflicting some competitors.

But as has become typical for brick-and-mortar stores, the growth came at a cost. The company invested in lowering prices, improving stores and driving online sales, and in the quarter its expenses rose and

margins fell.

Sales at Wal-Mart's U.S. stores open at least a year rose 1.8% in the fiscal second quarter ended July 28—the 12th consecutive increase—boosted by a 1.3% rise in foot traffic.

"Our customers are responding to the improvements in stores and online," Wal-Mart Chief Executive Doug McMillon said Thursday.

The world's top retailer by sales has already done some of the hard work that rivals like Target Corp. are now undertaking, such as investing in

store improvements and digital initiatives. On Wednesday, Target, which also lowered prices in its latest quarter, reported sales growth and raised its profit forecast.

Wal-Mart's second-quarter online sales in the U.S. surged 60%. The company purchased online retailer Jet.com in September, followed by deals for smaller sites such as ModCloth, Moosejaw and ShoeBuy. Jet.com founder Marc Lore took the helm of Wal-Mart's U.S. e-commerce operations, and he has helped advance services like

two-day shipping on more products and discounts on in-store pickup for some orders.

Wal-Mart U.S. CEO Greg Foran said the company plans to offer online grocery pickup in 1,100 stores by the end of the year.

To pay for the efforts, the company over the past year has used automation to replace some jobs and laid off more than 1,000 corporate employees. It has also pressured suppliers to cut their prices, increased the fees they pay to pass inventory through ware-

houses and narrowed the shipping window suppliers must hit to avoid fines. Even so, Wal-Mart's U.S. gross margin fell and operating expenses rose 3.9% in the second quarter.

"We are not at the place we want to be from an expense standpoint," Wal-Mart finance chief Brett Biggs said in an interview.

Wal-Mart shares were off 1.9% at \$79.44 in afternoon trading.

In a note, GlobalData Retail analyst Neil Saunders said that

Please see SALES page B2

STREETWISE
By James Mackintosh

Let's Stop ETFs From Eating the Economy

If investors continue to pile their money into passive index tracking, at some point markets will stop doing their job of allocating resources efficiently in the economy. Perhaps they already have.

The threat is big enough that the world's largest pension fund is preparing to put more of its money with active managers—who charge more and on average underperform—in an attempt to keep markets functioning properly.

Hiromichi Mizuno, chief investment officer of Japan's \$1.4 trillion **Government Pension Investment Fund**, worries that market efficiency will be damaged by the rise of passive funds, which rely on trading by active investors to set the price of stocks. Since the signals from market prices are vital to determining the movement of capital around the economy, less efficient signals would hurt growth and lead stock indexes to rise by less than they otherwise would.

"We are long term and a universal owner, so we need to make sure that the market will continue to be efficient," he said.

The problem crops up again and again in finance. It makes sense to be a free rider on someone else's work, but once everyone realizes that, there is no one left to do the work. In markets, the work is identifying which companies will do best, which can harness greed to deliver the social goal of divvying up resources for their best use.

Unfortunately, the work isn't just hard, it is zero-sum: For every investor who beats the market by \$1, someone must underperform by \$1. Why bother when it is easier and cheaper to buy an index?

Those who dislike markets may respond that markets often fail to allocate capital to the right parts of the economy because of bubbles and busts, and they have a point. But even worse is to not even try; as AB Bernstein analyst Inigo Fraser-Jenkins memorably put it a year ago, "passive investing is worse than Marxism."

For now there is little sign that the U.S. is suffering much, if at all, from the rapid rise in index funds. Jack Bogle, who as founder of index-fund manager **Vanguard** did more than anyone else to boost indexing, points out that there has been no breakdown in the link between the stock prices of companies in the S&P 500—where indexing is much more popular—and the rest of the market. If indexing were truly affecting prices, there should be a greater impact on those with more in-

Please see STREET page B2



GARETH PHILLIPS FOR THE WALL STREET JOURNAL

Radio broadcasts like this one in Mumbai attract customized ads targeting the country's many niche markets and languages.

Radio Sets India's Airwaves Abuzz

Hundreds of FM stations pop up, and rake in revenue, as listeners tune in on their cellphones

By CORINNE ABRAMS
AND DEBIPRASAD NAYAK

MUMBAI—As radio stations struggle in the West to attract new advertising and remain relevant in the internet age, India is in the middle of a belated radio revolution.

Hundreds of new radio stations are hitting the airwaves in the South Asian nation of 1.3 billion people and attracting a record amount of revenue, thanks to deregulation, small-town consumption and cheap cellphones with built-in FM receivers.

"Suddenly FM stations are being listened to," said Piyush Pandey, executive chairman for South Asia and India at ad agency Ogilvy & Mather, which now often recommends radio to clients who want to target specific regions or cities.

Radio has existed in India since the early part of the last century, but was largely limited to state programming until the 1990s. While New Delhi has slowly opened radio to

Digital Revived the Radio Star

In India, radio revenue is growing in part because of the adoption of mobile phones.

Annual change in radio revenue



Note: 2017 amounts are projected

Source: PricewaterhouseCoopers Global Entertainment & Media Outlook

more private-sector competition, the industry remains nascent. Its 313 commercial FM-radio stations and state broadcasters made \$416 million in revenue last year, according to data from PricewaterhouseCoopers LLP—a fraction of the \$22 billion brought in last year by over

6,700 FM stations in the U.S., the largest radio market.

Still, radio revenue in India climbed 18% in 2016 from \$352 million a year earlier and is expected to continue to grow, according to PwC. In the U.S., Japan and the U.K., revenue has averaged growth of less than 2% over the past

four years, while growth in China and Brazil has been below 3%.

"I don't think anybody is seeing that anywhere in the world," said Apurva Purohit, president of media company **Jagran Prakashan Ltd.**, which has 39 stations across India.

As the market opens up, media companies are scrambling to start new stations and develop the content and talent to fill them. More than 70 stations launched in the year ended March 31, and another 90 are expected this fiscal year. The government will auction rights for 800 more stations in coming years, said one official.

The growth comes as companies look for ways to reach deeper into India, to second- and third-tier cities that are in the middle of a consumption boom, and as advertisers shift strategies.

After years of focusing on print and television, many ad agencies are returning to ra-

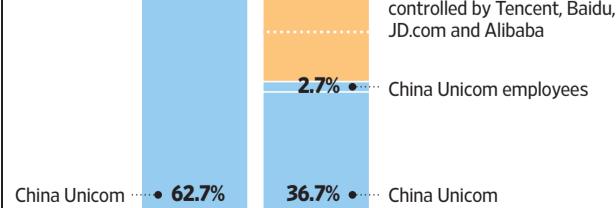
Please see RADIO page B2

Beijing Faces Setback in State Sector

Mixing It Up

Diversifying ownership of China Unicom has been a cornerstone in Beijing's mission to bring private capital into sectors monopolized by state firms.

China Unicom's stakeholders*



*For Shanghai-listed A shares of China United Network Communications
†As set out in now-removed Shanghai Stock Exchange statement
Sources: the company; statements on Shanghai and Hong Kong stock exchanges

By LINGLING WEI

BEIJING—What was billed as a showcase for China's state-sector overhaul is threatening instead mire Beijing in embarrassment.

Only hours after state-controlled **China Unicom** disclosed a plan to sell \$11.7 billion in shares to a group of companies including internet giants **Alibaba Group Holding Ltd.** and **Tencent Holdings Ltd.**, the wireless carrier withdrew the plan from the Shanghai Stock Exchange without explanation late Wednesday.

Early Thursday, China Unicom, citing "technical reasons," said that it would file a revised plan within three trading days; the company didn't elaborate.

According to officials with

knowledge of the matter, the abrupt withdrawal was because certain terms in the China Unicom plan ran afoul of recently amended securities rules. China Unicom couldn't immediately be reached for comment.

In a deal that has come to symbolize a government initiative aimed at letting state companies raise private capital to help their balance sheets and fund expansions, the snafu underscores the enormous difficulty in revamping China's brand of state capitalism.

While the leadership has stated its desire to channel more private capital in sectors long monopolized by inefficient state companies, like telecommunications, it has also set out to strengthen Communist Party control over the companies and prevent

Please see CHINA page B2

INSIDE



ANBANG HITS A WALL IN SOUTH KOREA

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Allianz.....B7	Fidelity Investments..B5	S
Alphabet.....B4	Future World Financial Holdings.....B8	Samsung Electronics..B4
Amazon.com.....B2	G	Santander Consumer USA Holdings.....B8
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Bank of America...B5,B8	J	Time Warner.....A1
Berkshire Hathaway...B5	Jagran Prakashan.....B1	U
Blackstone Group.....B3	J.P. Morgan Securities.....B5,B7	UBS Group.....B5
BP.....B2	L	V
Cabela's.....B8	LG Electronics.....B4	Vanguard.....B1
Cheniere Energy.....B2	M	Venture Global.....B2
China Life Insurance...B5	Meituan-Dianping.....B4	W
ChinaNetCenter.....B5	Monsanto.....B8	Wal-Mart Stores.....B1
China Unicom.....B1	Morgan Stanley.....B5	Walt Disney.....B2
Credit Suisse Group...B5	Oncor.....B5	Woori Bank.....B7
D	ZTE.....B4	Z
Dentsu Aegis Network.....B2		
Didi Chuxing Technology.....B5		

BUSINESS & FINANCE



Chinese action film 'Wolf Warrior 2' has taken in over \$720 million since its release on July 27, lifting China's box-office fortunes.

China's Box Office Revives

Movie revenue rises at faster pace after slowdown last year; sequel powers gains

By WAYNE MA

BEIJING—A Chinese action film that taps into nationalist fervor has become the highest-grossing movie ever in China, showing that the box office here can still pack a punch following last year's abrupt slowdown.

"Wolf Warrior 2"—about a former Chinese special-forces soldier who fights off rebels and mercenaries in a fictional African country—has taken in more than \$720 million in the three weeks since its release July 27, according to data from Beijing-based film-research firm EntGroup. That shatters the \$508 million record established last year by "The Mermaid," a co-production between China and Hong Kong.

"You can expect China's box office to hold its own this year," said David Hancock, director of film and cinema analysis at IHS Technology.

Mr. Hancock said Hollywood shouldn't be concerned

that domestic films now account for the two top-grossing productions in China "because it shows that people are still going to the cinema."

China's box-office revenue had been growing exponentially—averaging 34% growth between 2011 and 2015—making it an appealing market for Hollywood.

However, doubts emerged last year when China's box office grew by less than 4% because of cutbacks in discounted tickets and a crackdown on so-called ghost screenings, in which movie distributors buy tickets in bulk to make a flop look like a hit.

Before the release of "Wolf Warrior 2" in late July, China's box-office take was up about 7% compared with the same period last year, largely because of the strong performance of imports such as "The Fate of the Furious." The success of "Wolf Warrior 2" helped China's box office grow to about 18% as of Tuesday.

In the U.S., box-office revenue is off about 5% compared with the same period last year, sending shares of major exhibitors lower. The highest-grossing hit so far this year was Walt Disney Co.'s "Beauty and

Howling Success

The popularity of 'Wolf Warrior 2' could help China's box-office revenue return to double-digit growth.

Box-office revenue in China



Note: 10 billion yuan = \$1.49 billion

Source: EntGroup

THE WALL STREET JOURNAL.

the Beast," which earned about \$504 million domestically during its theatrical run.

"Wolf Warrior 2," a sequel to 2015's "Wolf Warriors," was helped by its release during the prime summer moviegoing season, when the Chinese government keeps imported films out of theaters to give a boost to domestic productions. The

original, which did about \$82 million, was released in April 2015 and led the box office for one week before "Furious 7" hit Chinese theaters.

Analysts say the film's intensely jingoist theme is resonating with Chinese audiences. China's navy is featured prominently, and its military is portrayed as a peacekeeping force that works with the United Nations to help evacuate refugees, aid workers and Chinese factory workers from a fictional war-torn region.

The last shot of the film displays a Chinese passport with the message: "Citizens of the People's Republic of China: When you encounter dangers overseas, don't give up! Please remember, behind you, there is a strong nation!"

"While China used to have an inferiority complex about its place in the world, the country has felt more emboldened now and that has translated into pride about not only its economic power but its military capacity," said Rob Cain, a Los Angeles-based film producer and consultant to Hollywood studios.

—Junya Qian in Shanghai contributed to this article.

STREET

Continued from the prior page
dex-fund ownership, and so a change in their relationship with less-indexed stocks.

"So far it looks like the market system's working pretty well," Mr. Bogle said from his holiday home in the Adirondacks. "When [passive] gets to 50%, I might want to think about it a little more, but I just don't see that the problem is even on the horizon."

In the U.S., that is true, with credit-ratings firm Moody's Investors Service calculating that 29% of assets under management in the U.S. are now passive. But the share is rising rapidly: Moody's reckons that index funds will take a majority of the market by 2024.

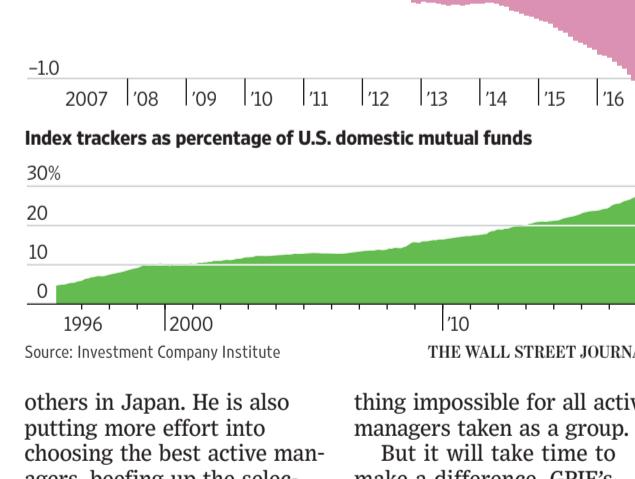
Japan is further advanced in the move to passive investing, in part thanks to the Bank of Japan, which owns ¥14.9 trillion (\$135 billion) of exchange-traded funds, or ETFs, tracking Japanese indexes and has bought another \$4.3 billion worth already this month.

Mr. Mizuno thinks GPIF—known as "the whale" for its size—will be emulated by

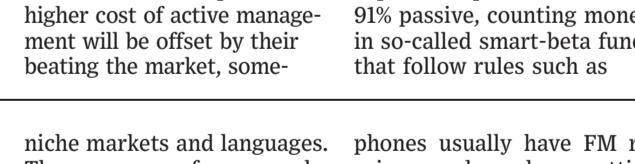
Passive Aggressive

Money has poured into U.S. index-tracking mutual funds and exchange-traded funds since 2007.

Cumulative net flows, domestic U.S. equity funds



Index trackers as percentage of U.S. domestic mutual funds



Source: Investment Company Institute

value or momentum trading.

So far, big investors elsewhere are showing little concern about the damage passive investment might one day do to the market economy. They are probably right to think that they can free ride on active managers for several years yet.

Elroy Dimson, a finance professor at London Business School, said that in previous decades academics also fretted about the growth of passive management and postulated critical levels beyond which it would impair the market. Yet we have zoomed past them, without any obvious signs of trouble. "It's plucking numbers out of the air" to put a figure on it, he said.

The uncertainty in itself is a reason for caution. Perhaps the market economy could work well even if only a few hundred active investors were involved in setting prices, but I suspect not. The point of tapping the wisdom of crowds is that it needs a crowd.

It is time other big investors started thinking like GPIF, because if the rise of passive does undermine economic growth, it will do a lot more damage to their portfolios than a bit of active underperformance.

GAS

Continued from the prior page

The actual shipments from those terminals may rise and fall depending on global supply and demand, analysts say. And since cargoes departing from the U.S. Gulf Coast can typically be rerouted and resold on a growing spot market—a relatively new development—that could help pull other regional prices down toward Henry Hub levels and keep them closely aligned.

"The economics suggest that U.S. gas prices will act as a natural anchor," said Spencer Dale, chief economist at BP PLC.

Anadarko Petroleum Corp. has signed deals to sell LNG from gas discoveries off the coast of Mozambique at Henry Hub prices, according to Mitch Ingram, Anadarko executive vice president.

Though it has become more prominent globally, there are challenges to Henry Hub's growing influence. Falling oil prices have slowed Henry Hub's progress. Even Cheniere has noted that the lower price of oil has generated renewed interest in linking LNG contracts back to oil. Asian buyers have become more reluctant to buy LNG at prices linked to Henry Hub, according to analysts.

And since European buyers have options between coal, gas delivered on pipelines, and liquefied gas that arrives on tankers, demand there will also help determine global prices.

"The market is much too rigid and sticky at the moment. There are too many barriers," said Liz Bossley, chief executive of the Consilience Energy Advisory Group Ltd.

Still, the growing connection between these hubs is a sign of how the gas market is evolving. The anticipated rise in U.S. exports of liquefied gas will strengthen the links between the U.S. and global gas markets, analysts said.

Analysts at **Société Générale** expect European gas prices to "show signs of convergence to Henry Hub" by the middle of next year as more LNG from the U.S. floods the market.

Tom Earl, chief commercial officer for **Venture Global LNG**, is bullish on Henry Hub's prospects and predicts it could take on the prominence Brent crude or West Texas Intermediate crude hold for oil markets. Venture plans to build two export facilities in Louisiana.

