

What's News

Business & Finance

United Technologies is nearing a deal to buy Rockwell Collins for more than \$20 billion, a tie-up that would create one of the world's biggest aircraft-equipment makers. **A1**

◆ **Conflicting accounts** over how Uber's board decided to hire Khosrowshahi as CEO are adding more controversy to the firm. **B1**

◆ **Uber paid** nearly \$10 million in fines and compensation to lift a suspension of its Philippines services. **B4**

◆ **Apple's talks** with studios about offering ultra-high-definition films have been hampered by disagreements over pricing. **B1**

◆ **The euro jumped** above \$1.20 for the first time in 2½ years, creating a headache for the ECB. **B10**

◆ **Freeport is to give up** its majority stake in a giant mine, a step toward ending a dispute with Indonesia. **B3**

◆ **The U.K. issued** guidelines on executive pay and worker representation aimed at strengthening its corporate-governance reputation. **B6**

◆ **Texas flooding** has disrupted the flow of refined fuel on a major pipeline to the U.S. East Coast. **B7**

◆ **Google was set** to sketch out how it plans to implement an EU order to stop illegally favoring its own comparison-shopping service. **B4**

◆ **21st Century Fox** stopped broadcasting Fox News in the U.K. amid a bid to buy the stake in Sky it doesn't already own. **B2**

World-Wide

◆ **Harvey moved off** the coast of Texas but offered no respite for Houston, as floodwaters continued to reach historic highs and the storm threatened another landfall farther east. **A1, A6-A7**

◆ **North Korea's missile** launch over Japan has begun to bolster efforts by Tokyo and Seoul to upgrade their missile defenses, though such moves would anger China and Russia and complicate international coordination in tackling the threat from Pyongyang. **A1**

◆ **In Japan**, an alarm warning of the missile jolted people out of bed just after 6 a.m. local time. **A4**

◆ **Lebanese forces** said they reclaimed all of the territory that Islamic State controlled in the country for the past three years. **A3**

◆ **The Philippines army** said it was planning an assault to retake Marawi from Islamic State-linked militants. **A3**

◆ **Russia's military** dismissed Western concerns over a war game that has underscored Cold War-style tensions in the Baltic Sea region. **A3**

◆ **A Trump Organization** attorney discussed a prospective real-estate deal in Moscow with Trump on three occasions during the presidential campaign. **A5**

◆ **An appeals court** heard arguments on whether Trump's administration should be able to enforce its travel ban against extended family of U.S. residents. **A5**

◆ **Trump dives back** into the tax debate Wednesday with a speech aimed at emphasizing the need for major changes as the GOP tries to figure out what it wants to do. **A5**

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Harvey Takes Aim at Louisiana



Houston's downtown convention center is housing 9,000 evacuees. The city plans to open two or three more large shelters.

FLOOD INSURANCE FAILS FIRMS

Texas storm will strain program out of step with needs of businesses in era of extreme weather

By RUTH SIMON AND CAMERON MCWHIRTER

The nearest Hal Pontez could get to the North Houston office park he owns was a quarter mile away. From that viewpoint on Monday, he said, “tops of buildings are peeking through a lake.”

One building houses another business he owns that builds electric power plants and services gas and steam turbines. It was having its best year ever, and its shop was packed to capacity with industrial control systems and sophisticated tools used in maintenance and repair.

Mr. Pontez has federal flood insurance. Experience has taught him it may not cover all his losses.

Business owners across the country say the National Flood Insurance Program, the only option for most since private insurers largely got out of the flood business nearly a century ago, is sorely out of step with their needs. Insurance experts and some government officials agree. The program's limitations will be sharply tested when Harvey's catastrophic floodwaters recede.

The federal program was primarily designed for homeowners and has had

few updates since the 1970s. Standard protections for small businesses, including costs of business interruption and significant disaster preparation, aren't covered, and maximum payouts for damages haven't risen since 1994.

In last year's April flood in Houston, Mr. Pontez's damage exceeded the \$500,000 insurance maximum on most of his affected buildings. The \$500,000 maximum in coverage for equipment

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◆ **New Texas law** favorable to insurers presents a burden..... **B6**

North Korea Launch Spurs Neighbors to Boost Defenses

North Korea's missile launch over Japan has begun to bolster efforts by Tokyo and Seoul to upgrade their missile defenses, though such moves would anger China and Russia and complicate international coordination in tackling the threat from Pyongyang.

By Jonathan Cheng
in Seoul and
Alastair Gale in Tokyo

The launch on Tuesday was one of well over a dozen by North Korea this year, but it was also a first: Kim Jong Un had never before sent a missile over a major foreign population center. It prompted an outraged Tokyo to call for an emergency United Nations Security Council meeting. Chinese officials said Pyongyang's

Pacific Provocation

- ◆ Missile jolts Japan..... **A4**
- ◆ Trump chides North Korean 'contempt'..... **A4**

shot across the Japanese mainland risks going “past the point of no return.”

The U.S. threatened to add powerful strategic assets to the Korean Peninsula to help protect its ally, while President Donald Trump reasserted that “all options are on the table.”

Japanese Defense Minister Itsunori Onodera said Tuesday that his ministry is seeking funds for the introduction of Aegis Ashore, a land-based version of a U.S.-made antimissile system used by some Japanese warships. Tokyo said it tracked the missile for its entire flight

but didn't try to shoot it down because it wasn't on track to hit Japanese soil.

Tuesday's launch could ensure Seoul's further deployment of a U.S. missile-defense system, Terminal High-Altitude Area Defense, or Thaad. South Korea's presidential office declined to comment on plans.

South Korea is already in the process of resuming deployment of Thaad, which President Moon Jae-in suspended after taking office in May. While a full Thaad battery contains six launchers, Mr. Moon halted the process after the U.S. installed the first two launchers and declared the system operational.

But after North Korea launched its second ICBM in late July, Mr. Moon restarted

Please see MISSILE page A4

Aerospace Suppliers Negotiate Takeover

United Technologies Corp. is nearing a deal to buy Rockwell Collins Inc. for more than \$20 billion, a tie-up that would create one of the world's biggest aircraft-equipment makers.

By Dana Mattioli,
Joann S. Lublin
and David Benoit

The companies are discussing a per-share price for Rockwell of \$140 or less and could come to an agreement as soon as this weekend, according to people familiar with the situation.

Rockwell shares closed at \$127.99 Monday, giving the company a market value of \$20.8 billion. The stock was ahead 1.9% at \$130.42 Tuesday afternoon.

As with all acquisition talks, it is possible they could hit a snag and not result in a deal, or the expected price

could change.

The deal would boost United Technologies' business supplying Boeing Co. and Airbus SE as the aerospace industry ramps up for a new generation of jets. The company already owns one of the world's biggest jet-engine makers, Pratt & Whitney, part of an aerospace division that also makes parts such as wheels and landing gear.

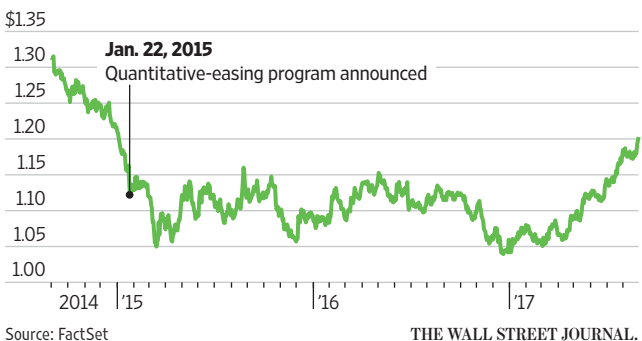
Rockwell specializes in cockpit displays and communications systems for passenger jets and military programs. In April, the Cedar Rapids, Iowa, company closed its roughly \$6 billion acquisition of B/E Aerospace Inc., a maker of plane seats and interiors.

Since word of the talks surfaced this month, several analysts have said they don't expect significant antitrust issues, given that United Tech-

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Euro's Rise Puts Pressure on ECB

The euro now buys the most dollars since the European Central Bank's bond-buying plan began. A stronger currency makes it harder for the central bank to boost inflation. **B10**



Source: FactSet

THE WALL STREET JOURNAL.

Space Oddity: Futuristic Colony Faces Debate Over Taxes, Politics

* * *

A Russian wants to launch a utopia, but his citizens don't agree on how to run it

By CHARLES ROLLET

It's tough enough to create a nation in space. There's the Earth-orbiting colony to plan, the provisioning to figure out, and the technical challenge of launching thousands of people.

On top of that, you have to make folks get along before they even rocket up there.

The scale of the human task is dawning on Russian businessman and scientist Igor Ashurbeyli, who last year drew headlines with his plan for a peaceful democratic utopia dubbed Asgardia above the stratosphere.

More than 300,000 people from 217 countries and territories signed up online to be Asgardians—among them starry-eyed dreamers, sci-fi fans and political idealists—and 110,000 of them are now officially citizens.

While Dr. Ashurbeyli's lofty plan involves launching “Space Arks” into lower Earth orbit by 2025, he has found himself caught up in earthly debates among his people about pesky details such as the space nation's constitution and potential taxes.

Not to mention its prospective shortage of women.

Among problems facing Asgardia, “the biggest is self-organization,” said Dr. Ashurbeyli, 53, “because no one has ever tried organizing...what is today 100,000 citizens from 200 countries who don't know each other and live in different places on Earth.”

Dr. Ashurbeyli, based in Moscow, has few details about how Asgardia, named after Asgard, the godly realm of Norse mythology, would be built, launched and run. Specifics are to be decided by the nation's parliament.

One mission: Guard against space threats like asteroids. “My task is to defend planet Earth and defend humanity,” Dr. Ashurbeyli said in a phone interview, “nothing more.”

Before liftoff, the Soviet-trained engineer wants the United Nations to recognize Asgardia as a country. He plans to establish a government online and devise a flag, anthem and currency. Initially, citizens will get to send data into space on a satellite he plans to launch from the U.S. this fall.

Dr. Ashurbeyli, who owns an industrial company he values at \$200 million, insists he is deadly serious. He is the

Please see SPACE page A2

WORLD NEWS

Nafta Talks Target Low Mexican Wages

Mexico has reaped big trade benefits from the pact but pay remains stubbornly low

By DUDLEY ALTHAUS

CIUDAD JUÁREZ, Mexico—Emma Palacios started working in factories in this city on the Texas border in 1994, the year the North American Free Trade Agreement came into effect. Ever since, she says, it has been easy to find work at the scores of U.S.-owned factories that opened here. What's proved harder to find is decent pay.

After 11 years with a major automotive supplier, Ms. Palacios was earning \$1 an hour plus benefits last year. She and dozens of co-workers staged a walkout to demand a six-cent-an-hour bump in pay. She ended up losing her job, and is now at another factory—for even less pay.

"We didn't resolve anything," said Ms. Palacios, a 37-year-old mother of four.

Mexico has reaped enormous benefits in industrial development and jobs from the 23-year-old pact, which U.S., Canadian and Mexican officials started renegotiating this month and will discuss again at a second round in Mexico City on Friday. What it hasn't achieved are significantly better—or often even livable—wages for Ms. Palacios and millions of other workers.

Labor advocates from all three countries say Mexico's low pay—the minimum wage is \$4.50 a day, and \$100 a week is considered among the best



Employees work on a circuit board at a factory that exports to the U.S. in Ciudad Juárez, Mexico.

factory-floor wages—create unfair competition for U.S. and Canadian workers and hobble Mexico's economic growth.

Now, U.S. and Canadian trade officials and labor advocates want to use the Nafta renegotiation to prod Mexico into raising its wages.

"Higher wages in Mexico are in the interests of Mexico and the U.S.," economist Peter Navarro, a trade adviser to President Donald Trump, told The Wall Street Journal recently. "Without this adjustment Mexico will never have a robust middle class, and our middle class will wither if not die."

With that in mind, the U.S. is expected to push for tougher labor standards, such as ensuring Mexican workers

may freely organize unions and stage strikes without losing their jobs. While Mexico has worker-protection laws on the books, critics say it enforces them poorly to help lure manufacturers to Mexico.

When Nafta began in 1994, labor and environment standards were relegated to largely toothless side agreements. Mexican officials say they are open to including mechanisms to ensure stricter enforcement of its labor laws. What they don't want, they say, are measures that force Mexico to raise wages. "We think wages are part of the free market and we want to keep it that way," said Moisés Kalach, a member of the private-sector board that advises the Mexican gov-

ernment on the negotiations.

Economy Secretary Ildefonso Guajardo says cheap wages aren't a long-term competitive advantage for Mexico and suggests that recently passed labor reforms will lead to better pay. "Undoubtedly the strengthening of labor rights will be reflected in the market and determining wages," he said recently.