"It's a phenomenally deep and liquid pricing mechanism that can be relied on," Mr. Earl said. "It's driven by an abundant and enduring supply in the U.S. and it now has a track record as an index that is trusted by the market."

It isn't only U.S. LNG that is being priced at Henry Hub.

Henry Hub entered the global marketplace when **Cheniere Energy** Inc. signed the first export contract of U.S. liquefied natural gas from the U.S. Gulf in 2011. Before that, almost all LNG was sold at prices tied to oil, around 98% in 2000.

Cheniere predicts the share of Henry Hub-indexed contracts will rise to 30% by 2025 as U.S. LNG export facilities come online. Shipments from Cheniere's Sabine Pass export terminal began last year.

"We have seen interest around the world in accessing Henry Hub indexed natural gas because it comes from a stable source, it is affordable, and U.S. LNG has the most flexible contract terms in the market," said Jack Fusco, chief executive of Cheniere. "The world is becoming more knowledgeable and comfortable with Henry Hub."

Wal-Mart's strongest quarterly sales in existing stores in five years, aided in part by inflation, said the company.

Overall, Wal-Mart earned \$2.9 billion, or 96 cents a share, compared with \$3.77 billion, or \$1.21 a share, in the year-earlier second quarter. On an adjusted basis, which excludes certain debt and asset sale-related charges, earnings were \$1.08 a share, up from \$1.07 a share. Revenue grew 2.1% to \$123.36 billion.

The company said it expects third-quarter earnings of 90 cents to 98 cents a share. It said it sees full-year profit of \$4.30 to \$4.40 a share, compared with an earlier estimate of \$4.20 to \$4.40.

Food categories delivered

Continued from the prior page
dex-fund ownership, and so a change in their relationship with less-indexed stocks.

"So far it looks like the market system's working pretty well," Mr. Bogle said from his holiday home in the Adirondacks. "When [passive] gets to 50%, I might want to think about it a little more, but I just don't see that the problem is even on the horizon."

In the U.S., that is true, with credit-ratings firm Moody's Investors Service calculating that 29% of assets under management in the U.S. are now passive. But the share is rising rapidly: Moody's reckons that index funds will take a majority of the market by 2024.

Japan is further advanced in the move to passive investing, in part thanks to the Bank of Japan, which owns ¥14.9 trillion (\$135 billion) of exchange-traded funds, or ETFs, tracking Japanese indexes and has bought another \$4.3 billion worth already this month.

Mr. Mizuno thinks GPIF—known as "the whale" for its size—will be emulated by

others in Japan. He is also putting more effort into choosing the best active managers, beefing up the selection team in the hope that the higher cost of active management will be offset by their beating the market, some-

thing impossible for all active managers taken as a group.

But it will take time to make a difference. GPIF's Japanese equities are now 91% passive, counting money in so-called smart-beta funds that follow rules such as

niche markets and languages. The company, for example, uses radio to promote its services during religious festivals that are celebrated in just one region, said Ravi Desai, director of marketing for Amazon in India.

But so far, big international media giants haven't stepped into the market to set up their own stations. The lengthy FM auction and security-clearance processes, and government restrictions on foreign ownership and content, have kept them at bay, said Girish Menon, a partner at KPMG in India.

The radio industry has been an unlikely beneficiary of the spread of cellphones. The least expensive and most popular

phones usually have FM receivers and speakers, putting mini radios in the pockets of hundreds of millions of Indians. Only 20% of Indian households have radios, according to the 2011 census, while 53% have cellphones.

"We didn't really fight the mobile revolution. We grew with it," said Tarun Katial, chief executive of **Reliance Broadcast Network** Ltd., which has 61 stations across India.

To fill airtime, broadcasters are rushing to create more original content. With news still a state-radio monopoly, private stations are focusing on region-specific shows. In south India, many listeners want film-industry gossip,

while in the northern part of the country, they prefer comedy, Jagran Prakashan's Ms. Purohit said. Stations offer poetry, horror stories and relationship advice. Broadcasters have also started schools and training centers for the radio disc jockeys and producers needed to fill the new slots.

Consumers seem to appreciate the choice. Autorickshaw driver Gurral Patel, 32 years old, used to lug around cassettes to entertain customers and friends in his three-wheeled taxi in the central city of Nagpur. Now, his vehicle is equipped with a booming FM sound system.

"Whenever I'm on the road, radio is my friend," he said.

BUSINESS NEWS



The Chinese internet company has been pushing hard into such areas as digital entertainment and cloud-computing services.

Alibaba Posts Big Numbers

Revenue rises 56%, while profit nearly doubles; reach goes beyond e-commerce

By LIZA LIN

Alibaba Group Holding Ltd. reported quarterly results that again exceeded analysts' expectations, with surges in profit and revenue propelling the Chinese e-commerce giant to new expansion plans.

Alibaba posted adjusted earnings per share of \$1.17 for its fiscal first quarter, up 65% from a year earlier. Revenue rose 56% to \$7.4 billion, beating estimates of analysts surveyed by S&P Global Market Intelligence.

Alibaba shares were up 2.8% at \$163.92 in afternoon trading in New York, putting it on course for a record-high close. The stock has gained more than 80% this year, dwarfing gains of more than

30% for Amazon.com Inc. and 10% for the S&P 500.

Alibaba, which operates Tmall and Taobao, China's two most popular online-retail websites, commands around three-quarters of all online retail sales in China and a trove of data on consumer behavior. It has been expanding its product offerings and leveraging its big-data assets to encourage consumers and advertisers to spend more.

The efforts appear to be working—and then some. In Thursday's report, Alibaba said sales from its core commerce division rose 58% to \$6.3 billion, driven by growth in online sales. Different than Amazon, Alibaba's Taobao e-commerce app has derived much of its revenue from selling ads to online sellers. Alibaba has added video and other entertainment to the app to keep shoppers in it as long as possible.

Overall, for the quarter ended June 30, Alibaba re-

ported net income of \$2.17 billion, up 94% from a year earlier.

Revenue at Alibaba's digital-media and entertainment division rose about a third to \$602 million. Still, the unit, which includes mobile browser UCWeb, Alibaba Pictures and video-streaming site Youku Tudou, faces stiff competition in China's online-video space, with many players competing for licensed content.

Alibaba said last year it planned to invest more than 50 billion yuan (\$7.47 billion) over the next three years in media content and infrastructure.

The company, founded by Chinese billionaire Jack Ma, reiterated its strategy of going beyond traditional e-commerce to provide logistics, payments, cloud-computing and other services to online merchants and physical-store retailers. And it has created its own brick-and-mortar su-

permarket unit, Hema, where shoppers within a certain radius can order online and have groceries delivered in 30 minutes.

Alibaba's cloud-computing arm posted revenue of \$359 million as it enlarged its user base of paying customers.

The unit, which has been looking to expand its suite of services to businesses and governments globally, in August signed an agreement with the Macau city government to use its cloud technologies to help with city management.

Alibaba will step up its investment in the second half of the year to expand its market share in the business-to-consumer market, Chief Financial Officer Maggie Wu said.

Alibaba plans to take part in a \$1.1 billion investment in PT Tokopedia, an Indonesian e-commerce marketplace that connects small businesses with consumers, the Jakarta-based company said Thursday.

Apple CEO Takes Trump to Task Over Comments

By TRIPP MICKLE

Apple Inc. Chief Executive Tim Cook joined the chorus of U.S. business leaders criticizing President Donald Trump's response to Saturday's deadly white-supremacist protests and said the technology giant would donate money to battle hate groups.

In an email to employees late Wednesday, the head of the world's most valuable company described the events in Charlottesville, Va., as "repulsive," and said he disagrees "with the president and others" who see a moral equivalence between white supremacists and Nazis on one side and those who oppose them by standing up for human rights on the other.

"Equating the two runs counter to our ideals as Americans," Mr. Cook wrote in the email, a copy of which was reviewed by The Wall Street Journal.

"What occurred in Charlottesville has no place in our country," he wrote. "We must not witness or permit such hate and bigotry in our country, and we must be unequivocal about it. This is not about the left or the right, conservative or liberal. It is about human decency and morality."

Apple will contribute \$1 million each to the **Southern Poverty Law Center** and the **Anti-Defamation League**,

Mr. Cook said. The company also plans to match employee contributions 2-for-1 to those organizations and other human-rights groups through next month, and will enable iTunes customers to join in

contributing to the Southern Poverty Law Center.

Mr. Cook's criticism of Mr. Trump followed a decision Wednesday by executives to disband two White House business councils. **Blackstone Group** LP chief Stephen A. Schwarzman, PepsiCo Inc.'s Indra Nooyi and International Business Machines Corp.'s Ginni Rometty were among the members of the President's Strategic and Policy Forum who decided to dissolve the group.

Mr. Cook has sought to engage the White House on some issues, and joined other prominent tech executives in meeting with Mr. Trump and administration officials for two technology summits since the presidential election.

Apple also has tangled with Mr. Trump repeatedly over the past year. On the campaign trail Mr. Trump called for Apple to make products in the U.S., and more recently he said the company will build three plants in the U.S.—a claim Apple has never confirmed. Earlier this year, Mr. Cook sent an email to staff criticizing Mr. Trump's executive order restricting immigration.

Mr. Cook's email Wednesday cited Dr. Martin Luther King Jr. as saying, "Our lives begin to end the day we become silent about things that matter."

"These have been dark days, but I remain as optimistic as ever that the future is bright," Mr. Cook said.

◆ Some J.P. Morgan employees criticize CEO B7



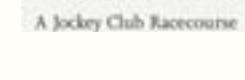
Tim Cook



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TECHNOLOGY

Facebook Closes Employee Forum

BY DEEPA SEETHARAMAN

Facebook Inc. dismantled a popular anonymous discussion board for employees last year that had become a forum for conservative political debate that sometimes degenerated into racist or sexist comments, people familiar with the matter said, a rare move to censor speech internally.

FB Anon, the name of the forum shut down in December and reported on Wednesday, became a hub for employees who backed Donald Trump's candidacy, the people said. Before the election, the group put up posters across campus that read "Trump Supporters Welcome."

But FB Anon also attracted comments that many employees found offensive, the people said.

For example, some posts last year said Facebook lowered the bar to attract female engineers to boost its diversity numbers, one of the people said, provoking angry responses from others in the chat room.

"A cornerstone of our culture is being open," said Lori Goler, Facebook's head of people, in a statement Wednesday.

The FB Anon internal Facebook group violated our terms of service, which require people who use Facebook (including our employees) to use an authentic identity on our platform."

In explaining the decision in early 2017, Chief Executive Mark Zuckerberg told employees that FB Anon contained harassing messages, according to one of the people.

At the time, Facebook reminded employees that there were other forums where they could discuss confidential

matters, but not anonymously.

The disabling of the board illustrates Facebook's struggle to cultivate open, freewheeling debate, while still following company rules of decency to not alienate employees with racist and sexist views.

The internal challenges mirror the social-media company's difficulties in policing speech and extremist views on its broader platform, used by more than two billion people a month.

Some employees disagreed with Facebook's move, even if they found certain views expressed on FB Anon offensive. There was "lots of information that you would not have had otherwise," one of the people said.

The clampdown on the anonymous forum echoes the recent controversy at Alphabet Inc.'s Google after an engineer was fired for suggesting in a lengthy memo that men are better suited for tech jobs than women. The engineer, James Damore, has said he felt Google suppressed discussion of his views.

Similar to Google, Facebook prides itself on an open culture that welcomes criticism and debate among employees. It is common for Facebook employees to raise difficult topics directly to Mr. Zuckerberg during his weekly question-and-answer sessions and even more so in internal discussion boards, created for employees to discuss topics ranging from the cafeteria food to projects, current and former employees say.

Some details of the anonymous forums were first reported by news site Business Insider.

There's a pay gap as well. Women were paid 30% less than men in China's internet industry last year, according to Boss Zhipin, which surveyed more than 365,000 pay samples nationwide.

Of the 24 board members at China's big three internet companies—Baidu, Alibaba Group Holding and Tencent Holdings—only one is a woman: Wan Ling Martello at Alibaba, the Nestlé executive who also sits on Uber's board.

China's tech industry needs to confront the lack of opportunities for women because it's good business to have leadership diversity.

The industry and its leaders need to acknowledge that gender discrimination and sexual harassment are real.

Even though China has

comprehensive labor and women's-rights laws, enforcement is spotty at best.

As a result, about 22% of women have experienced severe or very severe discrimination when seeking employment, according to Zhaopin, an online recruiter that surveyed nearly 130,000 people in 2017. That percentage rose to about 43% for women with graduate degrees.

A trawl through job listings on Boss Zhipin, the recruitment website, showed some tech companies state explicitly that positions are just for men.

An e-commerce marketing job at NetEase, one of the largest internet companies in China, recently stated that only male candidates need to apply because "the job is tough and stressful."

Ride-hailing company Didi Chuxing Technology recently said it wanted men only when advertising two web engineer jobs and a customer-operations position.

Meituan-Dianping, a group-buying website, advertised a client-operations director position by saying it preferred men.

A Didi spokeswoman said some jobs require employees to lift heavy servers and machinery, so they fall into categories that Chinese laws deem inappropriate for women. She added that the company is revisiting those requirements. Didi and Meituan-Dianping removed or amended listings to withdraw the male-only specifications after being contacted by The Wall Street Journal; Meituan said it is an equal-opportunity employer.

NetEase didn't respond to requests for comment,

project but they don't invest in companies founded by women, she said.

Lewd jokes in Chinese offices are so commonplace that they're tough for women to escape, says Feng Yuan, the founder of women's-rights nonprofit Equality. Many women don't know that harassment, as legally defined in China, can be verbal as well as physical, and that it doesn't have to be targeted at an individual, she says.

Chinese law doesn't clearly define clearly how victims can seek redress and what responsibilities employers have when sexual harassment occurs, said Ms. Feng. So it is up to companies to make sure their employees are empowered. Action by top management can make a difference.

Jane Sun, co-founder of online booking site Ctrip.com International, has set up areas for pregnant women to lie down, and they can expense daily commutes.

Didi President Jean Liu started a women's initiative to train future leaders at the company. But as Didi's mainly job postings show, even with a woman at the top, much needs to be done to overhaul a culture that is deeply rooted not only in the tech industry, but Chinese society as well.

Follow Li Yuan on Twitter @LiYuan6 or write to li.yuan@wsj.com.

CHINA CIRCUIT

| By Li Yuan

Help Wanted, but Men Only

China's tech industry has long taken Silicon Valley's lead, from products to business models to office design. But it has paid scant attention to the scandals that have rocked Silicon Valley this year, involving allegations of gender discrimination and sexual harassment.

The torrent of news is barely registering as water-cooler talk in China. The indifference stems from the fact that because such problems are so prevalent in Chinese society, many people don't recognize that certain behavior amounts to sexual harassment or discrimination. Such practices are illegal in China, but generally the laws aren't policed. Job ads sometimes say only men need apply.

Take the suggestion by the now-fired Google engineer that men are genetically better at tech jobs. Such concepts are widespread in China: Parents often tell their daughters they won't be good at math or physics or coding. And just like in the U.S., some Chinese companies are reluctant to hire or promote women because of concerns about pregnancy and child-rearing, employee advocates say. About 20% of engineers in China's internet and telecommunications industries are women, according to Boss Zhipin, a Beijing-based online recruiting company.

There's a pay gap as well. Women were paid 30% less than men in China's internet industry last year, according to Boss Zhipin, which surveyed more than 365,000 pay samples nationwide.

Of the 24 board members at China's big three internet companies—Baidu, Alibaba Group Holding and Tencent Holdings—only one is a woman: Wan Ling Martello at Alibaba, the Nestlé executive who also sits on Uber's board.

China's tech industry needs to confront the lack of opportunities for women because it's good business to have leadership diversity.

The industry and its leaders need to acknowledge that gender discrimination and sexual harassment are real.

Even though China has



Didi Chuxing's Jean Liu is taking steps to counter gender hurdles that face women at Chinese firms.

QI LI SHEU/BLOOMBERG NEWS

comprehensive labor and women's-rights laws, enforcement is spotty at best.

As a result, about 22% of women have experienced severe or very severe discrimination when seeking employment, according to Zhaopin, an online recruiter that surveyed nearly 130,000 people in 2017. That percentage rose to about 43% for women with graduate degrees.

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chinery, so they fall into categories that Chinese laws deem inappropriate for women, she said.

Lewd jokes in Chinese offices are so commonplace that they're tough for women to escape, says Feng Yuan, the founder of women's-rights nonprofit Equality. Many women don't know that harassment, as legally defined in China, can be verbal as well as physical, and that it doesn't have to be targeted at an individual, she says.

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JEFF CHIU/ASSOCIATED PRESS

A mural at Facebook's campus in Menlo Park, Calif. Some employees disagreed with the firm's move to end the forum.

In-Stream Video Ads Used to Woo Marketers

BY JACK MARSHALL

As Facebook Inc. ramps up its video ambitions, get ready for more commercial breaks.

The company said it would now give marketers the ability to run video ads specifically as "in-stream" placements, meaning they will appear as ad breaks in the middle of publishers' videos.

Previously, advertisers had only been able to run video ads on Facebook as stand-alone posts in users' feeds, aside from a limited test of in-stream video ads.