Wages have remained low in Mexico for many reasons, and any modified labor standards in Nafta may have little impact on raising them, at least in the short run.

The country's population has surged by three-quarters in 30 years, to 123 million, outstripping the supply of good jobs. Half the country remains poor. Low productivity

Mexican Unions Have Little Clout

A little under 14% of Mexican workers are unionized, compared with about 11% in the U.S. But nearly all the country's unions are run by leaders chosen through rigged elections, leaving members no say, labor experts say. Many union leaders have been allied to President Enrique Peña Nieto's Institutional Revolutionary Party, or PRI, for which many have served as legislators, governors and other top officials.

"You generally don't have free and independent unions in Mexico," said Raymond Robertson, an economist at Texas A&M who chairs the U.S. Labor Department's advisory commit-

tee on worker protections in free-trade negotiations.

Many unions routinely cut deals with companies to forge so-called protection contracts—signed without the input or knowledge of members, or even before a single worker is hired, labor advocates say. Business leaders say such deals are necessary to prevent wildcat strikes and extortion by rogue unions.

Protection contracts have been condemned by the International Labor Organization and were outlawed by Mexico's congress in February. Yet efforts to form independent unions are routinely thwarted by regulators. Workers who try to organize without permission—or otherwise push for better pay and working conditions—are often summarily fired, advocates say.

—Dudley Althaus

plagues the four-fifths of the economy not involved in manufactured exports. And nearly six in 10 workers work off the books in the informal sector.

In May, wages averaged \$18 a day nationwide for workers enrolled in the Mexican Social Security Institute, which accounts for most formal employment.

Wages in the Nafta-bolstered north of the country tend to be higher than in the rural south. Some economists say that suggests wages would be even lower in Mexico without foreign investment drawn in by Nafta.

The failure of wages to rise faster partly reflects the same global pressures that keep U.S. wages from climbing faster,

said Alfonso Navarrete Prida, Mexico's labor secretary, such as increasing automation.

Another factor is docile labor unions, said Benjamin Davis, international affairs director at the United Steel Workers, a U.S. union.

"We don't want strikes because then we would impact the source of jobs," said Gloria Porras, local leader of the CROC, a leading labor federation that says it represents 30,000 workers in Ciudad Juárez. The organization's last sanctioned strike was four decades ago, she says.

"What options do they have?" said Susana Prieto, a local labor lawyer. "Loyalty to the cause is one thing. Hunger is another."

Anti-Whaling Activists Prove No Match for Japanese Military Leviathan



STANDING DOWN: Activists in Australia are abandoning their annual anti-whaling campaign near Antarctica, saying Japan's threat to defend its fleet is too daunting. The decision leaves the fleet free to resume whaling through the coming Antarctic summer. A humpback with research cameras attached by suction cups, above.

SPACE

Continued from Page One
sole funder and pays about 50 people to manage Asgardia's affairs. His plan is to pay for launches through crowdfunding.

Others are skeptical of the project's success. "I think the initiators don't have any idea what they are doing, legally speaking," said space-law professor Frans von der Dunk of the University of Nebraska-Lincoln.

And earthbound Asgardians, it turns out, are a fractious lot. Hailing from Tulsa to Turkey to East Timor, they speak different languages and can't agree on basic policies. Hotly debated issues include the merits of establishing diplomatic relations with extraterrestrials, whether refugees should be welcomed, and what role cryptocurrencies should play.

The biggest fault line is Asgardia's constitution, which Dr. Ashurbeyli and his advisers wrote. Unveiled in June, it met opprobrium from rebellious corners of the would-be nation.

"I'd say the community is

very divided," said Chris Hawkes, 58, a teacher from Preston, England, who joined because he liked the idea of a "societal restart."

Mr. Hawkes said the constitution accords too much power to Dr. Ashurbeyli by declaring Asgardia a "Space Kingdom"—giving him extensive rights to determine the composition of the powerful Supreme Space Council. "There's so much mishmash in the constitution," he said.

Debate raged on other aspects of the constitution, from its minimum age of 40 for parliamentarians to worries that Asgardia would impose taxes before launch.

Such a levy, fretted one Asgardian online, would mean citizens supporting a nation "that has few assets, no territory, no institutions and no international recognition." The constitution states that paying taxes is voluntary.

Critics' online clashes with those loyal to the founder got heated. The disputes delayed ratification of the constitution, which was scheduled for June 18, for almost six weeks.

Of the more than 300,000 who became Asgardians by signing up online, only the

110,000 who finally voted to approve the constitution were granted official citizenship.

Jenn Roznicki, 40, a child-care provider in Calgary, Canada, quit Asgardia when it was revealed that those who didn't approve the constitution would be considered tourists, not citizens.

"I was sad that it happened because I had so much hope for Asgardia," she said. "When I joined a year ago, my hus-

Earthbound Asgardians, as it turns out, are a fractious lot.

band said, 'You know it's going to descend into madness,' and I said, 'No, I have faith!'"

Dr. Ashurbeyli said he simply wants to establish a more structured society and would serve only one five-year term. As for anointing himself king, he said Asgardia would be a constitutional monarchy similar to those in Europe.

He has created a Vienna-based group—named NGO As-

gardia—to manage the nation. It is now holding parliamentary elections, with almost 4,000 running for seats, with candidates including an Indian computer scientist, an American high-school teacher and a British hypnotherapist.

While some have fleshed-out platforms advocating policies from universal basic income to building a virtual-reality-based society, many haven't bothered.

Lena De Winne, director of the NGO, recently stressed on Facebook that candidates needed platforms. She fielded questions from Asgardians about technicalities such as potential problems for those who live in countries that ban dual citizenship. "It's not like you're a citizen of America and Canada at the same time," she responded. "These are just earthly countries."

Asgardia will seek recognition from individual countries before venturing into space, she said, a process that has begun by sending messages of congratulations to newly elected leaders such as France's Emmanuel Macron.

To join the U.N., Asgardia needs Security Council blessing and must persuade two-

thirds of member states "that it is a peace-loving state and is able and willing to carry out the obligations" of the U.N. charter, said Dan Thomas, a U.N. spokesman.

Asgardia's constitution is available in 12 languages and states it will "strive towards a single Asgardian language"—a subject of intense discussion among Asgardians, with suggestions ranging from Esperanto to a hybrid of Chinese and English.

Then there is a vexing demographic problem. As of March, 16% of Asgardians were women, prompting the organization to call for members to

CORRECTIONS & AMPLIFICATIONS

MUBI Inc. offers an online streaming service focusing on art house cinema that costs \$5.99 a month. A Business News article Aug. 21 about niche video services incorrectly said it costs \$4.99.