Advertisers also will be given the option to specify whether they would like their in-stream ads to appear on Facebook itself or across the range of websites and apps in Facebook's Audience Network ad network product. They can also choose both.

The move is a timely one given Facebook's recent efforts to attract long-form original programming to its platform, as opposed to the short, shareable videos that users already consume fleetingly in their news feeds.

Earlier this month, the company announced the launch of a new platform called "Watch," where it plans to surface original video series from a wide range of publishers and content creators.

Facebook has been testing in-stream ads in videos over 90 seconds long for a number of months, but the addition of Watch content could create a host of new ad space for video advertisers to fill, provided the new shows succeed in attracting viewers and holding their attention.

The ability to specifically purchase video ads that are more akin to commercial breaks sets up Facebook's

original programming as more of a competitor to YouTube, Hulu and even linear television for brands' advertising dollars.

Facebook has said that its goal is to create an ecosystem with Watch where creators of the original shows can be entirely supported by revenue from ad breaks in the middle of their videos.

Facebook's publishing partners say the shows they are working on range from episodes two minutes in length all the way up to an hour, and the company has also announced deals to air multihour sporting events such as Major League Baseball and Major League Soccer matches.

Facebook hasn't specified how much advertising time can be carried during publishers' videos.

There's a spectrum of ways people are watching video on Facebook. There are shorter, on-the-go experiences and longer, lean-back experiences," said Kate Orseth, a product marketing manager at Facebook. "We're building ad products to match those experiences and behaviors."

Advertisers for now won't be given the opportunity to purchase ad space in Watch shows specifically, Ms. Orseth added.

The addition of in-stream only ad options might help attract ad dollars from marketers who have been reluctant to buy video ads in the news feed over concerns about the amount of time people actually view their ads.

"This is something advertisers asked us for," Ms. Orseth said.

So far, more than 70% of in-stream video ads up to 15 seconds in length were watched to completion, Facebook said.

In 2015, the company's deputy chairman, Ken Hu, said,

Chinese smartphone maker ZTE Corp. has nudged up its market share in the U.S., as its affordable devices and aggressive marketing chip away at the market's leaders.

ZTE's U.S. smartphone shipments increased 36% during the second quarter to 4.8 million units, according to Counterpoint Technology, a market research firm.

ZTE had 11.5% of the U.S. market, up from 10.1% in the first quarter. It was the fourth-largest seller behind Samsung Electronics Co. and Apple Inc., which each took about 30% of the market, and LG Electronics Inc., which accounted for 15.4% of the market, Counterpoint said.

Both Apple and Samsung are poised to launch new flagship devices in the U.S. in coming months.

"The U.S. is the most competitive market, but we believe if we can manage the challenge well, it will drive the overall competitiveness of our company," said Lixin Cheng, chief executive of ZTE's mobile devices, who was until recently the head of its U.S. operations.

Mr. Cheng said the Chinese company now faces a game of catch-up on its home field. ZTE's share in China, the world's largest smartphone market, was at 7.8% for the first quarter, far behind its longtime rival Huawei Technologies Co.'s 24.7%, according to TrendForce.

Huawei, which had largely retreated from the U.S. market due to security concerns, is considering a comeback.

In 2015, the company's deputy chairman, Ken Hu, said,

Chinese smartphone maker ZTE Corp. has nudged up its market share in the U.S., as its affordable devices and aggressive marketing chip away at the market's leaders.

In a move to crack into the high-end market, ZTE launched a flagship phone in the U.S. in 2015, the Axon, and has started a sports-marketing push with several National Basketball Association teams.

Some analysts say ZTE needs to build more rapport

with U.S. carriers. About 75% of the mobile devices in the U.S. are sold through carriers, but ZTE's Axon is still largely sold through open channels such as Best Buy Co. and Amazon.com Inc.

Without the support of carriers, it remains a challenge for ZTE to break into the top three, said Anthony Scarsella, a research manager at IDC.

With U.S. carriers. About 75% of the mobile devices in the U.S. are sold through carriers, but ZTE's Axon is still largely sold through open channels such as Best Buy Co. and Amazon.com Inc.

Without the support of carriers, it remains a challenge for ZTE to break into the top three, said Anthony Scarsella, a research manager at IDC.

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FINANCE & MARKETS

Elliott Acts to Block Berkshire Bid

In fight over Buffett's push to acquire Oncor, hedge fund buys impaired class of debt

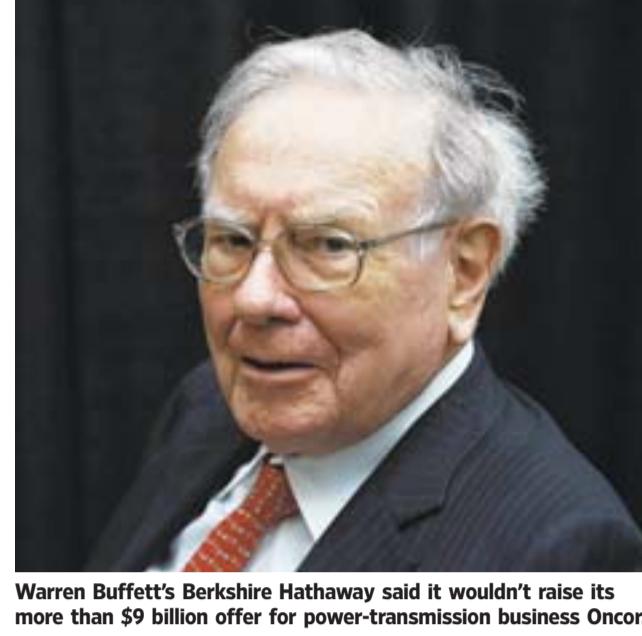
By DANA MATTIOLI
AND DAVID BENOIT

Hedge fund Elliott Management Corp. has purchased a slice of debt that would ensure the hedge fund's ability to block Warren Buffett's deal to buy power-transmission business Oncor, according to people familiar with the matter.

Elliott has been acquiring debt of Energy Future Holdings Corp., which owns Oncor, in recent months. The fund already owned a major position in the biggest block of debt and had argued it could stymie any deal, but the purchase of a different class from Fidelity Investments closes a potential loophole that Mr. Buffett's Berkshire Hathaway Inc. could have used to force the deal through, the people said.

Berkshire, known for making acquisitions quickly and staying out of bidding wars, said Wednesday it was standing pat and wouldn't raise its more than \$9 billion offer for Oncor. In a statement, the company emphasized support it has gotten from Texas stakeholders, saying it "sets our offer apart from any other bid." State regulators had squashed prior deals for Oncor.

"We stand ready to deliver on and exceed the regulatory



RICK WILKING/REUTERS

Warren Buffett's Berkshire Hathaway said it wouldn't raise its more than \$9 billion offer for power-transmission business Oncor.

commitments," said Greg Abel, the chief executive of Berkshire Hathaway Energy, the unit buying Oncor. Mr. Abel is considered a leading candidate to succeed Mr. Buffett as CEO of Berkshire.

Elliott's newly acquired debt is in an impaired class of notes, meaning it won't be paid fully in the restructuring, and its approval is likely needed to get a deal done. Elliott now controls all the impaired classes and has notified the court it won't approve the Berkshire bid in its current form.

The move means the future of Berkshire's deal for Energy Future, which would give it

possession of Oncor, is teetering. In July, Berkshire Hathaway Energy struck the deal, which would be worth more than \$17.5 billion including debt.

Energy Future, formerly TXU, was the subject of the biggest leveraged buyout on record in 2007. Laden with debt, Energy Future filed for bankruptcy protection in 2014.

After the Berkshire deal was announced, Elliott publicly criticized its price and started to assemble a consortium of its own to restructure the company with a higher sale price. It is unclear where those efforts stand.

On Monday, Energy Future

is due in court to seek approval to commit to selling Oncor to Berkshire Hathaway. The transaction includes a \$270 million breakup fee. Elliott has objected to that fee, and asked the court to reject the Berkshire deal. In a court filing Wednesday, lawyers for Berkshire said Elliott has shown no proof it has committed financing for an alternative deal.

Subsequently, Energy Future and Berkshire will have to seek approval from Texas regulators that killed two earlier deals for Oncor, and a chapter 11 plan must be approved by the bankruptcy court. The confirmation hearing is set for October.

Berkshire is the third would-be buyer for Oncor. Energy Future had been trying to sell its 80% stake in Oncor, but the regulators stymied attempts at deals by Hunt Consolidated Inc. of Texas and Florida's NextEra Energy Inc., leaving the company mired in bankruptcy. NextEra Energy had agreed to buy Oncor last year.

Texas regulators said the Hunt-led deal included too much financial engineering to suit them, while NextEra's deal was rejected for insisting on overriding many of the protections that prevented Energy Future from imposing excessive debt on Oncor, and guaranteed the unit kept a separate board of directors.

—Peg Brickley
contributed to this article

Pensions Sue Banks, Alleging Loan Abuses

By KATY BURNE

Three U.S. pension funds sued six major global banks, saying they conspired to block competition in the stock-lending market.

The plaintiffs—Iowa Public Employees' Retirement System, Orange County Employees Retirement System and Sonoma County Employees' Retirement System—allege in a complaint seeking class-action status that the banks have been acting together since 2009. The suit was filed Wednesday in federal district court for the Southern District of New York.

The lawsuit is the latest effort by pension-fund plaintiffs and private lawyers to extract penalties from banks for alleged wrongdoing including anticompetitive actions.

The banks named as defendants in the lawsuit are Bank of America Corp., Credit Suisse Group AG, Goldman Sachs Group Inc., J.P. Morgan Chase & Co., Morgan Stanley & Co. and UBS Group AG. Representatives for Credit Suisse, Goldman, J.P. Morgan and Morgan Stanley declined to comment. The other banks didn't immediately return requests for comment.

New York-based stock-lending platform EquiLend, which matches up banks and other firms that want to borrow securities with those seeking to lend them, was also named as

a defendant. EquiLend is owned by banks including the six other defendants, according to its website. EquiLend didn't immediately comment.

In stock-lending transactions, firms lend out their shares to borrowers for a fee, often using agents as middlemen. There are some \$1.72 trillion of shares on loan at any one time, the suit says.

Private lawsuits have already drawn billions of dollars in settlements over the alleged manipulation by banks of foreign-exchange, interest-rate, commodity and off-exchange derivatives markets. Twelve banks and two industry groups in 2015 agreed to pay \$1.87 billion to settle accusations that they rigged the credit derivatives markets.

In 2013, Iowa's pension fund was the lead plaintiff in a class-action lawsuit against Countrywide Financial Corp. and others over alleged abuses in the packaging and selling of mortgage bonds that soured in the financial crisis. Defendants agreed to pay \$500 million to settle that case.

Those lawsuits were brought under a Democratic administration widely perceived as more friendly to attempts to rein in banks than the Trump administration.

Plaintiff lawyers working on the stock-lending lawsuit are Cohen Milstein Sellers & Toll PLLC and Quinn Emanuel Urquhart & Sullivan LLP.

CHINA

Continued from page B1
any losses of state assets.

Government-directed mergers in the state sector, for instance, have created ever-larger state giants. In China Unicom's case, there are questions about some investors' commitment to a deal largely driven by the government as opposed to market forces.

Even publicly traded companies controlled by the state are required to set up party committees that outrank corporate boards.

The upshot: The state is increasing, rather than decreasing, its role in the economy. "We're not moving ahead but going backward in terms of reform," said Christopher Lee, a managing director at S&P Global Ratings.

The leadership picked China Unicom as a trial case for its mixed-ownership experiment that has been making only limited progress since its launch two years ago. Officials viewed the company as appealing to private companies

China Unicom set the price at which it planned to sell shares lower than required.

because it is one of only three competitors in a lucrative sector. China Unicom made 2.4 billion yuan (\$359 million) in net profit in the first half of this year, a 69% increase from a year earlier.

But the process has been littered with flubs and reversals. According to the officials familiar with the matter, the State-Owned Assets Supervision and Administration Commission initially came up with a rather modest plan to dilute the share held by the state in China Unicom.

The leadership called that plan "too conservative," one of the people said.

Together with other agencies including the Ministry of Industry and Information Technology, the state-assets commission then accelerated efforts to make China Unicom farm out more stakes to outside investors, according to the officials.

The plan released by the company Wednesday showed that investors including Alibaba, Tencent, Baidu Inc. and China Life Insurance Co. would buy about 10.9 billion shares, or 35.2%, of China Unicom. The purchase price was set at 6.83 yuan a share. The company's employees would also get to purchase about 850 million shares at 3.79 yuan apiece, according to the Wednesday presentation by China Unicom.

But even as key government agencies including the state-assets commission and the nation's top economic planner signed off on the plan, some details in it failed to meet new requirements set by China's top securities regulator.

Specifically, according to the people with knowledge of the situation, new shares issued by a listed company are capped at 20% of the company's existing shares outstanding under rules introduced in February.

The amount of shares China Unicom proposed to sell as part of the mixed-ownership plan exceeded 40% of the company's shares outstanding. Meanwhile, the people say, China Unicom set the price at which it planned to sell the shares to the investors lower than required under the new securities regulations, which stipulate it should be based on the most recent trading.

It is unclear whether China Unicom or its regulators involved the China Securities Regulatory Commission while drafting the plan, or why the plan didn't reflect the new rules.

"It's a bit embarrassing that you had to withdraw a plan shortly after it's filed and after you had spent so much time putting it together," a policy adviser involved in state-company changes said. "At least it shows there is a lack of communication of sort."

Confusion also surrounded which companies will ultimately invest in China Unicom. Companies including Tencent, Baidu and Didi Chuxing Technology Co. have publicly confirmed their participation in the deal. However, CRRC Corp., a rail-equipment manufacturer, denied that it would invest in China Unicom despite the carrier's official presentation listing CRRC as an investor.

The withdrawal of the plan by China Unicom caused several companies listed as new investors to suspend their shares. Retailer Suning Commerce Group; Guangzhou Easteone Century, a telecom-equipment maker; and ChinaNetCenter, an internet service provider, said after halting shares Thursday that they won't resume trading until China Unicom releases its revised plan.

Still, some analysts expect the plan, once tweaked, to eventually go through, citing the leadership's need to display its resolve to revamp the bloated state sector ahead of a major power transition later this year.

"In the end, I expect the securities regulator may have to set more flexible rules to help the reforms," said Zhu Chaoping, China economist at UOB Kay Hian Holdings, a Singapore investment bank.

—Yang Jie, Alyssa Abkowitz and Dan Strumpf contributed to this article.

The Mart

BUSINESS OPPORTUNITY

GOVERNMENT OF MAHARASHTRA, PUBLIC WORKS DEPARTMENT,

Marathi Resolution No.CAT 2017/PRA.KRA 8/Bldg-2 dt.12.04.2017

GOVERNMENT OF MAHARASHTRA EXECUTIVE ENGINEER, PUBLIC WORKS DIVISION SATARA,

Opp Renuka Petrol Pump, Powai Naka, Satara - 415 001

e-mail :- satara.ee@mahapwd.com Phone/Fax : (02162)-233792

E-TENDER NOTICE NO.25

(The "DBOT" Hybrid Annuity basis) FOR 2017-18

The Public Works Department, Government of Maharashtra, represented by the Executive Engineer, Public Works Division, Satara (the "Authority") is engaged in the development of State Highways / Major District Roads and as part of this endeavor, the Authority has decided to undertake development and operation / maintenance of the Project (the "Project") on [Design, Build, Operate and Transfer (the "DBOT")] Hybrid Annuity basis, and has decided to carry out the bidding process for selection of a private entity as the Bidder to whom the Project may be awarded.

Brief particulars of the Project are as follows:

Sr. No.	State	Dist.	Pack-age No.	Name of Project	Project Length in (km)	Project Cost	Earnest Money / Bid Security	Duration Of the Project	Cost of Tender Fee Document
1)	Maharashtra	SATARA	PN-07	A)Improvements to Phata Pusegaon Aundh Gopuj Nimrod Mhasurne Road S.H.147 Km.0/00 to 92/00 District. Satara. (Length-92.00 Km) B) Improvements of Roads Connecting the Tourist Destination in Satara District. Kas Platue District. Satara. (Length-20.00 Km)	92.00 Km.	₹ 215.00 Crore	₹ 2.15 Crore	18 months	₹ 50,000/- Online Payment through NEFT/ RTGS

e-tender Download Period Dt.03.08.2017 at 10.00 a.m. to Dt.03.10.2017 at 17.30 p.m.

Pre-Bid meeting No.1 Online or in the office of the Chief Engineer, Public Works Region, Pune on or before Dt.22.08.2017 up to 11.00 am.

Pre-Bid Meeting No.2 Online or in the office of the Chief Engineer, Public Works Region, Pune on or before Dt.12.09.2017 up to 11.00 am.

Date and timing of opening at 11.30 am on 09.10.2017 office of Superintending Engineer, Public Works Circle, Satara.

Details of Tender Document is available on website.

1) <https://mahatenders.gov.in> and

2) www.mahapwd.com

(Changes If any in connection with respected e-tender notice will be informed on above website)

3) Notice Board in the Office of the Executive Engineer Public Works Division, Satara.

No.AB / Tender / 5589 / 2017

Office of the Executive Engineer,

P.W.Division, Satara.

Date. 24/07/2017.

Executive Engineer, Public Works Division,Satara

DGIPR/2017-2018/2233

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FINANCE & MARKETS

China's Anbang Hits Korean Wall

Insurer spent over \$1 billion on acquisitions, but it has run into difficulties

BY JAMES T. AREDDY

SEOUL—China's **Anbang Insurance Group** dived headlong into South Korea, spending over \$1 billion as it took control of two insurers, agreed to buy an asset-management company and picked up a bank stake in rapid succession.

Now those deals are fraying. Anbang is trying to claw back money it paid for one of the insurers after a financing scandal it didn't discover in due diligence. It has struggled to close the deal for the asset manager, and local regulators are monitoring its marketing of insurance products.

Anbang's effort to stitch together a global financial network around its core Chinese insurance operation has received less attention than its purchase of Waldford Astoria New York or its unsuccessful bid for **Starwood Hotels & Resorts** Worldwide. But insurance is Anbang's backbone, and Korea is emerging as a test for the company's resilience globally in the face of problems back home.

Anbang is among a handful of big private conglomerates that Chinese regulators have targeted over their overseas acquisitions. Chairman Wu Xiaohui, who charted Anbang's global expansion, has been detained by investigators for alleged economic crimes, according to people familiar with the matter.

Mr. Wu's whereabouts aren't known, and he hasn't made a public statement. Anbang declined to comment for this article. It has said in his absence other executives are running the group and that some of its overseas entities operate with relative autonomy.

Fallout from these domestic troubles already are spilling beyond China's borders. In Europe following news about Mr. Wu's absence in June, investors dumped €650 million (\$765 million) of debt securities issued the previous month by Anbang-owned Dutch insurer Vivat NV, though the bond's price has partially rebounded.

Local regulators reviewing



Anbang Chairman Wu Xiaohui has been detained by Chinese investigators, according to people familiar with the matter.

Anbang's acquisition of asset manager **Allianz** Global Investors Korea Ltd. are considering, among other things, whether the Chinese company meets a "fit and proper test" to handle investor funds—a determination now complicated by Mr. Wu's disappearance, a person with knowledge of the situation says.

Allianz says the sale is an ongoing regulatory matter."

Korea's Financial Services Commission declined to comment on specifics on Mr. Wu and said while it is monitoring Anbang's activities, it hasn't detected any problems that might affect customers.

Regarding the "fit and proper" test, it said, "Majority shareholders shall have sufficient investment capabilities, sound financial standing and social credibility."

Anbang's difficulties in South Korea are partly the result of Mr. Wu pushing the company into the market without articulating a clear plan, said analysts, competitors and a company insider. Given Mr. Wu's status, they say, the company may drift. "Strategy? We don't have such things," says a person involved in recent Anbang deal making. "The chairman makes the decisions."

Anbang entered South Ko-

rea ahead of the 2015 launch of a free-trade pact that fueled expectations of stronger financial ties between two powerhouse economies.

That year, Anbang bought control of Seoul-listed Tong Yang Life Insurance Co., agreeing to pay a 45% premium, or about \$1 billion. Last year, it agreed to buy two Korea businesses from Germany's Allianz SE, a loss-making insurer and the profitable asset manager, at the fire-sale price of \$3 million.

In a mark of its ambition for the market, the company created a red logo ABL—for Anbang Life—and put it in big letters on a financial-district skyscraper in Seoul. The Korean businesses have also taken steps to integrate with Anbang's globalizing operation such as drawing on expertise from the European business Vivat and, in the case of Tong Yang, lending \$275 million to an Anbang-owned hotel in California.

Last November, Anbang got a piece of government-controlled **Woori Bank** when an investor group including Tong Yang bought a 30% stake.

Tong Yang and the Allianz insurer quickly gobbled up market share. Key to growth was the sale of insurance as a type of time deposit that

earns yields sometimes triple what competitors offered, according to marketing materials and industry executives and analysts.

Under Anbang, the former Allianz business recorded a 190% increase in personal premium revenue in four months, while the market overall shrank 3.4%, according to figures from the Korea Life Insurance Association.

Rivals say the deals accounted for almost all of the industry's growth in that period. "There's been a disturbance in the market with China-backed insurance products," said Andrew Barrett, executive vice president at Seoul-listed ING Life Insurance Korea Ltd. "We don't think it's permanent."

Mr. Wu has said Anbang jump-started a staid industry through "export of know-how and management skill of Chinese enterprises," as he put it in a December commentary published in trade publication Asian Insurance Review.

Anbang derived most of its China revenue selling similar products—until Chinese regulators forced an end to the practice earlier this year.

Such products can be risky because they must be repaid quickly, and figures from Tong Yang show its initial sales

burst didn't last. Competitors and analysts say Korean authorities took notice of the rapid expansion and efforts in China to slow it there.

Late last year, Tong Yang acknowledged it had been duped in a commodity financing scam that involved a defaulted borrower whose collateral was raw meat; the meat had been pledged to multiple lenders including Tong Yang.

That prompted Anbang to claim it is owed \$630 million from the private-equity investors that previously controlled Tong Yang, nearly two-thirds of what the Chinese company agreed to pay for the Korean firm, according to a regulatory disclosure that says the matter is being arbitrated. The sellers argue they aren't liable.

Though he spearheaded the drive into Korea, the Anbang chairman actually spent little time in the country, according to people familiar with the matter. Dressed in a tailored business suit on a freezing morning last winter, Mr. Wu presided over the appointment of a new board at one of the insurers, according to an attendee. He departed midway through a simple Korean lunch where executives sat on the floor to eat, Korean-style.

—Min Sun Lee contributed to this article.

Emerging-Market Bond Flows At Record

BY CAROLYN CUI

Investors can't get enough of emerging-market debt.

Flows surged in recent weeks for developing-market bond funds, bringing the total inflow to a record \$48.6 billion this year through Aug. 9, according to EPFR Global, a fund data tracker, despite risks of higher U.S. interest rates and escalating geopolitical tensions.

Investors continued to be drawn to emerging markets as bond yields there remain relatively high in a world of persistently low interest rates. At the end of July, the average yield of emerging-market government bonds was 5.32%, compared with 1.88% in developed countries, according to J.P. Morgan Securities LLC.

Inflows have already stretched into the 28th consecutive week, the longest streak for the asset class since 2013, when inflows lasted for 50 weeks, according to EPFR. Even as the Federal Reserve has penciled in a third rate increase in 2017 and the U.S. threatened to unleash "fire and fury" against North Korea, inflows kept growing.

J.P. Morgan analysts expect total flows into emerging-market bonds—from both retail

The average yield of emerging-market government bonds was 5.32% in July.

and institutional investors—will reach \$110 billion by year-end, surpassing the previous record of \$103 billion in 2012.

Strong and continuous inflows have left many investors with an overweight position on emerging-market debt, according to a client survey that J.P. Morgan conducted in July, which showed that emerging-market local-currency bond positions were at a 10-year high.

"This does give us some cause for concern," wrote analysts at J.P. Morgan in an Aug. 10 note. "For the remainder of the year, the key question is whether retail flows continue at their current pace."

Some analysts noted that investors seemed to be ignoring the risks and worsening fundamentals in certain countries. For example, South Africa is facing political infighting, a potential slide back into recession and the danger of losing its investment-grade rating, but that hasn't deterred many investors from piling into the country's bonds, said Cameron Brandt, director of research at EPFR. South African bond funds had inflows for a 10th week running, EPFR said.

Some investors said demand for emerging-market assets was supported by an improved economic outlook broadly.

"We are categorically optimistic about emerging-markets debt and strongly believe we are in the initial stages of a bull market," said Arif Joshi, a portfolio manager at Lazard Asset Management, in a recent interview.

He said some leading indicators for emerging markets, such as shipping activity, showed strength in recent quarters and bode well for growth resurgence.

J.P. Morgan Staff Sound Off on CEO Stance

BY BEN EISEN
AND EMILY GLAZER

J.P. Morgan Chase & Co. Chief Executive James Dimon's public stance against the events in Charlottesville, Va., and President Donald Trump's reaction provoked a small number of critical comments among the company's employees.

On an internal message board featuring Mr. Dimon's recent memo to bank employees over the disbanding of Mr. Trump's strategic and policy forum, on which the bank CEO sat, commenters appended an unusually large volume of messages, which are typically posted with employees'



James Dimon strongly disagreed with Mr. Trump's comments.

ive of Mr. Dimon's actions. Some employees said the more dismissive remarks drew particular attention, though.

One employee wrote: "I am shocked quite frankly, with the negative responses. I do not think Mr. Dimon was making a political stance by saying that

he does not agree with the President."

One of the more critical commenters wrote: "Chase has become extremely political this year and I must be honest and say that others and myself have taken offense to much of it." He added that Mr. Trump

condemned all hateful actors, as he should have. I have to see this conflict in my private life. I never thought I would deal with it at my workplace."

Mr. Dimon's message said that he "strongly" disagrees with Mr. Trump's reaction to recent clashes in Charlottesville, according to the internal memo sent Wednesday reviewed by The Wall Street Journal.

Mr. Dimon wrote that he "personally supported" the decision to disband the president's Strategic and Policy Forum, of which he was a member.

"Racism, intolerance and violence are always wrong," Mr. Dimon wrote. "There is no room for equivocation here."

He added that: "It is a leader's role, in business or in government, to bring people together, not tear them apart."

Company employees largely commended Mr. Dimon's ac-

tions. "I am very pleased with your public stand," one wrote to Mr. Dimon on the internal message board. "If we don't have moral, strong leadership, we will never learn from our less-than-perfect past. Thank you, thank you, Jamie Dimon."

But a few questioning remarks were sprinkled in: "Let's not turn this into a political grandstanding event, and certainly not in our work environment," one employee wrote.

What happened in Charlottesville and Mr. Trump's reaction is surreal and sad," one executive told the Journal.

A small group of people protested outside the New York offices of J.P. Morgan and then private-equity firm Blackstone on Wednesday. Social-media campaigns had heavily criticized corporate chiefs for not quitting the councils earlier in the week.

U.S. Companies Are Buying Back Shares at a Slower Pace

BY CHRIS DIETERICH

A perennial market worry is back under the spotlight: U.S. companies are buying back their own shares at a slower pace.

The trend has stoked concerns that a key pillar of the bull market is fading and could leave stocks vulnerable.

However, corporations remain the largest buyers in the stock market and strong demand for bonds means that companies could cheaply borrow to ramp up repurchases again if they want.

S&P 500 companies spent 7.6% less on buybacks in the second quarter than in the year-earlier period, according to a preliminary tally from S&P Dow Jones Indices. It is

the second quarterly slowdown in a row; buybacks by S&P 500 companies fell 18% to \$131.1 billion in the first quarter.

Corporate share repurchases have helped lift the U.S. stock market in recent years, as many companies used buybacks to juice per share earnings, especially when profits stagnated. Ultralow borrowing rates incentivized companies to issue bonds to fund the repurchases.

The drop-off in buybacks worries some analysts, particularly those with a close eye on mounting debt levels. Andrew Lapthorne, head of quantitative equity research at Société Générale, noted this week that a separate measure of buybacks by U.S. companies

over the past year is down 20%.

"Perhaps overleveraged U.S. companies have finally

reached a limit on being able to borrow simply to support their own shares," he said.

But the letup in corporate

repurchases hasn't hindered the stock market this year. The S&P 500 has notched 30 records in 2017 and finished Wednesday less than 1% below this month's record high.

And despite the first-quarter slowdown, stock buybacks were the single biggest driver of U.S. equity demand, according to Goldman Sachs Group's analysis of Federal Reserve Board data.

This week's massive bond offering from Amazon.com shows big investors, including pension funds, are keen to lap up new credits, said Brian Reynolds, an analyst at Canaccord Genuity.

Amazon sold \$16 billion in bonds to fund its purchase of Whole Foods Market this week at lower yields than expected.

The 10-year portion of the offering fetched a 0.9-percent-point yield-premium to Treasuries, lower even than the average yield premium on investment-grade corporate bonds.

"The success of this deal indicates the power of this credit boom," he says. "It tells us there is overwhelming demand for corporate bonds."

These days, many large companies don't need to support their stock or boost their per share earnings with buybacks. But if circumstances in the equity market change, the bond market appears poised to help.

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MARKETS



Ex-BofA Staffer Is Charged

BY DAVE MICHAELS

WASHINGTON—A former **Bank of America** Corp. employee and several friends at prominent Wall Street firms face criminal insider-trading charges over tips about potential mergers gleaned from a confidential deals database.

Prosecutors unveiled charges against seven people, including Daniel Rivas, a former information technology consultant at Bank of America. Mr. Rivas is alleged to have passed on information from the database to friends, including his girlfriend's father, James Moodhe, according to an indictment made public Wednesday.

The group that traded on the information earned over \$5 million by trading in more than two dozen stocks, including shares of **Monsanto** Co., **Cabela's** Inc. and **ADT** Corp., according to the indictment.

Messrs. Rivas and Moodhe pleaded guilty in Manhattan federal court last week, according to prosecutors who announced the pleas on Wednesday. A spokesman for Bank of America said Mr. Rivas was fired in April and that the bank cooperated fully with the government probes.

Mr. Moodhe, a former treasurer and assistant controller at interdealer broker Tullett Prebon Financial Services LLC, reaped more than \$2 million in profits by using Mr. Rivas's tips to trade stocks and options of at least 25 companies, according to the indictment. A spokesman for TP ICAP, Tullett Prebon's parent company, confirmed that Mr. Moodhe worked there until May. The company declined to comment on the claims against him.

An attorney for Mr. Rivas didn't return a call seeking comment, and a lawyer for Mr. Moodhe declined to comment.

Tech, Retailers Drag Market Down

Disappointing results hit shares in the U.S.; Wal-Mart sinks after posting drop in profit

BY MICHAEL WURSTHORN AND JUSTIN YANG

U.S. stocks retreated broadly Thursday, with retail and technology companies suffering some of the biggest losses.

THURSDAY'S MARKETS The Dow Jones Industrial Average fell 274.14 points, or 1.2%—for its biggest decline in three months—to 21750.73, while the S&P 500 shed 1.5%. The Nasdaq Composite dropped 1.9%.

In Europe, the Stoxx Europe

600 fell 0.6% to 376.87 after a brief upward swing.

Wall Street's "fear gauge," the CBOE Volatility Index, jumped 27% by late afternoon.

A day after some retailers helped U.S. stocks bounce back, brick-and-mortar stores were once again contributing to broader market declines.

Victoria's Secret parent **L Brands** was one of the worst-performing stocks in the S&P 500, falling 4% in late trading after the company cut its forecast for the remainder of the year. Big-box retailer **Wal-Mart Stores** declined 1.6% after the company reported lower profit on higher same-store sales.

Mark Stoeckle, chief executive and senior portfolio manager of Adams Funds, said his firm owns shares of the re-

tailer and believes its sales growth amid the industry's broader struggles makes it attractive.

The pullback "could be a good opportunity for people who don't own Wal-Mart," said Mr. Stoeckle.

His firm also weighed adding to its **Cisco Systems** position in a meeting Thursday morning, but executives felt it was competing against companies that showed better growth, he said. "Doing OK in an environment where you got too many opportunities isn't good enough," Mr. Stoeckle added.

Shares of Cisco shed 4% after the company said revenue fell last quarter.

NetApp fell 6.7% in late trading after the company issued sales guidance that fell

on the low end of analysts' projections, even though it beat quarterly earnings expectations.

When shares fall after companies' top projections, that could suggest some pockets of the market have reached a peak, some investors said.

"When good news isn't rewarded, that tends to give you pause," said Michael Scanlon, a portfolio manager at Manulife Asset Management.

As U.S. stocks retreated, investments considered to be relatively safe stores of value, such as U.S. Treasurys and gold, were up.

The yield on the 10-year Treasury note fell to 2.197%, from 2.224% Wednesday. Yields fall as bond prices rise.

Gold for August delivery gained 0.7% to \$1,286.40 an

ounce.

Elsewhere around the world, stocks were mixed following the release of central-bank minutes in the U.S. and Europe.

Minutes from the European Central Bank's latest meeting suggested the central bank is wary of pulling back too soon on its large bond-buying program, especially as inflation isn't yet at its target.

Minutes of the latest U.S. Federal Reserve meeting, released Wednesday, showed disagreement over the timeline for future interest-rate increases in the U.S.

Crude prices rose Thursday. U.S. futures rose 31 cents, or 0.7%, to \$47.09 a barrel. Brent, the global benchmark, rose 76 cents, or 1.5%, to \$51.03 a barrel on ICE Futures Europe.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

Careful, This Auto Lender Won't Pay Off

Credit Downgrades

Credit Acceptance's forecasts for loan collection rates, by year originated



larly updates its expectations for various loan vintages, booking gains or losses as forecasts change.

In its latest quarterly results, Credit Acceptance projected a collection rate of 65.7% on loans made in 2015, 2 percentage points below its initial forecast. By contrast, the forecast for 2017 loans already has been raised by 1.3 percentage points, to 65.5% from an initial estimate of 64.2%.

Credit Acceptance makes loans to borrowers with poor credit. This is a legitimate business that can be very profitable.