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

DEAL

Continued from Page One
nologies and Rockwell make different airplane parts.

But airplane manufacturers might voice concerns about any consolidation among their suppliers.

Boeing and Airbus have also been nudging their way into aftermarket business to capture some of the profit from selling and servicing parts—putting them on a collision course with suppliers.

The possibility of a United Technologies deal for Rockwell caught some analysts by surprise. In June, United Technologies Chief Executive Greg Hayes told analysts the Farmington, Conn., company was looking to spend roughly \$1 billion on acquisitions this year. It had about \$7 billion in cash.

"As far as bigger M&A, it's something we always look at, but I am reluctant to go out and pay some of the prices that we see today," Mr. Hayes said at the Paris Air Show.

United Technologies has a market value of about \$92 billion. Last year, the industrial giant, which also makes Carrier climate-control systems and Otis elevators, rebuffed unsolicited takeover approaches from Honeywell International Inc.

—Thomas Gryta contributed to this article.

find ways to get more to join.

"We definitely need more women," said Samuel Fisher, 25, a Colorado-based Asgardian and book author, "but we're not in space right now."

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WORLD NEWS

Lebanon Boots Islamic State From Its Turf

Victory for U.S.-trained forces is latest defeat for terrorists after losses in Iraq, Syria

By MARGHERITA STANCATI

RAS BAALBEK, Lebanon—One of the lesser-known chapters of Islamic State's occupation of parts of the Middle East drew to a close on Tuesday, with Lebanon reclaiming all the territory that the extremist group controlled in the country for the past three years.

Lebanese forces said they had captured the last sliver of land held by Islamic State after they launched a ground operation this month to clear the militants from the roughly 120 square kilometers of rugged mountain terrain near the border with Syria where they were based.

"All the lands are now Lebanese and secure," Lebanese Army Brig. Gen. Fadi Daoud, who commanded troops during the ISIS offensive, said in an interview on Tuesday.

Lebanon is the latest in a string of military defeats for Islamic State. The extremist group has lost more than half of the territory it captured three years ago in a blitz across Iraq and Syria.

It recently lost its Iraqi stronghold of Mosul and was defeated this past weekend in the strategic town of Tal Afar near Iraq's border with Syria. The militants are also rapidly losing ground in Raqqa, their



Lebanese army soldiers drove vehicles flying the Lebanese flag this week in an area they recently took from Islamic State militants.

PATRICK BAZ/AGENCE FRANCE-PRESSE/GETTY IMAGES

de facto capital in Syria.

The victory for the U.S.-trained and equipped Lebanese forces was an important milestone, removing a threat that had been hanging over Lebanon for years. It also helped boost the reputation of the army, which has struggled to demonstrate it can be the sole guarantor of the country's security.

"The Lebanese army has proved itself. It has shown it can take on Islamic State," said Fawaz Gerges, a Lebanese academic and author of "ISIS: A History." "This isn't just a battle. Islamic State has suffered a

lasting defeat in Lebanon. It has lost its foothold."

Islamic State militants were allowed to evacuate Lebanese territory on Monday under terms of a controversial surrender deal brokered by the Iran-backed Lebanese militia Hezbollah. Hezbollah is the most powerful group in Lebanon, and it has played a vital role propping up the regime of Bashar al-Assad.

In the operation, Hezbollah and the Lebanese army both contributed to beating back the Sunni extremists of Islamic State from the country's bor-

ders. Syrian forces and Hezbollah pressed their own offensive against Islamic State from the Syrian side of the border at the same time as the Lebanese army fought on their side.

Hezbollah's deal with Islamic State drew criticism from many in the country, who saw this as a humiliation. The Lebanese military denies cooperating with Hezbollah.

Lebanon has suffered from spillover of the conflict in neighboring Syria that has been going on for more than six years. Islamic State established a foothold along the

country's northeast and briefly overran the border town of Arsal in 2014. Its fighters kidnapped 30 Lebanese soldiers and policemen, most of whom were later released in a prisoner swap.

But the fate of nine missing soldiers remained unknown. On Sunday as part of the surrender deal with Hezbollah, Islamic State revealed the location of eight of their bodies in return for being allowed to evacuate with their family members.

Around 600 people on Monday departed on buses for the eastern Syrian province of

Deir Ezzour, which is one of the terror group's last strongholds. Lebanese military officials say they believe the ninth soldier had joined Islamic State and was later killed in a battle in Syria.

The offensive was a test for the state's army to prove its ability to secure the country. But despite repeated assurances from government officials that the military would lead the battle to clear Islamic State from the border region, Hezbollah played an important role.

Hezbollah frequently points to the Lebanese military's weakness as a reason for its existence. But critics accuse the militia of undermining the military to preserve its leading role protecting the country.

"We would have won. The victory would have been complete and we would have captured senior leaders of Daesh [ISIS]. This didn't happen and the responsibility is of the Lebanese government," said Khalil Helou, a retired Lebanese Army general who informally advised military commanders during the operation. "Our army did a great job, but its success was overshadowed by this humiliating deal."

Backed by airstrikes, Lebanese ground troops began advancing against Islamic State on Aug. 19, gradually capturing hilltop positions held by the group in the mountain area that straddles the Syrian border. Some 120 Islamic State fighters and seven Lebanese troops died in the fighting, the Lebanese military said.

Manila Vows 'Big Battle' To Take Militant-Held City

By JAKE MAXWELL WATTS

Nearly 100 days after Islamic State-linked militants occupied the southern Philippine city of Marawi, the army said it was planning a final assault to end a battle that took Manila and allied countries by surprise for its stubbornness and violence.

If successful, the operation will allow the tens of thousands of residents who fled to return home. But counterterrorism experts and humanitarian workers said the government faces a mammoth task of rebuilding a devastated city and risks further attacks elsewhere by energized terrorists.

Military Chief of Staff Gen. Eduardo Ano told reporters Monday that the army was preparing "one big battle" to retake Marawi after clearing the city's Grand Mosque and municipal police station last week. He didn't give details.

On Tuesday, reflecting in-

ternational concern about the spread of violence throughout the region, Australia offered to deploy special-forces soldiers to the southern Philippines to provide training and tactical advice. The U.S. already maintains a similar detachment as part of its global counterterrorism operations.