The problem is that the company's unique accounting practices make it difficult to see how its loans are really doing. Credit Acceptance uses a form of "level yield accounting" that is normally applied to purchases of already impaired loans. This means Credit Acceptance doesn't disclose what portion of loans are delinquent or have defaulted.

Instead, the company projects how much it expects to get paid back over the lifetime of loans, typically around two-thirds of the full amount. It books revenue quarterly in line with these projections. Then, it regu-

larly updates its expectations for various loan vintages, booking gains or losses as forecasts change.

Car buyers don't typically default immediately after a purchase, so the reasoning behind the changed forecast for 2017 is unclear. In fact, Credit Acceptance has upgraded its view on loans made within the second quarter of 2017. In a report, research firm CFRA calls these revisions "curious," noting there are at most just two monthly payments due after a loan is made in a given quarter.

The company didn't explain the 2017 revisions when asked about them on a call with analysts, and declined to comment to The Wall Street Journal. If these loans follow the pattern of recent vintages, they are likely to be downgraded in the years ahead, which will mean charges to the bottom line.

Concerns about Credit Acceptance's accounting aren't new. Short sellers have been circling the stock, but shares are up 25% so far this year. Short interest nonetheless remains intense, at 38% of the total float, according to FactSet.

There are three other good reasons to sell. First, the company's business mix changed in recent years to become more risky. Most of its loans are structured so that car dealers are on the hook for the majority of credit losses. But the proportion of loans where Credit Acceptance itself holds all of the risk has steadily risen, to 32% of total loan volume in the second quarter, from just

12% in 2014. The average term of loans has also risen, to 54 months this year from 47 months in 2014.

Second, despite rising defaults in the industry, Credit Acceptance is trading at 13 times forward earnings, compared with its five-year average of 11.4 times. Fellow auto lenders Ally Financial and Santander Consumer trade at 9.1 and 6.9 times forward earnings, respectively.

Third, insiders are selling. Since June last year, the company's founder and former chairman Donald Foss, who stepped down in January, along with his daughter have together unloaded stakes worth more than half a billion dollars at the current share price. Other recent sellers include the company's current president, treasurer, chief financial officer and chief legal officer.

Investors who have ridden this stock up despite the concerns around it can pat themselves on the back. Then they should follow the insiders and sell too.

—Aaron Back

OVERHEARD

How much do people love **Tencent Holdings**, the world's biggest videogame company, which also owns China's most popular social network? A lot. Just owning a slug of its stock could turn your company's fortunes around.

Shares of **Future World Financial Holdings**, a small Hong Kong-listed company, soared 14% Thursday after it disclosed it spent \$8.8 million to buy Tencent shares over the past two months. Tencent shares have been on a tear lately, so Future World is sitting on a modest paper profit. But the increase in the company's market value after disclosing the stake is already twice the value of its Tencent shares.

Tencent, China's second-most-valuable company, reported a 70% jump in net profit for last quarter the day before, beating analysts' estimates.

Future World changed its name last year as it aims to diversify into e-commerce from its old securities-trading business. The future doesn't look that different from the past, after all.

Alibaba Is Cashing In on Its Data Trove

Another blowout quarter from **Alibaba Group Holding** highlights the Chinese e-commerce company's ability to harness its trove of data to boost earnings.

Alibaba on Thursday reported a better-than-expected 56% increase in revenue for the latest quarter.

While a midyear promotional event in June has probably boosted sales, Alibaba didn't need to spend more to attract those consumers. Its operating margin widened by seven percentage points,

which management attributed in part to better use of data, as operating profit almost doubled from a year earlier.

Costs, as a percentage of sales, have fallen a lot,

especially in share-based pay.

Alibaba makes most of its money from advertising for merchants selling on its platforms. It attributes the revenue increase to more shoppers as well as its ability to deliver more relevant content to them. The company rolled out a new app for its Taobao platform with an improved algorithm and that seems to have worked magic.

The company accounts for around three-quarters of online retail sales in China and hence has a trove of data on consumer behavior. Such data allow Alibaba to display ads to shoppers that will most likely be interested in them—baby clothes for parents, for example. Merchants

are willing to pay higher prices if they know the ads are likely to draw in sales. Better algorithms allow Alibaba to earn more ad dollars without a like rise in costs. Joe Tsai, Alibaba's executive vice chairman, refers to the so-called Alibaba economy as "self-reinforcing."

Alibaba's shares are up about 90% this year, and the stock isn't cheap—trading at 36 times next year's projected earnings, according to S&P Global Market Intelligence. But analysts will likely revise their estimates upward after the earnings beat.

Alibaba could deliver if it keeps churning out more profits from mining its data.

—Jacky Wong

The ECB's Good-News Problem: the Euro

For a central bank, even good news isn't entirely straightforward.

The account of the European Central Bank's July meeting, published Thursday, betrayed clearer concerns about the rising euro exchange rate than President Mario Draghi had shown at the postmeeting news conference.

Markets have been on alert for a signal from the ECB that the sharp rise in the euro—up 11.1% against the dollar and 6.5% against sterling so far this year—was becoming a worry. The meeting account duly delivered, singling out the foreign-exchange market as being at risk of "overshooting" in the future.

The euro dipped

briefly afterward.

The ECB also acknowledged that the euro was rising for good reasons, including a reduction in eurozone political risk, a brighter growth outlook and a reappraisal of U.S. interest-rate policy. And other financial conditions remain supportive, with bond yields still low and corporate-bond spreads tight.

Importantly, the account also repeated a key element of Mr. Draghi's June speech in Sintra, Portugal, that shook markets up. As economic growth becomes increasingly self-sustaining, it is less dependent on ultra-loose policy settings.

The ECB, understandably,

is playing for time as it waits for more concrete evidence that inflation is firming. And it noted that with financial markets hanging on central bankers' every word, a "steady approach to communication" is important.

Markets have been focused on the euro because of the relative speed of its ascent since May. A further swift climb could give the ECB reason for pause. But as long as eurozone growth continues and other financial conditions remain supportive, the ECB will remain on track for a gradual winding-down of extraordinary monetary policy. Euro strength won't be so easily upset.

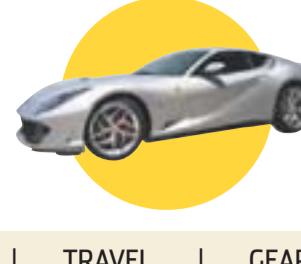
—Richard Barley

A love letter to
that wardrobe
all-star: the
blue shirt



W4

OFF DUTY



This car's secret?
The biggest
engine in
Ferrari's history
W6

EATING | DRINKING | STYLE | FASHION | DESIGN | DECORATING | ADVENTURE | TRAVEL | GEAR | GADGETS

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THE WALL STREET JOURNAL.

Friday - Sunday, August 18 - 20, 2017 | W1

Hideaway We Go

As Americans tire of the forced togetherness of open-plan homes, they're sneaking off to renovated attics or basements—chic takes on the 1960s rec room—to save their sanity



REC ROOM REIMAGINED

In a Fair Haven, N.J., attic playroom, designer Kati Curtis steered clear of primary colors: 'Too stimulating and expected,' she said of them, opting for jewel tones instead.

BY ELIZABETH ANNE HARTMAN

IN THE 1960S and '70s, long before helicoptering emerged as a parenting style, adults had far less interest in looming over their children, frequently urging them to go play outside or downstairs. The netherworld to which these parents pointed was usually a recreation room or finished basement, clad insipidly in wood-veneer paneling and linoleum. Furnishings typically included a saggy sofa, a scratched ping-pong table and a built-in bar never used for mixing drinks; instead, the kids commandeered it as a make-believe store or

a stage for puppet shows. Not even Dad's novelty naked-lady martini stirrers lured him down once the children moved in. And the closest Mom got was to stand at the top of stairs and yell, "Supper's ready! Wash your hands!"

Perhaps these ratty rec rooms weren't worthy of House Beautiful, but the stints of physical distance they offered parents and offspring arguably benefited both in ways today's airy cathedral-ceiling'd great rooms can't.

These days, people are taking another look at developing basements or attics as getaway bonus spaces to ensure family peace. As the idea of the open-plan home—the combination kitchen, living and dining room that's long dominated residen-

tial layouts—has aged, it's revealed its flaws. When parents are relentlessly texting children all day and then corralling the whole family into a single living space all night, there's no escaping each other, and nerves can fray. Aesthetic frustrations foment, too. "People no longer want the 60-inch flat-screen TV as the focal point of their open-floor-plan homes," New York designer Tina Ramchandani said. Designer Phillip Thomas, a fellow New Yorker, noted, "While [the open plan] was successful in allowing multiple generations to congregate, it also led to consolidated visual chaos."

Today's recreation rooms differ from the
Please turn to page W2

SCOTT FRANCES/OTTO

OFF DUTY

THE GREAT-ROOM ESCAPE



Continued from page W1

slapped-together retreats of the past, said designer Jessie Carrier of New York's Carrier and Company. The decorating of the spaces is much more considered. "Keeping them closer in style and quality to the [home's] overall décor makes the house feel bigger," he said.

Even the language of rec rooms has changed. Designers and real-estate agents speak of "lower levels" and "bonus spaces," code for using every nook and cranny when square footage is precious.

In a home in Boerum Hill, Brooklyn, for example (above, right), New York interior designers Fearins| Welch and CWB Architects maintained the brownstone's character in a basement hangout room for teenage boys. They minimally decorated around existing bones, even showcasing the arch of a defunct fireplace. The original brick and wood ceilings were painted white: "Cheap and cheerful, but effective and impactful," said CWB principal Brendan Coburn. Instead of spooky cellar steps, open stairs with walnut treads and black powder-coated balusters lead down to a brown, black and white room. It's urbane but kept dog- and dirt-friendly with nylon Flor carpet tiles in Mod Cow, an IKEA sofa and ample pillows.

San Francisco's Nicole Hollis similarly kept a game room in sync with the rest of a Tiburon, Calif., house she designed. A simple palette of white, gray, blue and brown holds a pool table as well as the family's series of Robert Rauschenberg prints.

The oppressive communalities of the open plan have fueled the backlash, as has constant connectedness. Jen Altman, a child family psychologist of 17 years, sees the pendulum beginning to swing away from helicopter parenting. These days, she hears parents howl versions of "I just need 10 minutes to myself."

"I've always thought that alone-ness and separation are as vital to development as attachment and connection," said Dr. Altman, who practices in Ho-Ho-Kus, N.J. Of course, just how big a wall or how much separation depends on the age of the children. Only a fool would leave an oral-staging 2-year-old alone in a room with luscious little Legos.

While judging a recent Royal Institute of British Architects contest, London architect Mary Duggan used the term "broken plan" to describe spaces in which designers use elements such as open-shelf storage or three-quarter-height walls to section off areas in a larger space, a compromise for the family that wants to be together but not excessively so. Mr. Carrier said he added barn doors to modify an open-plan area so that on one side adults could entertain while on the other children could watch TV and play music or videogames. Ms. Ramchandani has used pocket doors, pivoting glass and even curtains to designate space for personal activities.

Sometimes, only a separate space will do. One Manhattan couple found a modified craftsman-style home in Fair Haven, N.J., that

A LITTLE PRIVACY, PLEASE

Above: A Tribeca, N.Y., bonus room by Ghislaine Viñas and architect Steven Kratchman is sleek but built for fun. Right: Designers Fearins| Welch and CWB Architects carried the character of a Brooklyn brownstone below ground. Below: In a ranch in Red Lodge, Mont., reclaimed white-oak beams lend loftiness to an above-the-garage space by Boesman's Miller-Roodell Architects and Chancey Interior Design, based in Tampa, Fla.



included unused space over the garage. Warmed by the thought of not constantly tripping over their 2- and 4-year-old children's toys, they asked New York interior designer Kati Curtis to develop it as a bonus room (shown on page D1). The family and Ms. Curtis steered clear of playroom clichés, however. She has a "pet peeve about using primary colors in kids' spaces," she said, finding them "too stimulating and expected."

The open plan's relentless communalities have fueled the backlash, as has constant digital connectedness.

Instead, she chose jewel tones—turquoise, coral, amethyst and jade—and even a touch of black for the furnishings and floor. The rainbow of colors in the carpet tiles from Flor form a gaily irregular pattern. Lest the parfaits-hued junior Panton chairs from Vitra arrayed around a Modernseed activity table look too chic, she added lumpiness: slouchy turquoise and purple Fatboy Junior beanbag chairs.

Supporting Mr. Carrier's observation that the rec room has been "gentrified dramatically" is the Tribeca loft (above left) that Manhattan-based Ghislaine Viñas and architect Steven Kratchman created

for a couple who like to entertain without their four young children underfoot. "If you have tall ceilings, double up!" she said—and did. Above a room that includes a Murphy bed for guests, an office nook for Mom, room to romp for the kids and a TV area, she tucked an enclosed loft, accessible by ladder, that's lined with indoor-outdoor carpeting; its walls feature eight peek-a-boo holes through which little hands and feet can wave at anyone below.

As playful as the room is, sleekness bridges its style with the rest of the home's. "For a very clean architectural effect, we used simple white custom built-ins throughout the apartment so each room flows into the other effortlessly." Splashes of turquoise, fresh but not juvenile, save the room from sterility.

Hard-wearing staples of traditional recreation rooms get an elevating treatment in these new iterations. Linoleum remains as indestructible, inexpensive and eminently cleanable as it was 50 years ago, but in a basement tricked out for grandchildren in a Bellport, N.Y., home, Mr. Thomas avoided predictable checkerboard or striped patterns and created a cascade of colors. Instead of the '70s-era sofa with shot springs? White faux fur bean bags from Pottery Barn Teen.

Parents who surrender the main living area to the children can split off into their man caves or the more novel "lady's dens" to decompress. Over the past five years, Los Angeles-based Natasha Baradaran

has designed a number of woman-only spaces, including one for herself. It all began, she explained, when she was designing her family's house. "Everyone had an opinion," she said, "and I decided that as someone who is very busy with life, I needed a sanctuary for myself surrounded by the things and colors that I love." These included a neon sign that says, "do what you love" and an abundance of the color coral (a shade her husband won't envy).

Los Angeles designer Karen Vidal's intentions were pure when she converted her family's detached garage, the Southern California equivalent of a cellar, into a family cabana and playroom for the kids. But over time, it has become what her family lovingly calls "the mom cave."

"It's hard to get away from the open plan because of the way we live," she said. "It's the space where everyone congregates—meals are prepared, kids do their homework." But she found herself seeking respite in the detached room—"sort of an at-home getaway," she said. Though bright bands of colored paint ring the walls, "the space never reads 'playroom,'" she said, thanks to a floor of black rocks and shells, and a muted Oriental rug. After Ms. Vidal moved in her beloved midcentury Heywood Wakefield vanity, her design books and mementos made the space hers.

"It's a bit of separation from being on top of one another," she said of the room. "It helps me focus."

Bonus-Space Savers

Six expert decorating tips to help you make the most of your domestic sanctuary

LIGHT UP

New York lighting-design expert Nathan Orsman cautioned that no one wants to enter an auxiliary space that's drab or dim. If ceilings are low, be especially mindful and use indirect bounced light, said Ray Chung, design director at the Johnson Studio at Cooper Carry in New York. "Typical downlights mounted in the ceiling can look harsh," he added. "And forget about using the tube fluorescent lamps that were everywhere in the 1970s."

EMBRACE THE DUSK

If a room has immutably poor light, some designers, such as Dallas's Michelle Nussbaumer suggest you "make it dark and moody." New York designer Jean Liu created a bunk- and playroom with walls covered in black-painted shiplap (horizontal board often used for constructing sheds and barns), which actually made the space appear larger. "The end result was a meaningful and cozy space for kids and adults alike," she said.

DON'T DUMP

Think about these spaces as part of the holistic vision of the home, said New York designer Stephanie Goto. Don't use leftover furnishings or materials.

BE MEASURED

Light fixtures, rugs and furniture can take up more space than you anticipate, said Carolyn Rebuffel Flannery of Workroom C, an Emeryville, Calif., design firm. She suggests laying out the furniture and rug plan using newspaper and delineating wall layouts with painter's tape.

MAKE LEMONADE

Don't be discouraged by odd spaces. Bobbi Jo Engelby, a Charleston, S.C., designer, recommended making use of the low slanted ceilings prevalent in attics, for example, by incorporating storage and built-in seating.

FINISH STRONG

"It's the updated finishes that make bonus rooms modern," said Denver designer Andrea Schumacher. Wood adds warmth; leather cleans up easily. Metallics are excellent in a basement or limited-light environment because they bounce light around the space.

OFF DUTY

DAY TRIPPER

In Amsterdam? Scram

Visitors to the Dutch capital tend to park themselves there and not budge. But in a country this compact—with trams, trains and ferries at the ready—it's a breeze to venture farther afield. Here, three quick getaways



ROYAL DETOUR
Muiderslot castle in the town of Muiden, a 45-minute ferry ride from Amsterdam's suburbs.



Muiden

A small seaside town, just far enough from Amsterdam that its historic attractions aren't mobbed with tourists
A 45-minute ferry ride from the Amsterdam suburbs

Best for Families with young children, military buffs, Dungeons & Dragons fanatics

What it has that Amsterdam doesn't An actual castle; seaside cafes where you can munch on cheese toasts beside a 1917 German antiaircraft gun.