Reclaiming the city of 200,000 has been an uphill battle for the ill-equipped Philippine military, which is unused to urban warfare. Its failure to end the conflict swiftly and the use of destructive airstrikes have alienated the population, many of whom as Muslims feel marginalized in the Roman Catholic-majority country.

Samira Gutoc—a former negotiator for peace talks between the government and more-traditional rebel groups, who now serves as a humanitarian worker—said the extent of the damage, with as much as 90% of the city destroyed,

has led some youngsters to call the militants heroes. "We are creating another generation of angry, young, restless, jobless, alienated kids," Ms. Gutoc said.

A coalition of extremist Islamist groups, who for years existed as rival religious or criminal gangs, joined forces to occupy Marawi on May 23, riding on trucks and waving the black Islamic State flag. The military estimates about 40 remain in Marawi and that 600 have been killed. About 130 soldiers and 45 civilians, some of whom were beheaded, have also died.

The Philippine government said the coalition, under the leadership of brothers Abdullah and Omar Maute, sought to declare its intent to establish a caliphate, or Islamic state. The occupation shocked the government and martial law has been declared in the area until year-end. The assault began after a failed at-



Smoke rose from Marawi as fighting continued in the city on the island of Mindanao on Monday.

FERDINAND CABREDA/AGENCE FRANCE-PRESSE/GETTY IMAGES

tempt by authorities to arrest an allied militant leader. The remaining fighters occupy an area about 500 square meters in size, the military says.

"I think what's going to happen is we're going to see some of the fighters disperse into other areas," said Sidney Jones, director of the Jakarta-based Institute for Policy Analysis of Conflict. Ms. Jones

said she expects to see attacks in other parts of the Philippines, along with the danger that surviving fighters could create a regional training center for aspiring jihadists.

There is also the risk of violence spreading to other parts of Southeast Asia, such as neighboring Indonesia, the world's most-populous Muslim-majority nation. Several

killed in Marawi were foreigners, including Indonesians.

For most of Marawi, prospects are bleak. Save the Children, a charity, said this month more than half the 60,000 children who fled the fighting haven't re-enrolled in school. The military says many residents can't return due to improvised explosive devices militants placed in the city.

Russia Calls Military Drills Defensive

By NATHAN HODGE

MOSCOW—The Russian military dismissed Western concerns over a major war game that has underscored Cold War-style tensions in the Baltic Sea region, as the U.S. further beefed up its presence there.

Russian Deputy Defense Minister Lt. Gen. Alexander Fomin said Tuesday the joint-Russian-Belarusian exercises, which will take place in September partly on Belarus's border with NATO members Lithuania and Poland, would be of "a purely defensive nature," testing the ability of troops to respond to a hypothetical adversary.

North Atlantic Treaty Organization officials have warned the maneuvers, planned amid a military buildup in the region by the alliance and Russia, could serve as a screen for Russia to deploy more military equipment and heighten the risk of an accident or miscalculation that could touch off a crisis.

The U.S. has deployed a tank brigade to Central and Eastern Europe, part of a larger deterrent force covering NATO's eastern flank. On Tuesday, it sent seven F-15C Eagle fighter planes from a base in the U.K. to Lithuania to take over NATO's Baltic air-policing mission from Poland, a larger-than-normal deployment of aircraft.

Poland had deployed four F-16s, but the U.S. is increasing



Russia has said 70 aircraft will participate in the Zapad exercise.

PAVEL GOLOVKIN/ASSOCIATED PRESS

the size of its deployment because of NATO's expectation of increased Russian military operations. The U.S. will also deploy 140 airmen to Lithuania to support the mission.

Russia is stationing a more robust presence, including missiles and new army units, moves it says are designed to counter NATO deployments.

Gen. Fomin said Western media and politicians had been "spreading myths about the so-called Russian threat" in advance of the exercise, known as Zapad 2017.

"The most unbelievable scenarios on how events will unfold are being offered," he said.

NATO officials have cast doubt on official Russian figures about the size of the exer-

cise and complained about a lack of transparency. In his Tuesday briefing, Gen. Fomin said a total of 12,700 service members would be involved in the exercise, the majority of whom—7,200 troops—would be from Belarus.

Gen. Fomin added that 70 aircraft and helicopters would participate, along with 680 combat vehicles, including 250 tanks, and 10 warships.

The number of troops Russia said is taking part remains under the threshold of 13,000 that would require international observers to attend the drills. The Russian military said foreign military attachés would be invited to observe exercises on Sept. 18.

NATO officials said they ex-

pect there may be substantially more troops participating than the officially quoted numbers.

The Russian military said the exercise is meant to simulate both conventional combat and antiterrorist operations. According to the Tuesday briefing, the exercise is built around a scenario in which "extremist groups" supported and equipped by some external power penetrate Belarus and the Kaliningrad region, an exclave of Russia sandwiched between Poland and Lithuania.

The exercise will have two major phases. In the first, Russian-Belarusian forces will deploy to counter enemy sabotage and reconnaissance groups, and stand up a group of air forces and air-defense units to protect important government installations, the Russian military said. In the second stage, the units will test command-and-control effectiveness during combat operations.

In addition, Baltic fleet ships will rehearse a blockade to prevent "bandit formations" from withdrawing by sea.

In Brussels on Tuesday, NATO ambassadors, including the newly appointed U.S. representative Kay Bailey Hutchison, met in a closed session to discuss the Zapad exercise, allied officials said.

—Julian E. Barnes in Brussels contributed to this article.

Myanmar Puts Blame On Rebels for Clashes

By Myo Myo AND JAMES HOOKWAY

YANGON, Myanmar—Myanmar security forces stepped up their claims that Muslim militants were trying to take advantage of turmoil in the west of the country by establishing an Islamic state there, and accused international aid groups of assisting them.

The country has come under widespread criticism for its heavy-handed response to a series of attacks on Friday, when a small group of ethnic Rohingya insurgents launched what they called a pre-emptive strike against security forces in northern Rakhine State where many members of the stateless Muslim minority live. Since then, more than 100 people, most of them insurgents, have been killed, and a stream of Rohingya, who are Muslim, has headed toward the border with Bangladesh, where 80,000 Rohingya already have fled since a surge of violence began in 2012.

On Monday, Pope Francis, who plans to visit the country in November, joined a growing clamor for Myanmar to provide the group with "full rights," while United Nations Secretary-General António Guterres expressed concern about the worsening situation,

his spokesman said. Myanmar authorities consider the estimated one million Rohingya people to be illegal immigrants from Bangladesh, and are subject to travel restrictions and other curbs. Around 140,000 live in temporary camps after communal clashes forced them from their villages.