Claim to fame Muiderslot, arguably the most beautifully restored castle in the Netherlands, with a history grown-ups can appreciate while their children get to dress up in costumes, gawk at live owls and run around pretending they're defending the place from dragons. Built in the 14th century by a Bavarian duke, Muiderslot later became the home of playwright P.C. Hooft (aka "the Dutch Shakespeare"), who gave the building some wonderful humanist touches: His egalitarian motto, "The Same To All," is engraved over a fireplace in the guest bedroom, while in the "Knight's Hall," painted tiles on the baseboard depict chubby



Docked on Pampus Island.

little people playing games in the nude. Kids like crawling around on their knees to giggle at these, but they'll be more interested in ascending the castle tower, where they'll find a pile of medieval outfits they're free to put on. muiderslot.nl

But don't miss Pampus, a man-made island fortress erected in the middle of the

IJmeer Sea. It was one of a ring of forts designed to defend Amsterdam in the 19th century. Now partially restored, it's a cool combination of wartime museum and ever-so-slightly creepy labyrinth; in the infirmary, where vintage canvas stretchers rest grimly against the salt-encrusted concrete walls, witness sparrows whirl-

ing around and screeching like bats. pampus.nl

Snack break Back on the mainland, just outside Muiderslot's gates, is P&E Stricker bakery, known for turning out dozens of different breads, and distinguished apple pies made from fruit grown on a nearby farm. Buy a few treats and wander the surrounding neighborhood, an almost obscenely cute harbor town of cottage-like row houses lining narrow streets. facebook.com/bakkerijstricker

Getting there Take the tram from Amsterdam Centraal to the suburb of IJburg (20 minutes). Or rent a bike for the day and pedal there in just over half an hour. From IJburg, a ferry that will drop you at Pampus or Muiderslot leaves once a morning—a round-trip ticket plus entrance fee to either is about \$23, or \$17 for children. www.amsterdamtouristferry.com

kenstein. Tours run a few weekends a month, more frequently in the summer. vredespaleis.nl. Vermeer's masterwork, "The Girl With A Pearl Earring," is found at the recently renovated Mauritshuis museum. There too hangs Rembrandt's last, brutally honest self-portrait (1669), and Carel Fabritius's diminutive "The Goldfinch" (1654). Be prepared to jockey for a glimpse of the latter—it's drawn big crowds since inspiring Donna Tartt's best seller of the same name. mauritshuis.nl

But don't miss The 1930s-era Gemeentemuseum is a prime example of art deco design by "the father of modern Dutch architecture," H.P. Berlage. It also houses the world's largest collection of works by pioneering modernist painter Piet Mondrian, all 300 or so of which are currently on display (through Sept. 24th) for the first time. gemeentemuseum.nl

Lunch break Lemongrass, overlooking a marina, is known for its wine list and house-smoked salmon. Dr. Lelykade 24, lemon-grass.nl

Getting there Regular trains from Amsterdam Centraal deliver you to The Hague in about an hour, for around \$14. You'll roll past a circa-1743 windmill near Leiden—the town where the Pilgrims briefly settled before heading off to the New World.



CHAPTER AND VERSE Waanders In de Broeren



Zwolle

A medieval trading city with a modernist streak

90 minutes by train from Amsterdam Centraal

flat on the table so the server can build a little ziggurat on the back of your hand: layers of beef tartare, potato soufflé and oyster, which you'll be told to lick off. Reservations are essential. librije.com

But don't miss Waanders In de Broeren, a large, sleek bookstore built into the bones of a soaring 15th-century church, complete with stained glass window, pipe organ and a vaulted ceiling. waandersin-debroeren.nl

Requisite souvenir A gift box of Zwolse Balletjes. These hard candies were originally used to sweeten coffee, and have become such a regional icon that they were recently featured on a Dutch postage stamp.

They're available exclusively at Zwolse's Zwolse Balletjhuis confectionary, where they've been handmade in the basement since 1845.

Getting there A 90-minute train ride from Amsterdam Centraal station to Zwolle, passing infinitely flat, green countryside, costs about \$21.

—Rico Gagliano

GIRL CRUSH
Vermeer's 'Girl with a Pearl Earring.'



Best for Legal eagles, peacemakers, art hounds

What it has that Amsterdam doesn't Major political clout.

While Amsterdam is officially the Netherlands' capital, the Dutch Parliament and Supreme Court are based in The Hague, as well as international embassies and international courts.

Claim to fame The Peace Palace, a gilded neo-renaissance marvel that houses the U.N.'s International Court of Justice and the Permanent Court of Arbitration, where countries go to hash out conflicts. A monument to nonviolence, the Palace is full of items donated by nations as gestures of peace, from a 3.3-ton

jasper-and-bronze Russian vase (a gift from Czar Nicholas II) to an Argentine statue of Christ made of melted-down cannons.

Trivia alert Many parts of the Peace Palace's interior were designed by Dutchman Herman Rosse, who went on to become the Oscar-winning production designer of films like 1931's *François*

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SHOW OF HANDS A passion fruit appetizer at De Librije.



The Hague

A government town, set on the North Sea, with a compelling art collection

An hour by train from Amsterdam Centraal

Best for Legal eagles, peacemakers, art hounds

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OFF DUTY

LOVE STORY

Blue Notes

One writer outlines her unlikely passion for that mundane (but endlessly combinable) piece: the classic blue shirt

BY MEENAL MISTRY

FASHION EDITORS like to play a game. It's a twist on the old desert island trope. Instead of which albums or books you'd pack for several solitary, sandy decades, you choose which label you'd wear for the rest of your life, budgets be damned. I've always found the game difficult to play. Could I in theory shackle myself to the exquisite but extreme femininity of Valentino or the brainy and powerful but occasionally obtuse look of Céline? It's hard to commit. Curiously, though, there is a single garment I know I could hypothetically restrict myself to for years: the blue button-up shirt.

Now I'm not talking about the twisted and tweaked shirting that's trending at labels like Monse, Tome and Balenciaga. My ideal shirt wouldn't trigger a street-style-photographer frenzy. It's discreet, nearly invisible, almost anti-fashion. But neither do I mean the sort of fitted, corporate-bland shirt that Pam Beesly might have worn to answer phones in "The Office." What I love resembles a classic men's shirt as closely as possible, its color a light solid blue—ranging between pale sky and rich cornflower—though a fine blue-and-white banker stripe does the job just as well. The color matters. Pale blue might seem as basic as white, but it offers much more depth. And it looks good. "The color is flattering to all skin colors," said Somsack Sikhoumuong, chief designer officer of J. Crew, whose Everyday Cotton Shirt in French blue has sold well since being introduced in 2003. "It makes you look more tan."

My ideal shirt wouldn't trigger a street-style-photographer frenzy. It's discreet, almost anti-fashion.

The best blue shirts for women telegraph the sense that you just hurriedly, casually plucked your husband/boyfriend/brother's shirt out of his closet—and are somehow cool enough to look utterly fantastic. (Think Lauren Hutton or Charlotte Rampling.) And this piece can make you look fantastic and subtly sexy. Leave two buttons undone and roll the sleeves to your elbows and you simultaneously expose your décolleté as well as slim forearms and wrists. Meanwhile the just-voluminous-enough body can disguise any manner of sins, if need be.

I'm not alone in my reverence. The blue shirt is a fashionable woman's staple. "Believe it or not, I feel sexier in a blue shirt and Levi's than when I'm wearing the most fabulous dress I own," said Laurie Trott, the fashion director of Gwyneth Paltrow's lifestyle website Goop. "But it's also so tailored and so polished, it's my idea of power dressing." Ms. Trott's go-tos include a Thom Browne for Brooks Brothers number she bought eight years ago as well as an overdyed oxford by shirt specialist Alex Mill that's currently available on Goop's e-commerce site. "And obviously the dream is to have a roster of custom-made shirts from Charvet," added Ms. Trott, referring to the venerable nearly 180-



From top:
Ottoman Shirt,
\$345,
helmutlang.com;
Oxford Shirt,
\$650,
ralphlauren.com;
Everyday Shirt,
\$70, jcrew.com.



year-old Parisian shirtmaker.

Charvet isn't the only route to a perfect shirt, but it does help to have a designer who knows what he or she is doing. An actual man's shirt tends to swamp a woman. The shoulders are inevitably too broad, the sleeve too wide.

"The arm is everything," said designer Nikki Kule, whose New York label Kule specializes in T-shirts and shirts. "My shirts have a slim cut through the sleeve." The shoulders are also narrow. And you'll never find darts in Kule button-ups. "Oh god, I even hate the word," she said.

With her fabrics, however, Ms. Kule hews to tradition, using shirting from an Italian mill that supplies men's brands. Her shirt style fittingly named "the Hutton" comes in a sky-blue-and-white stripe.

One pardoned violator of the no-dart rule is J. Crew's Everyday shirt, which has two



CHIC IN CHECK
A blue shirt nicely subdues a high-fashion, pleated skirt.
Shirt, \$229, frame-store.com;
Skirt, \$1,145, proenza-schouler.com;
Sandals, \$398, stuartweitzman.com.

barely noticeable "shaping seams" at the bust. "We didn't put any in the back," said Mr. Sikhoumuong. "The two at the bust just give a little bit of curve." To be honest, I didn't even realize they were there. But the darts and slightly slimmer body make it ideal to tuck into dressed-up skirts—one of the ways I like to sport the blue button-up. The humble shirt tempers any attempt at glamour. It helps me say: Sure, I'm trying, but not that hard.

French fashion editor Carine Roitfeld exemplifies the blue-shirt-democratizes-chic-skirt strategy. The vixen Ms. Roitfeld tends to favor high-fashion pencils, though, while I tend to go for flaring pleated skirts. "When you put [the blue shirt] with a statement piece like that, it's feminine but it's also powerful," said Shayla Guy, senior design director of Equipment. The French label launched a cotton shirting collection in 2014 dedicated to

translating men's shirts for women, and they're now a staple in its line (and my wardrobe). It's more voluminous than the J. Crew and made for a classically boyish look, messily half-tucked into straight-leg jeans and worn with flat or low-heel sandals.

One of my few frustrations about blue shirts is that when you find one you like, there's no guarantee you'll find it again. When my beloved Steven Alan reverse-seam shirt finally began to shred from so many washings, I searched in vain for another. Its collar had the unique ability to always look exactly half-popped, seemingly unintentionally. I contacted Mr. Alan to both flatter him and lightly complain. He confirmed that it hadn't been available for at least two years. "We've had that call before," he said. "But don't worry, we're bringing that one back." I suppose I can be patient. After all, I have a lifetime of shirts ahead of me.

SEE YOU IN SEPTEMBER, SUMMER

Not quite ready to relinquish the lazy, hazy days? These pieces carry a hint of August's languor into the fall but aren't so sun-drenched that they don't compute past Labor Day



SUNNY T-SHIRTS

A free-spirited graphic T-shirt can take you into autumn, if you opt for a sophisticated, arty optic, like these from Monogram, a Los Angeles-based brand designed by Jeff Halmo and Lisa Mayock. The duo, known for their '70s-style typefaces, colors and cuts, were "thinking year-round T-shirt weather," said Ms. Mayock. She wears tees in a more formal way—with a suit, not a bikini—an easy idea to pull off, swimmingly, in the fall. T-shirts, \$65, monogramstudio.com



ROUND SUNGLASSES

Twiggy adopted circular summery shades. So did John Lennon and Jackie Kennedy Onassis. The look can be daunting to wear anytime, since it declares "fashion" louder than, say, Wayfarers. That said, these muted, sophisticated versions speak a little softer and feel sufficiently seasonless in the fall. From top: Dolce & Gabbana Sunglasses, \$370, sunglasshut.com; Dakota Sunglasses, \$299, lowercasenyc.com; Nomi Sunglasses, \$180, raen.com



A SINGULAR SWIMSUIT

Maillots are often the chicest and most seasonless of bathing suits, and this one-strap version by Miné Mediterranean argues the point elegantly. New York-based sisters Sibel and Selina Patiño, who recalled childhood summers on Turkey's Turquoise Coast while creating their resortwear, focus on flattering cuts and fabrics that "feel like a second skin," said Sibel. In black, this suit works, no matter the month. Swimsuit, \$320, minemediterranean.com —Rebecca Malinsky

EATING & DRINKING

SUNDAY LUNCH

Picnic Blanket Statement

When it comes to toting a meal along on a hike, this al-fresco-eating expert has one thing to say: Keep it simple

BY ELIZABETH G. DUNN

PICNICS always sound like a good idea, in theory. But then by the time I've found a decent patch of grass—never as decent as the one envisioned—the deviled eggs have invariably capsized in their Tupperware and I'm left clutching a sweaty bottle of rosé, realizing I forgot the corkscrew.

Picnicking is, however, a cherished Sunday lunch tradition for Birgit Cameron. As senior director of Patagonia Provisions, the food division of outdoor clothing company Patagonia, she's thought a lot about the sort of food that travels well. She's also an avid hiker around northern California's Marin County, where she's lived for 20 years. A busy mother of two, she offers this picnic prescription: "It's got to be easy, otherwise you don't do it."

She suggests sticking to one or two cooked dishes—ideally fare that can be eaten by hand to eliminate the need for dishes and cutlery. Her summer-vegetable frittata (recipe at right) is sturdy enough to cut into squares and transport in cloth napkins. "It's about packing in a way that you're not lugging a lot of containers," Ms. Cameron said. She wraps sandwiches in Bee's Wrap, a reusable beeswax and organic cotton paper that keeps them from falling apart en route.

Her daughters often bake scones or cookies. Supplements might include cans of anchovies or sardines (Ms. Cameron likes the ones from Wild Planet), salami, a hard cheese like Gouda, crusty bread and seasonal fruits, all of which can be eaten with the help of a pocket knife. Naturally, foods Ms. Cameron has developed in the five years since the launch of Patagonia Provisions often feature. The brand's first product, lightly smoked wild pink salmon, is a family favorite.

If fish doesn't seem like an obvious starting point for a line of backpacking foods, that's because the decision wasn't guided by consumer demand. Ms. Cameron had discovered an ancient technique for catching pink



MOBILE MEAL Ms. Cameron (rear, left) hiking in Marin County, Calif., with her daughters, Gracie (rear) and Claire, and her husband, Matt.

salmon with reef nets being used off Washington's Lummi Island, a sustainable way to harvest the fish. She wanted to showcase the technology.

"I think we're at a recalibration moment in terms of how we harvest our food," Ms. Cameron said. "We need to assess the things that make sense for the next 100 years, and make brave decisions about other things that aren't going to let us move forward in a healthy way."

Her commitment to conservation certainly extends to her picnicking approach, which generates minimal waste and keeps the focus squarely on the setting. As a weekend ritual, it gives the family a chance to regroup before starting another week—or another year. Ms. Cameron fondly recalls a trip to Windy Hill Preserve in California's Portola Valley for her mother-in-law's birthday. "Lunch was sort of strewn all over," she said. "But that's life."

PICNIC PRO TIPS //

ESSENTIAL EQUIPMENT

1. Cutting board.
2. Pocket knife. Ms. Cameron uses an Opinel model.
3. Cloth napkins.
4. Tin cups.
5. Fleece blanket to sit on.



Summer Vegetable and Feta Frittata

TOTAL TIME: 1 hour
SERVES: 4-6

2 tablespoons olive oil
1 small yellow onion, roughly chopped
4 cloves garlic, diced
½ red bell pepper, seeded and roughly chopped
2 medium zucchini, sliced into thick rounds
2 tomatoes, seeded and roughly chopped
Large handful chopped fresh greens such as spinach, chard, arugula or kale
12 eggs
Sea salt and freshly ground black pepper
4 ounces feta, crumbled
½ cup freshly grated Parmesan

1. Preheat oven to 325 degrees. In a large cast-iron or other non-stick, oven-safe pan, heat olive oil over medium heat. Add onion and sauté until translucent, about 5 minutes. Add chopped garlic and cook until fragrant and softened, 1-2 minutes more. Increase heat to medium-high and add peppers, zucchini and tomatoes, and cook until softened and lightly browned, 8-10 minutes. Add fresh greens and cook until wilted, 1-2 minutes. Season with salt and pepper.

2. While vegetables are cooking, whisk eggs in a large bowl. Season with salt and pepper. Carefully pour eggs into hot pan with vegetables and use a rubber spatula to slowly pull egg away from edges, mixing up vegetables and eggs. Once eggs begin to solidify, crumble cheese evenly overtop. Transfer to oven and cook until center of frittata is puffed and no longer jiggly, 15-20 minutes.

3. Remove from oven and let cool slightly. Gently loosen with a spatula and slide frittata onto a cutting board. Let sit until cooled and set completely, at least 30 minutes. Wrap in heavy foil or slice into individual portions and wrap in cloth napkins or plastic wrap.

—Adapted from Birgit Cameron



Whole-Grain Chocolate-Chip Cookies

These cookies are brimming with whole grains and also gluten-free.