Their plight poses a dilemma for State Counselor Aung San Suu Kyi, the Nobel Peace Prize winner who now serves as Myanmar's de facto leader. If she moves to provide the Rohingya with more rights, political analysts say she risks incurring the wrath of Buddhist hard-liners who have become increasingly influential in Myanmar since the political opening that also brought Ms. Suu Kyi to power. It could also worsen relations with Myanmar's military, which still controls much of the government.

Instead, Ms. Suu Kyi appears to be siding with the army, with her office releasing a statement accusing international aid agencies of helping Rohingya militants and commending the military action around of Maungdaw, near the border with Bangladesh. Myanmar's national security adviser, Thaug Tun, said "the situation in Maungdaw is extremely complex and there are no easy or quick fixes."

WORLD NEWS

Japan Shaken As a Missile Flies Over

By CHIEKO TSUNEOKA
AND PETER LANDERS

TOKYO—Across northern Japan, the alarm jolted people out of bed just after 6 a.m. local time. A North Korean missile was passing overhead, and everyone needed to take cover.

Masaru Hosen said he was sleeping at home in the little town of Hiroo on Hokkaido, the nation's northernmost main island, when a radio he keeps for disaster-prevention alerts started wailing. A siren went off outside, and his cellphone added to the clamor. Checking the phone, he saw the missile warning.

He turned on the television, and all the channels carried text on a black background about the missile.

"I had never imagined North Korea would fire a missile in the direction of our town," said Mr. Hosen, who works in the town government's planning division. "The country is scary because it's unpredictable."

Tuesday's missile launch, the first to pass over Japan's main islands since 2009, marked one of the first tests

of a national government-run warning system in Japan called J-Alert that is designed to disseminate warnings about potential disasters, both natural and man-made. The town of Hiroo distributes radios that are linked to the J-Alert system to all households, and cellphones ring an alarm when triggered by J-Alert.

Whether by loudspeaker or cellphone, the message was the same: "A missile has apparently been launched from North Korea. Please take refuge in a sturdy building or underground."

As one of the nations closest to North Korea—and a frequent target of its threats—Japan has long been aware of the danger of a missile attack. Still, the multiple alerts Tuesday drove home the point in a way that news reports of earlier launches and dress rehearsals didn't. "Now I feel we need to extensively work out what kind of measures we should take in an emergency like this," Mr. Hosen said.

Early alerts can help save lives in a flood or a tsunami by giving people a chance to escape to higher ground.



A Patriot missile-defense system, which is able to target missiles only in the final stages of descent, sits at the Defense Ministry in Tokyo.

Some people said they were less sure how useful a heads-up about a missile would be.

The J-Alert message Tuesday telling people to take shelter went out at 6:02 a.m. local time, four or five minutes after the missile's launch. Within five minutes of the alert, the missile had already flown past Japanese territory.

Joemark Narsico, a Filipino graduate student living in the city of Hakodate on Hokkaido, heard the loudspeaker mes-

sage but wasn't sure what he could do beyond staying in his apartment. He observed that most Japanese homes and small apartment buildings don't have basements. "If it really hits this city, I don't think we can hide anywhere," Mr. Narsico said.

The J-Alert system is designed to trigger warnings in areas that are at risk, and Tuesday's messages went out to areas in northern Japan mostly near the missile's trajectory.

Alarms didn't sound in Tokyo. Flying hundreds of miles above the earth's surface, the missile wasn't visible on the ground in Japan.

The warning system had some glitches. In the town of Erimo, over which the missile passed on its way to its splashdown in the Pacific Ocean, sirens were supposed to go off automatically when the town office received a J-Alert signal, but the sirens didn't work, said town official Yusuke Hasegawa. He said he

was awakened by an alert on his phone.

The J-Alert system dates to 2007. Adoption was slow initially, but the devastating March 2011 earthquake and tsunami persuaded nearly all local governments to hook up to the system.

An official at the Fire and Disaster Management Agency in Tokyo said it is up to each local government to set up loudspeakers linked to J-Alert so everyone outside can hear the warnings.

MISSILE

Continued from Page One deployment, speeding up an environmental assessment that would clear the way for temporary installation of the four remaining launchers.

The president's tougher approach was a shift from his campaign-trail calls for more economic cooperation with North Korea and a summit with Mr. Kim.

China protested and initiated punitive measures against South Korea when Thaad was partially switched on in May, and further defensive moves by Seoul and Tokyo would alter the balance in a region already roiled by the North Korean threat.

Beijing has said the Thaad radar would extend into northern China and compromise its security. Russia opposes the deployment and last week criticized possible new missile defenses in Japan.

China and Russia each hold veto power on the U.N. Security Council and could obstruct any U.S.-led effort to impose new penalties on Pyongyang.

China—North Korea's primary ally—has never used its veto in the Security Council on a North Korea-related resolution, but has generally been a restraining power, curbing tougher measures that the U.S. and its allies have sought.

On Tuesday, a Chinese Foreign Ministry spokeswoman talked about a "tipping point" in the crisis as she urged calm.

She said sanctions against Pyongyang and other forms of pressure "can't fundamentally solve the issue," and reiterated Beijing's calls for a return to peace talks.

North Korea "remains unshakable in its stand not to put its nuclear deterrent on



Hours after North Korea's launch, South Korea simulated a bombing raid on 'the enemy's leadership.'

'All Options' Open, Trump Warns

WASHINGTON—President Donald Trump said North Korea displayed "contempt" for its neighbors and for the world by firing a ballistic missile over Japan on Tuesday, and said "all options are on the table" in dealing with the threat.

"The world has received North Korea's latest message loud and clear: this regime has signaled its contempt for its neighbors, for all members of the United Nations, and for minimum standards of accept-

able international behavior," Mr. Trump said in a statement released by the White House.

The White House also confirmed that Mr. Trump spoke with Prime Minister Shinzo Abe of Japan, and they agreed that North Korea poses a "grave and growing direct threat" to the U.S., Japan, South Korea, and countries around the world.

Messrs. Trump and Abe committed to increasing pressure on North Korea, and to urging the international community to do the same, according to the White House.

Mr. Trump's statement omitted the administration's

earlier praise for apparent North Korean "restraint," with Tuesday's launch coming three days after a series of shorter-range missile launches.

"Threatening and destabilizing actions only increase the North Korean regime's isolation in the region and among all nations of the world," Mr. Trump said. "All options are on the table."