TOTAL TIME: 40 minutes
MAKES: 2 dozen cookies

1½ cups buckwheat flour
1 cup oat flour
1 teaspoon baking powder
1 teaspoon baking soda
½ teaspoon cinnamon
1 teaspoon salt
1 cup softened butter
1 large egg

1 cup coconut sugar
¼ cup pecan butter or peanut butter
⅔ cups semisweet chocolate chips
¼ cup chopped pecans (optional)

1. Preheat oven to 350 degrees. In a medium bowl, mix flours, baking powder, baking soda, cinnamon and salt.

2. Use an electric mixer to mix egg, sugar and butter until smooth. Add dry ingredients and pecan butter. Stir in chocolate chips and chopped pecans.

3. Drop rounded tablespoons of dough onto ungreased cookie sheets and bake until edges are golden brown, 12-14 minutes. Remove from oven and transfer to a cooling rack.

—Adapted from Joy Dupuis, Ventura, Calif.

A LITTLE SOMETHING SWEET

CHOCOLATE MILK MAKEOVER

Cool, creamy and mightily minty, this Mexican-style iced chocolate makes a festive and fuss-free summer dessert

WHENEVER I EAT Mexican food, I crave ice cream for dessert. It's cooling after all the fiery spice and also a creamy antidote to the bright acidity associated with this cuisine. But at the tail end of a recent meal at Fonda Frontera in Chicago, I discovered what's become my favorite follow-up to most any sort of late-summer repast.

I actually had no intention of ordering dessert that day, but my 11-year-old son had other ideas. Soon our table was laid with an abundance of sweet, deep-fried churros, some dipped in chocolate, others glazed with pistachio, hazelnut or peanut icing. A drink we'd ordered looked like a simple glass of chocolate milk, but the first sip revealed something more akin to the best York Peppermint Patty or After Eight mint imaginable—the milk cold and creamy, the chocolate subtly spiced with cinnamon, and the mint very, very fresh.

I asked Rick Bayless, the chef-proprietor of Fonda Frontera as well as Xoco, Topolobampo and other Chicago restaurants, how he harnessed that brisk blast of cooling mint. He told me he starts by picking the mint for the

drink in his garden and steeping an uncommonly generous amount of it in milk heated to a simmer. He allows the herb to infuse the milk for half an hour, removes and discards it, then whisks in freshly ground Mexican chocolate and cinnamon.

Mexican chocolate is slightly granular and typically sold in compressed puck-shaped tablets. (Taza Chocolate makes a particularly good cinnamon-spiced Chocolate Mexicano disc that works well in this recipe, available at tazachocolate.com.) You can also grate three ounces of semi-sweet chocolate and stir in a half teaspoon of powdered cinnamon. A drop or two of almond extract may be added to the milk as well, but I prefer the pure shock of mint and the warmth of the cinnamon without the smoothing influence of almond.

Mr. Bayless calls the frothy concoction Iced Mint Chocolate. He whizzes mint and sugar in a food processor, dampens the rim of a cold glass and dips it into the minty mixture before serving—a festive touch, if you can resist swigging this drink straight from the fridge.

—Aleksandra Crapanzano

PURE COLD Whipped until frothy, this iced mint chocolate is lighter than a shake, bolder than chocolate milk.



Iced Mint Chocolate

ACTIVE TIME: 15 minutes TOTAL TIME: 4 hours (includes chilling) SERVES: 4

1 quart whole milk
1 packed cup plus 2 tablespoons fresh mint leaves
2 tablespoons sugar
1 tablet Mexican chocolate, such as cinnamon-flavor Taza Chocolate Mexicano

1. In a medium saucepan, combine milk and 1 cup mint over medium heat. When milk is steaming hot but just short of boiling, remove from heat. Allow mint to infuse milk for 30 minutes. Remove and discard mint. Bring milk to a simmer. Add chocolate and whisk until chocolate has melted into milk. Transfer hot chocolate to the refrigerator and chill until cold, about 3 hours. Set four empty Collins glasses in the refrigerator to chill.

2. A few minutes before serving, pulse remaining mint and sugar in a small food processor. Wet the rims of the glasses, then dip each rim into mint sugar, as you would a glass when making a Margarita.

3. Just before serving, transfer chilled chocolate milk to a blender and blend on high speed until frothy, about 30 seconds. Pour into chilled glasses and serve immediately.

—Adapted from Rick Bayless of Fonda Frontera, Chicago

ALLIE FORAKER FOR THE WALL STREET JOURNAL

KATE SEARS FOR THE WALL STREET JOURNAL, FOOD STYLING BY JAMIE KIMM, PROP STYLING BY NIDIA CUEVA

OFF DUTY

RUMBLE SEAT DAN NEIL



Ferrari 812 Superfast: The Italian Icon Lives On

I'VE DONE IT. I've summited Mount Ferrari. The Ferrari 812 Superfast carries the most powerful series-production V12 engine in the company's 70-year history. And there are good reasons to think it represents the top of the technical mountain.

The first is its extremity: a naturally aspirated 6.5-liter, 60-degree V12 (stroked .2 liter over the Ferrari F12 Tdf) capable of revving like a 1-liter street bike on nitrous, producing a 789 horsepower at a soul-tugging 8,500 rpm—which I could just touch in 2nd gear between mountain switchbacks before having to lift, the engine-overrun spitting and spattering like a quenched sword. Flanking the engine is a pair of equal-length, six-into-one exhaust headers, the primary source of the Ferrari's atavistic man-drumming.

Other bleeding-edge attributes include ultra-high-pressure fuel injectors and a brilliantly clever hydraulic circuit driving variable-geometry inlet tracts. These ministrations are necessary because—per Enzo himself—Ferrari engines must deliver linear power; which is to say, the accelerative force the driver feels, and the sound heard, must be instantly and directly proportional to the pressure on gas pedal.

Dipping into this power, corner to corner, hairpin to edge, felt like riding the lashing, leaded tip of a centurion's whip. *Ya-pow!*

I rallied the car 400 miles in a day, from Maranello to Abetone ski resort toward Pisa, including a 50-mile stretch of winding, snarling downhill. The big GT—casually capable of face-warping, 1+g cornering and braking—negotiated this route with the subtlety of Godzilla sitting down at a Tokyo restaurant.

The other reason to feel wistful about the 812 Superfast? History. The first Ferrari road cars, and still the most coveted, were front-V12 berlineas. They won't making them like this anymore, not for long. The

AERO STAR The profile of the Ferrari 812 Superfast leaves little doubt that the car represents some sort of generative organ.



DAN NEIL/THE WALL STREET JOURNAL (LEFT); FERRARI (BOTTOM)

backlash of Dieselgate in Europe has only hardened regulatory resolve to restrict and eventually eliminate internal-combustion engines of any description, let alone heroically scaled, naturally aspirated V12s that shout at the devil.

I am worried. In case you didn't know, the Ferrari brand is the most powerful commercial mark in the world, according to the Brand Finance 500 list. From its historic home in Maranello (currently bursting at the seams with success), the company *scuderia* has dominated Formula One racing for decades. The brand's flame-bearers include about

a billion fans of the Formula One team, generations of *tifosi*, from dirt-poor farmers in Bolivia to 100-car collectors in Monaco. You can't buy that kind of advertising.

In an era of luxury fetishism, high-end goods must have a story, a narrative, and the tale of Enzo Ferrari rising from army mule Skinner to motor sports immortal is as good as anything Fielding ever wrote. The conceit still holds: Ferrari sells road cars in order to compete in Formula One, for the glory of sport and Italia. The gallantry of that notion is irre sistible.

But the Ferrari brand is also fragile, and the company behind it now faces an almost unthinkable transition: from a closely held, tradition-bound powerhouse within Ferrari Chrysler Automobiles, to a growth-oriented, publicly traded luxury life style *whatever*.

And thanks to the annual report, the Red Keep is now an open book. Ferrari delivered 8,014 cars in 2016, up 4.6%, with revenue up 8.8% (total 3.1 billion euros). Industry observers used to wonder, "How much does Ferrari spend on research and development? Does it really make more money from sponsorship and merch than from car sales?"

Now we know. R&D consumes 9.5% of net revenues—on the high side of industry average, as you would expect. Sponsorship, commercial and brand income, including Formula One racing, represents 15.7% of net revenues.

But as I trundled back into Maranello, I longed for the old firm's mystique, its well-oiled lies. No one wants to see their mortadella being made. It was more fun to think of Ferrari gallantly losing money on Formula One racing instead of mak

ing it hand-over-fist on licensed sportswear. It was a pleasant fiction to believe that, by virtue of its dignity, damn-the-torpedoes history or status as Italy's de facto F1 team, the newly public Ferrari would leave some brand value un-maximized.

In April, the Ferrari Land attraction opened in Spain, a red cuff link to the Ferrari World amusement complex in Abu Dhabi. So I guess not.

For the past quarter-century, my affection for the brand has been rooted in the company's record of self-imposed exceptionalism, its antibusiness practices. Enzo Ferrari nearly bankrupted the company going racing. He raced anyway. He could have walked away a rich man in 1963 but instead he told Henry Ford II to stuff it. Il Commodore refused stupid requests from classless, money-fisted clients.

This power felt like riding the lashing, leaded tip of a centurion's whip.

of the fastback glass is an integrated spoiler generating meaningful downforce. As for styling, the car's profile leaves little that the Superfast represents some sort of generative organ.

Enzo's successor, Luca di Montezemolo, could have moved manufacturing out of Maranello, but he sacrificed operating margin for provenance, keeping the fruit in sacred soil. He did broaden the portfolio to include a front-turbo V8 convertible and even an AWD 2+2, the FF.

But there were lines Mr. Montezemolo wouldn't cross. He often threatened to leave Formula One; he never did, F1 being existential to the brand. He resisted increasing production, even as demand skyrocketed in America, Asia and the Middle East, arguing that exclusivity and rarity (and residual values, not to be pecuniary) were better served by restraining production.

And, he vowed, Ferrari would never stoop to building a crossover-style vehicle. Ah, well. All is mutability. Ferrari is reportedly preparing a crossover-style vehicle, using the V12-AWD underlay of the GTC4Lusso. I am not shocked. Porsche and Bentley are building crossovers and SUVs, with Aston Martin, Rolls-Royce and Lamborghini soon to follow. I'm just a tiny bit disillusioned.

And yet the 812 Superfast reconfirmed my status as a slobbering, drunk-on-power *tifoso*, so it seems the icon is safe for another day.

Why should I care? I will never own a Ferrari or trade a share of stock. But I am invested in the daring notion that, even in business, there are some things more important than money.



FERRARI 812 SUPERFAST

Type Front-mid engine, rear-drive performance luxury coupe

Base price \$335,275

Powertrain Naturally aspirated, direct-injected DOHC, 65-degree V12 with variable valve timing/lift and intake geometry seven-speed dual-clutch rear transaxle with electronically controlled differential and rear-wheel steering; rear-wheel drive

Power/torque 789 hp at 8,500 rpm/529 pound-feet at 7,000 rpm

Length/height/width/wheelbase 179.8/50.2/77.5/107.1/inches

Weight 3,594 pounds (dry)

0-60 mph 2.8 seconds

0-124 mph 7.9 seconds

EPA fuel economy 12/16/13 mpg, city/highway/combined

Cargo capacity 9 cubic feet (est)

Now we know. R&D consumes 9.5% of net revenues—on the high side of industry average, as you would expect. Sponsorship, commercial and brand income, including Formula One racing, represents 15.7% of net revenues.

But as I trundled back into Maranello, I longed for the old firm's mystique, its well-oiled lies. No one wants to see their mortadella being made. It was more fun to think of Ferrari gallantly losing money on Formula One racing instead of mak

In vehicle design, management forbids pylon-mounted wings and spoilers on the mainline road cars, holding that such devices are immature and unaesthetic. This standard obliges the aero team to countless additional man-hours, computational time and cost, searching for other ways to keep these kites on the ground.

The 812 Superfast epitomizes this standard, its face and flanks ventilated in purposeful negative space, its upswept underside ending in a massive diffuser. Hidden at the base

I can't read anything without glasses, but I haven't been to the eye doctor yet. I should go any year now. But I have these **Foster Grant Readers** that I buy off the shelf at Walgreens or wherever. I should probably go to the doctor soon.

My carry-on bag has least five pairs of headphones, my iPod Classics, my passport, my green card, a Danish credit card, a memory stick for one of my cameras, and mint **Tea Tree Therapy Toothpicks**. I have one in my mouth right now. I drink a lot of tea during the day, so I have a lot of next-level energy.

My tennis game doesn't amount to what it did back in the day, but I have a couple of **Wilson Hyper Pro Staff 6.5** rackets that are probably 10 years old and are on their way to the Smithsonian. Tennis racket-technology changes too fast—if I bought a tennis racket when this interview started it would be outdated by now.

—Edited from an interview by Chris Kornelis



MY TECH ESSENTIALS

LARS ULRICH

Metallica's drummer on the practicality of the iPod Classic and the blistering speed of tennis-racket tech evolution

I travel with several iPod Classics. I'm a big believer in both Apple Music and Spotify and use both, but my iPod Classics have my whole music library on them, and 10% of the time I listen to stuff that's not available on the streaming services. I took one out yesterday because my wife and I were listening to some old Budgie songs and she wanted to hear "Crash Course in Brain Surgery," from the album "In for the Kill!" and that was not on Apple Music.

I'm an Apple addict. I'd say that my family owns north of 30 Apple products. One product that's not Apple: the Panasonic KX-T7633-B, a landline telephone. I like a landline phone at home. It probably has to do with the fact that I live on a hill and have shitty cell service.

My favorite app is Flight Radar 24, which is sort of live air traffic. You can see anywhere in the world how many airplanes are airborne, where they're flying to, where they're from, where they're going, what altitude they're at. I drink tea, get cracked out on caffeine and sit and watch. If you look over central Florida, there's a UA 234 from San Francisco to Orlando and it's got 12 minutes left. It's at 8,800 feet going 331 miles an hour. It's a Boeing 737. The tail number is N12218. It may have something to do with my compulsive, crazy energy.



I don't play games much anymore, 'cause I read more and more. But occasionally—like once every three months—I pull out this iPad game called Flight Control, where you have to land airplanes. I occasionally try to land 50 or more airplanes onto runways around the world.



F. MARTIN RAMIN/THE WALL STREET JOURNAL (GLASSES); TOOTHPICKS; ALANY (IPOD); PANASONIC (PHONE)

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THE WALL STREET JOURNAL.

Paris is 'the biggest temple ever built to material joys and the lust of the eyes.' —Henry James

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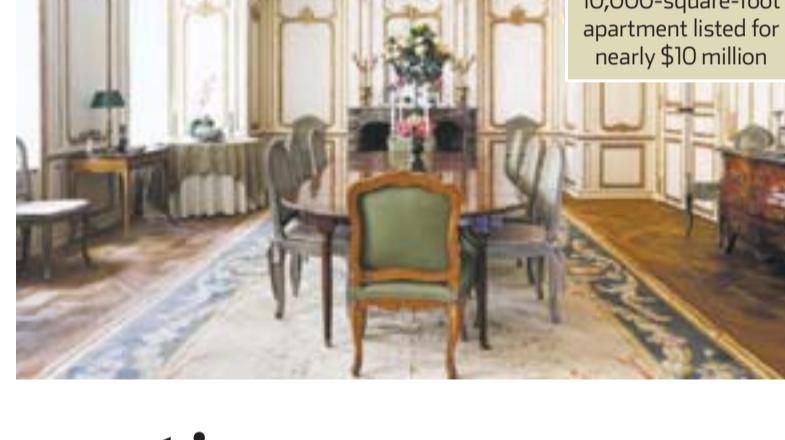


Normandy
10,000-square-foot
château listed for
\$8.21 million

FRANCIS HAMMOND FOR THE WALL STREET JOURNAL (2); FRANCE; KATRINA WITTKAMP FOR THE WALL STREET JOURNAL (2); CHICAGO

CHOOSE ONE Catharine and David Hamilton, below, have put three properties on the market simultaneously and will sell whichever one catches the best price first.

Paris
4,600-square-foot
duplex listed for
\$12.9 million



Chicago
10,000-square-foot
apartment listed for
nearly \$10 million

The French Connection

Two native Texans devoted their lives to acquiring French property and décor. Now, they want to downsize. 'These panels belonged to Fragonard's mistress.'

BY HEIDI MITCHELL

WHEN CATHARINE HAMILTON speaks French that she's picked up over the years, it jangles with a strong Texas twang.

But that hasn't prevented the former interior designer and her husband, Houston-raised, Chicago-based businessman David Hamilton, from immersing themselves in all things French. Their 10,000-square-foot duplex apartment on Chicago's Lake Shore Drive brims with 18th-century French paneling and period furniture. Their

four-bedroom Paris apartment overlooks the Champs Élysées and the Eiffel Tower. And King Henry IV, who reigned from 1589 to 1610, once spent the night on the site of their expansive château in Normandy before winning the battle that united France.

Now in their autumn years—David is 77 years old and Catharine is 69—the Hammonds are eager to pare down their lives. They have placed all three properties on the market simultaneously and will sell whichever one catches the best price first, leaving their future to the Fates. The other two will remain in their possession,

at least for now.

"It's time for us to simplify our lives, but with a French lifestyle," says Mrs. Hamilton. "We should have made this change years ago."

If she's honest with herself, she admits, she hopes to first offload Château St.-Georges Motel, a 10,000-square-foot, early 17th-century castle surrounded by a moat. Located just an hour northwest of Paris, the 235-acre property includes 18 outbuildings. Long after King Henry IV departed, American heiress Consuelo Vanderbilt took possession of the château, hosting Winston

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SWEDEN'S SWEET SPOT

The coastal resort of Bastad sees prices climb; a second-home destination with carpets, beaches, potatoes.

BY J.S. MARCUS

BASTAD, A RESORT on Sweden's southwest coast, sits on a peninsula known for its sandy soil, limpid light and prized potato crop. Increasingly, it is also known as a second-home enclave for Sweden's business titans.

The housing market, comprised of the town proper and surrounding Bjäre peninsula, now has prices as high as prime areas of central Stockholm. Buyers get a choice of a wide variety of properties, from million-dollar row homes to large multimillion-dollar working farms.

The roots of the resort go back to the early 20th century, when Ludvig Nobel—nephew of Alfred Nobel, the Swedish industrialist who endowed the Nobel Prizes—developed it as a discreet, Belle Époque watering hole. In 1919, Swedish artist Märta Maas-Fjetterström set up a workshop for weaving carpets, creating one of Scandina-



SWEDISH SHORES The upscale resort of Bastad on the rustic Bjäre peninsula.

is its combination of seclusion and accessibility. Situated across a strait from Denmark, Bastad and its environs are still largely rural in character, but just a 90-minute drive from Copenhagen's air-

port, allowing for easy international connections. Marked by rolling farmland and wooded hills, the peninsula is a topographic oddity in the otherwise flat terrain of southern Sweden. In summer,

its population triples to about 45,000.

Bastad competes for Sweden's luxury second-home buyers with the Stockholm Archipelago, made up of beautiful but often isolated

islands east of the Swedish capital, and Gotland, an island in the Baltic Sea off the country's eastern coast.

While Gotland is still a top choice for the creative class,

Please turn to page W9

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in the Hamptons



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A penthouse with ocean
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Shy and the Family Home

A wallflower as a child, the Grammy-winning singer grew to love the stage; using a broom for a mic

I was so shy as a child my mother used to offer me a quarter to go out and play with other kids. I'm still shy that way, until I get on stage, of course. Growing up, I was sheltered. My only friends were butterflies, my cat and my dog.

My family's two-story home was on Washington Avenue in Philadelphia. The house was brown and white, and had four bedrooms, a porch and a stoop. Even though we lived in the city, it was a comfortable country house of sorts. There were lots of trees and it was quiet.

My father, Henry, worked for the railroad as a porter. Then he owned restaurants in Pittsburgh and Georgia, and sang at Philly nightclubs. I got my singing from him and my older brother, Thomas, who played Dakota Staton and Lena Horne records on his basement stereo. I didn't sing along, but I listened closely and loved them.

My mother, Bertha, was quiet, shy and laid back. She had a lot of style and dressed her face off. She found happiness in cooking.

Home life was loving but stressful. My father was a fierce, beautiful man. Any woman he saw wanted to be with "Little Henry."



She thought I should join the choir at our church, Beulah Baptist. I said, "That means going outside. I don't want to go out." She worried I'd be a quiet, special girl who never did much. She pushed, so I became a choir member, but I wanted to be in the chorus, not a lead singer. When Mrs. Chapman, the choir director, heard my voice, she said, "Girl, you have to sing lead."

I told her I was petrified. To make me comfortable, she said I could sing a duet with her son, Nathan.

When we finished, the entire congregation stood up and said, "Hallelujah!" I thought, "Wow, I think I can sing." I never took a singing lesson. I just practiced with my broom.

By the time I was 12, I could cook. I had spent years watching my mother, father and Naomi Thompson, my mom's best friend who lived with us. She showed me how to make things like fresh fried corn, sweet-potato pie, and fried chicken with spicy syrup and waffles.

When I was 16, my parents divorced. Honestly, I was relieved. You can't be with someone you don't want to be with. It just brings misery to the family.

One of my best friends at the time was Kenny Gamble, who went on to become half of the legendary songwriting duo, Gamble & Huff. He lived 20 minutes away and was always visiting a friend across the street.

His friend was a singer and insisted we meet. He said to Kenny, "You have to hear Patti, she sings." Kenny would come over and try to get me to sing. One day I sang for him on my steps. The neighbors were watching and I thought, "This feels good."

In high school, I formed a vocal group with three schoolmates. The second group I started, the Ordettes, included friends Cindy Birdsong, Sarah Dash and Nona Hendryx. In 1962, we signed with Newton Records. Since I sang lead, the owner changed my name from



BELL-RINGER Patti LaBelle, above, performing at a 2015 summer concert at Philadelphia's Dell Music Center, and, left, at about six months.

Patti Holte to Patti LaBelle and changed the group's name to the Bluebelles. I never wanted to be a lead singer, but that's the way it worked out.

Today, I live about 20 minutes outside of Philadelphia. This is my palace when I come off the road. As soon as I get home, I head to the kitchen. I'm a foodie and love to cook. I think about what I'm going to eat each day of the week when I'm home.

I have a pool, but I don't swim in it. I just walk around it sometimes for exercise, and I like to watch my baby granddaughter in the pool because she loves to swim.

I also don't drive. People drive

for me. When I was married, my husband tried to teach me in his Thunderbird and I wrecked the car by driving into a tree in the park. After that, I've never driven and never will.

When I'm home, I love to relax. I don't answer the phone, and I get a massage and have my nails done. A young girl has to look cute. I try to do everything to enhance this Patti LaBelle.

My favorite spaces are my lady den next to the kitchen and the basement, which I just had redone. I had the carpet removed and put in wood floors and new lighting.

It's cool and quiet down there. I love sitting on my brown leather sofa and watching TV. Mr. Cuddles,

my Shih Tzu, jumps up there with me, and I put a blanket over him. He chills and I chill.

Perhaps the biggest misconception about me is that I'm a diva. I love people. I take pictures with everyone I meet. I'm actually more outgoing than most people expect. That's how I deal with my shyness.

—As told to Marc Myers

Singer Patti LaBelle, 73, is a two-time Grammy winner and author of four cookbooks, including "Deserts LaBelle" (Grand Central). Her 1974 hit, "Lady Marmalade," with LaBelle, was inducted into the Grammy Hall of Fame in 2003. She recently released her 19th solo album, "Bel Hommage" (GPE).

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BASTAD

Continued from page W7

ad has become the meeting for Sweden's financial elite," retired banker Johan Lindh, is selling the family vacation compound: an acre-size property with sea views and an outdoor pool located outside of the town. The couple are buying a smaller Bastad property now that their children are grown.

In 2013, Mr. Lindh and his wife, both in their early 60s, up-

million-dollar properties found around the peninsula, which is marked by the occasional village, undulating country roads and a serene seashore.

the compound's main house, a converted late 19th-century barn, an open-plan kitchen and dining area. The guesthouse, where two adult children stay during summer, has a sauna. The asking price is \$1.85 million Swedish kronor, about \$1.2 million.

Sweden's economy is booming, showing 4% growth for the year ending in June. Bastad's market for multi-family homes is keeping pace with the strong residential real-es-

tate market. Hans Flink, marketing director at Stockholm's Svensk Mäklarstatistik, which tracks Swedish real-estate prices, says the number of villas sold in the Bastad municipality—which includes the Bjäre peninsula—has risen nearly 70% over the past five years.

Million-dollar properties are found around the peninsula, which is marked by the occasional village, undulating country roads and a serene seashore. The greatest concentration of expensive homes, however, is where it has been since Nobel's day—the small cluster of streets near the Hotel Skansen and the carpet workshop. Homes there tend to be large mansions or cheek-by-jowl historic cottages. An 1897 mansion in the area recently sold for \$4.6 million.

Lars Henningsson, owner of the Hotel Skansen, recently built a new home in the area for himself and his wife, artist Bodil Henningsson. He paid about \$861,000 in 2013 for a 1/10th acre lot, replacing an older cottage with a new two-story, 2,000-square-foot house. Mr. Henningsson used a team that included JV Architects, a Gothenburg studio, to design the home, completed last year at a cost of \$1.2 million.

Second-homeowner Johanna Johansson spent her childhood summers near the hotel, but now prefers the west side of town, known for its wooded coastal walkway and



SEA SIGHT Johan and Ase Lindh, right, have put their compound on the market for about \$1.85 million. Their main house is a converted barn. The property, outside of Bastad, has sea views.



its higher percentage of year-round residents. Ms. Johansson, and her husband, Jan, co-owner of a lighting company, bought a 1925 summer cottage there for \$1.1 million in 2010. Working with local architect Kay Linghoff, the two then spent

about \$1.5 million on a gut renovation, construction of a new guesthouse and lavish landscaping.

The couple, both 55, spend almost every weekend in Bastad and plan to retire here. "It's still a summer house," she says, "and we want to be in a summer atmosphere whenever we're here."

Bastad homeowners might look to Denmark for luxury finishes such as wide-plank hardwood floors, but they tend to source their meals closer to home.

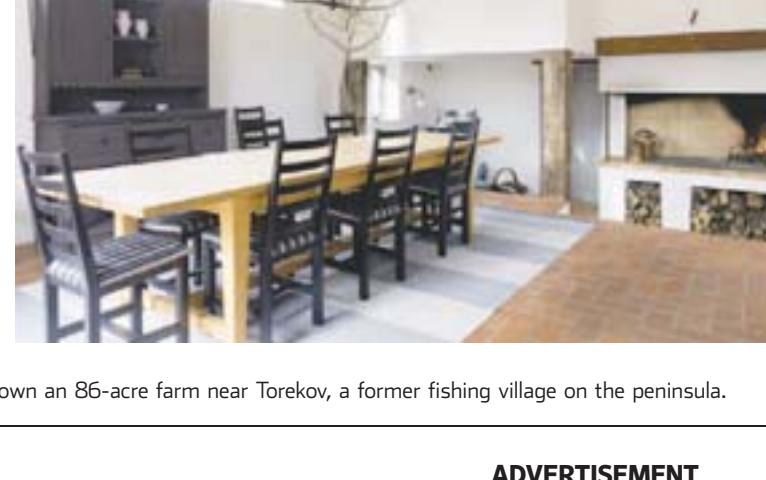
"Most of what we eat is produced locally," says venture capitalist Peter Ekelund, owner of an 86-acre property near Torekov, a fishing village at the end of the peninsula, about a 20-minute drive from Bastad. Torekov is less lively in the off-season, but has a more exclusive reputation than Bastad proper—and prices to match.

Mr. Ekelund and his wife, Neta, have an estate that grew from 7 acres purchased in 1996. It has agricultural land, rented out to a farmer, and a meditative wood-maze that Ms. Ekelund, who recently sold her interest in a Stockholm funeral-services company, commissioned for her husband's 50th birthday.

The estate, for sale for \$4.43 million, has three residential structures, with up to eight sleeping areas, four full baths and three powder rooms.

The three-level main house, completed in the late 1990s, was inspired by the 19th-century watermill that once stood there, and the former barn was converted into what the couple, both in their 60s, call the atelier. The structure includes a gallery with a home and a sauna with a view of a grapehouse, where they grow grapes.

"I have a 360-degree free view," Mr. Ekelund says, adding: "and we have better internet connectivity than I can get in Stockholm or New York."



FRESH Neta and Peter Ekelund own an 86-acre farm near Torekov, a former fishing village on the peninsula.

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MANSION

REAL ESTATE'S FRENCH CONNECTION

Continued from page W7

Churchill and countless other dignitaries and royalty. "I don't own it, it owns me," says Mrs. Hamilton. "I'm just the guardian." It is listed for \$8.21 million with an affiliate of Christie's International Real Estate.

The couple first purchased the château in the late 1980s for \$6 million. Soon after, they were introduced to members of prominent French families committed to saving the country's Old World châteaux. One such person was Viscount Olivier de Rohan, who at the time headed an organization dedicated to preserving the Palace of Versailles, King Louis XIV's

vation, begun in 1994, took two years—not including the decade spent amassing the museum-quality wall panels and furnishings. One Louis XV desk cost \$125,000, Mrs. Hamilton says, and a pair of tapestries was purchased for \$90,000. The staircase and cage elevator "could have instead bought us a house in Lake Forest," says Mrs. Hamilton.

The couple plans to sell the three homes unfurnished. Later, they will likely auction off most of what they display and what they keep in storage facilities.

Whoever ultimately decides to buy their Chicago property will own seven rooms' worth of 18th-century panels in the seven-bedroom apartment. Mr. Hamilton says he turned down one buyer, in part because the gentleman wanted to paint all the walls white. "Can you imagine? This room was in the Place Vendome. These panels belonged to the mistress of Fragonard," Mr. Hamilton says as he gives a historian's tour of the Chicago apartment.

The custom kitchen was based on an 18th-century design and shipped from France. An enormous Persian rug in the 24-by-36-foot living room is a holdover from the Wrigley era—along with the "throne toilet" in the powder room that Mrs. Hamilton thinks is a hoot.

"It's a great apartment for entertaining," says Mr. Hamilton. "We've had sit-down dinners for 70. Until recently, we had an annual Christmas party with 300

'It's a great apartment for entertaining,' says David Hamilton of the couple's Chicago apartment. We've had sit-down dinners for 70.'

royal seat. In Mrs. Hamilton, Mr. de Rohan found a perfect American-Francophile partner for his Versailles restoration efforts.

Mrs. Hamilton says she fell in love with the palace on her first trip to France, when she was 17 years old. The Amarillo, Texas, native, whose family got rich in oil, eagerly joined the board.

Mr. de Rohan challenged his new friend to raise funds to restore Versailles' Bosquet des Trois-Fontaines, once-exquisite gardens and fountains but at the time in utter disrepair. "Americans love a challenge," says Mr. de Rohan, age 76. Mrs. Hamilton quickly founded the American Friends of Versailles, a nonprofit charitable organization, and began raising funds.

It took nearly 10 years to raise the necessary \$4 million—and Château St.-Georges Motel played a key role as the site of dozens of galas and smaller events. Through the patronage of Mrs. Hamilton's network and organization, the gardens were rehabilitated and reopened to the public in June 2004. "Catharine has been involved with Versailles at a government level, and she is very well known in all the local circles as 'Madame United States at Versailles,'" he says. For their efforts, the Hammonds were each awarded the Legion of Honor, the highest French honor for civic merit.

Not that anyone would know her status upon meeting the petite philanthropist. With her smoker's voice, she calls everyone "babycakes" and her husband "Hamilton," and drops first names of the society set into casual conversation—Roxanne (Pulitzer), Francine (LeFrak). She's also easy-going and quick to invite new acquaintances to lunch at her Paris apartment or weekends at the château.

For a friend's wedding, which fell on Bastille Day, the Hammonds hosted around 20 people at their château. There, a tennis court, formal gardens, an orangerie and a music salon amuse visitors during the summer, when the Hammonds are in residence. "We have had an awful lot of houseguests, which is fun because you never know who will be coming around," she says. "But when they're gone, it's like, 'Hallelujah!'"

Their Paris apartment, located in the 8th arrondissement, is a 4,600-square-foot duplex in a classical 19th-century limestone building. The Hammonds purchased it for \$4.4 million in 1998 and spend several months throughout the year there to be near the French capital's best restaurants, shopping and social scene. Listed for \$12.9 million, the apartment features a wood-paneled library, large living rooms, an alcove game room, a garden and a sunny drawing room. Her favorite feature, however, is their private swimming pool, the key amenity behind their decision to purchase the property.

When not in France, the Hammonds can be found in their Rosario Candela-built Chicago co-op apartment, listed for just under \$10 million. It was built in the 1920s and owned by two generations of Wrigleys, the chewing-gum tycoons. The couple acquired the property in 1984, spending \$6.8 million on the home and improvements. The sweeping ren-



PANEL DISCUSSION Ornate paneling, above, frames the entryway into the living room of the Hammonds' Chicago coop, pictured top right. The custom kitchen, bottom right, was based on an 18th-century design and shipped from France.



ROUND TABLE A dining room in the 17th-century Normandy castle that the Hammonds bought in the late 1980s for \$6 million.

people. It's perfectly set up for that."

Mr. Hamilton says he now spends most of his time in the Chicago apartment working from an office in a small dressing room next to the master bedroom. In the past he has run food services, trucking and drilling companies and now oversees Hamilton Four, a private-equity firm.

The apartment was first listed last year for \$13.5 million. The price was reduced to \$9.99 million in April, according to Kieran Conlon of Christie's.

The Hamilton daughters, Elizabeth, 37, and Tennessee, 32, don't spend as much time in France as they used to now that they're in their 30s, nor do they share their parents' passion for French home décor. Even so, Mrs. Hamilton secretly hopes the last property to sell will be the Paris pied-à-terre.

"Our Paris apartment is in France, where it belongs, so there is an authenticity to it," she explains. "I have a terrible case of Francophilia," she says, and doesn't want to stop soaking up the French lifestyle before her last breath. She remains the president of the American Friends of Versailles, and quite active.

"I thought my life would be much simpler now," she confides. "But it turns out it doesn't slow down until you die, and it doesn't get easier, girl. But at least I'm still smiling."



PIED-À-TERRÉ The couple's Paris duplex has a painting of their castle in Normandy, top. Above, the private entrance to their duplex in a 19th-century limestone building. Right, period furnishings in a living room.