The United Nations Security Council scheduled a closed emergency consultation session for Tuesday afternoon to discuss the firing of the missile over Japan.

—Michael C. Bender and Farnaz Fassihi

"I would expect [South Korea] will continue to push the range and payload limits and conduct more testing, but this may only provoke further North Korean missile testing and exacerbate the current tit-for-tat cycle of escalation," said Daryl Kimball, executive director of the Arms Control

Association in Washington.

These missiles also risk further angering Beijing, since they can reach into Chinese territory and, unlike Thaad, would have an explicitly offensive capability.

South Korea's defense minister moved up a trip to Washington on Tuesday, according to a spokeswoman for the presidential Blue House. The vice foreign minister was already there to discuss North Korea.

Japanese Foreign Minister Taro Kono said on Tuesday that Tokyo would put various options up for discussion at the U.N. to increase pressure on North Korea. He didn't provide specifics.

U.S. Ambassador to the U.N. Nikki Haley said North Korea had "violated every single U.N. Security Council resolution." "We are going to talk about what else is left to do. Something serious has to happen," Ms. Haley said.

The most muscular response could be the reintroduction by the U.S. of strategic assets to South Korea, which typically refers to stealth bombers, aircraft carriers or possibly nuclear weapons.

The deployment of strategic assets was one option mentioned by U.S. national security adviser H.R. McMaster on a phone call early Tuesday with his South Korean counterpart, according to a statement from South Korea's presidential office. The statement didn't elaborate on what assets were being considered. The U.S. withdrew its last nuclear weapons—bombs and missiles—from South Korea in 1991.

South Korean intelligence officers said the launch appeared intended to demonstrate the feasibility of Pyongyang's recent threat against the U.S. Pacific territory of Guam, according to a staff member in the office of lawmaker Kim Byung-kee who at-

tended a closed-door briefing Tuesday in Seoul.

Intelligence officials said they believed the missile launch was also meant to show that North Korea could hit Tokyo and other Japanese cities, the staff member said.

Mr. Kono, the Japanese foreign minister, said North Korea may have opted to fire the missile over northern Japan rather than risk a response from the U.S. if it had launched it in a southerly direction over Japan, toward Guam.

Japan operates Patriot missile-defense systems on land, which are able to target missiles in the final stages of descent. The Aegis system, produced by Lockheed Martin Corp., can shoot down missiles at higher altitudes. Japan has four naval destroyers equipped with Aegis.

One Aegis Ashore unit would cost around ¥80 billion (\$730 million) and would need U.S. government approval for the sale. The Japanese cabinet would also need to approve the funds.

Japan has seven Patriot PAC-3 missile defense batteries on land-based mobile launchers, which can be used to shoot down ballistic missiles shortly before they land, or below about 10 kilometers in altitude.

Four batteries were recently deployed to western Japan when North Korea threatened to fire a missile over the region on the way to Guam. The launchers are typically deployed in sensitive locations, such as central Tokyo. The Patriot system wouldn't have been able to shoot down North Korea's latest missile because it traveled at a high altitude over Japan and landed far out to sea.

—Kwanwoo Jun in Seoul, Wayne Ma and Jeremy Page in Beijing and Farnaz Fassihi at the U.N. contributed to this article.

WORLD WATCH

INDIA

Economists See Rise In Quarterly Growth

India's economic growth likely accelerated last quarter as the return of the cash that had been sucked out of Asia's third-largest economy reinvigorated demand.

Gross domestic product likely expanded 6.6% from a year earlier in the three months ended June 30, according to the median estimate from a poll of 14 economists by The Wall Street Journal.

That compares with a 6.1% expansion in the previous quarter, which was the slowest growth in two years. The data are due Thursday.

A result in line with expectations would mean India will have ceded its title as world's

fastest-growing large economy to China for the second straight quarter. China's economy expanded 6.9% in the past two quarters.

New Delhi's move in November to withdraw 86% of the currency in circulation to dredge up cash stashed illegally hurt demand early this year.

The central bank has been printing new bills to return the amount of cash in the economy to normal levels.

A spending rise in government 27% helped power growth during the quarter, particularly in the public administration and defense sectors.

However growth likely slowed in June because of confusion over new tax rates and procedures under the Goods and Services Tax regime rolled out from July 1.

—Anant Vijay Kala

AFGHANISTAN

At Least Five Killed In Kabul Bombing

A suicide bombing in a busy commercial area in Kabul near a string of banks and not far from the U.S. Embassy killed at least five people on Tuesday, Afghan officials said. The Taliban claimed responsibility for the attack.

Elsewhere, at least 13 civilians were killed in an overnight airstrike by the Afghan air force that targeted the Taliban in western Herat province.

In the Kabul attack, the explosion likely targeted a branch of the privately owned Kabul Bank, according to Basir Mujahid, spokesman for the Kabul police chief.

At the site of the blast, debris and twisted metal lay scattered on the pavement. The front side of the bank was com-



An Afghan soldier inspected the premises of a Kabul bank after a suicide bomb attack on Tuesday that left at least 5 people dead.

pletely shattered and there was much damage to the fronts of several adjacent businesses.

Along with the five killed, the attack also wounded nine, said Mohammad Salim Rasouli, chief of Kabul hospitals at the Health Ministry. He warned that those were only initial reports and that

the casualty toll could rise further.

The Taliban often target banks, especially at the end of the month when civil servants and military personnel line up to receive their salaries, or ahead of major Muslim holidays.

—Associated Press

SOUTH KOREA

Seoul Set to Increase Spending Next Year

South Korea plans to boost government spending next year to fulfill left-leaning President Moon Jae-in's policy agenda, underpinned by an expected increase in tax revenue.

The national budget plan announced by the Ministry of Strategy and Finance calls for a 7.1% rise in total spending for 2018 to 429 trillion won (\$380 billion), up from a 3.7% increase this year.

The budget plan reflects the Moon administration's pledge to keep its fiscal policy "expansionary" in the coming year to help finance its agenda to create public-sector jobs, expand social welfare for the public and boost household incomes.

—Kwanwoo Jun

U.S. NEWS

Trump Told of Moscow Deal

Lawyer said he discussed project on three occasions during presidential campaign

By **REBECCA BALLHAUS**

Michael Cohen, an attorney for the Trump Organization, discussed a prospective real-estate deal in Moscow with Donald Trump on three occasions during the presidential campaign, Mr. Cohen said in an interview with The Wall Street Journal.

In 2015, Mr. Cohen said, he informed the then-candidate that he was working on a licensing deal for a Trump Tower in Moscow. He subsequently asked for and received Mr. Trump's signature on a nonbinding letter of intent for the project in October 2015. And in January 2016, he said, he informed the then-candidate that he had killed the proposal. Mr. Cohen said each conversation was brief.

Mr. Cohen's communication with the president about the Moscow project may come under scrutiny because of a January 2016 email Mr. Cohen sent to Russian President Vladimir Putin's top press official to ask for "assistance" in arranging the deal. Mr. Cohen said he didn't inform Mr. Trump that he had sent the email to the press official, Dmitry Peskov. He didn't respond when asked why he hadn't done so.

In the email to Mr. Peskov, Mr. Cohen said communication between the Trump Organization and a Russia-based company that was the prospective developer of the tower had "stalled" and said, "As this project is too important, I am hereby requesting your assistance. I respectfully request someone, preferably you, contact me so that I might discuss the specifics as well as arranging meetings with the appropri-



Michael Cohen, an attorney for President Donald Trump at Trump Tower in New York in December.

ate individuals." The email was sent to a broader press email address but was addressed to Mr. Peskov, according to a person familiar with the email.

The email was reported by the Washington Post on Monday and was confirmed by a person familiar with the exchange.

Mr. Cohen said in the Journal interview that he didn't recall receiving a response from Mr. Peskov and opted to abandon the project weeks later. Mr. Peskov didn't return a request to comment. The White House declined to comment and referred questions to Mr. Cohen's attorney, who didn't respond to requests to comment.

Trump associates' contacts with Russian officials have come under scrutiny as special counsel Robert Mueller investigates Moscow's efforts to interfere with the U.S. presidential election, as well as whether Trump associates colluded in

that effort. Mr. Trump has denied any collusion, and Moscow has denied U.S. intelligence agencies' assessment that Russia interfered in the election.

According to a January report from U.S. intelligence agencies, Russia's interference was directed at the highest levels of its government. Its tactics included hacking state election systems; infiltrating and leaking information from party committees; and disseminating through social media and other outlets negative stories about Democratic nominee Hillary Clinton and positive ones about Mr. Trump, the report said.

Mr. Trump's awareness of his company's efforts to procure a business deal in Moscow, as described by Mr. Cohen, came during the campaign when he often praised Mr. Putin.

In December 2015, while his company was still pursuing the Moscow Trump Tower

deal, Mr. Trump in an NBC interview compared Mr. Putin more favorably to then-President Barack Obama. "He's running his country and at least he's a leader, unlike what we have in this country," Mr. Trump said of Mr. Putin.

Mr. Trump repeatedly denied any business ties to Russia, saying at a news conference in July 2016, "I have nothing to do with Russia."

A spokesman for the Trump Organization said in a statement that Mr. Cohen abandoned the Moscow proposal in January 2016 and said the prospective deal "was not significantly advanced (i.e., there was no site, no financing, and no development)."

The Trump Organization on Monday turned both email exchanges over to the House Intelligence Committee, which is investigating the alleged Russian election meddling, a person familiar with the move said.

GOP Weighs Next Move on Taxes

By **RICHARD RUBIN**

WASHINGTON—President Donald Trump dives back into the tax debate on Wednesday with a Missouri speech aimed at emphasizing the need for major changes as Republicans try to figure out what they want to do and how to proceed.

When Congress returns from its August recess next week, lawmakers will have a long list of nontax items to resolve that will occupy their time and attention for weeks, from the federal debt limit to hurricane relief efforts. In the background, they will set the parameters for the tax debate with the goal of racking up a major legislative victory before year's end.

The summer collapse of health care legislation puts even more pressure on Republican tax writers to give lawmakers something to campaign on in 2018.

Although Republicans generally agree on lower tax rates, they're not sure yet how low they can go, what breaks would go away and whether their plan would reduce government revenue or be "revenue neutral." Mr. Trump himself sometimes talks about "tax reform"—which typically means a combination of cuts in rates, the elimination of breaks and creation of new revenue raisers—and other times mentions "tax cuts," meaning just a reduction in rates.

The "reform" that Republicans have talked about for years is much tougher politically than tax cuts because it would require crossing some business interests and eliminating deductions that some Republicans would prefer to keep. Tax cuts, meanwhile, would be constrained by Senate rules that limit the ability of Republicans to increase

budget deficits and by lawmakers' appetite for fiscal conservatism.

The resulting bill may end up looking more like a tax cut, said David McIntosh, president of the Club for Growth, an advocacy group that backs lower taxes. "There's a real consensus among Republicans that they need to get a tax-cut bill through," Mr. McIntosh said. "A positive for the tax cuts is the donor base is very strongly in favor of it. That will help leadership get the votes it needs in the House and the Senate."

Treasury Secretary Steven Mnuchin and White House economic policy chief Gary Cohn have met for months with congressional leaders and released a bare-bones framework in July that ditched the House GOP's border-adjustment plan for taxing imports and exports, which would have raised revenue to help pay for deep cuts in corporate tax rates. Going forward, the administration is ceding many of the details to Congress and having the president make the public case for whatever plan emerges.

For now, Republican lawmakers are pursuing a revamp of the corporate and individual tax systems. It may take months before they determine whether the arithmetic and politics of a revenue-neutral tax bill can work before deciding whether to switch to a tax-cut bill.

"They'll have a really strategic decision to make at some point in November," said John Gimigliano of KPMG LLP, a former GOP aide at the House Ways and Means Committee. "We could continue to try this and we may not succeed at all and get nothing this year. Or we can shift from tax reform to tax relief and do what we can."

Police To Regain Military Equipment

By **ARUNA VISWANATHA**

President Donald Trump reinstated the ability of local police agencies to receive surplus military equipment, including grenade launchers and large-caliber weapons, reversing a ban the Obama administration implemented after protests over police tactics in Ferguson, Mo.

Attorney General Jeff Sessions, who has overturned a series of Obama-era directives opposed by many police departments, announced the change in a speech before the National Fraternal Order of Police, the nation's largest police union.

"We will not put superficial concerns above public safety," Mr. Sessions told police officers in Nashville, Tenn.

The executive order, Mr. Sessions said, "will ensure that you can get the lifesaving gear that you need to do your job and send a strong message that we will not allow criminal activity, violence and lawlessness to become the new normal."

Monday's directive rescinded a 2015 executive order by former President Barack Obama that barred police agencies from getting tank-like armored vehicles and other equipment from the military and imposed stricter controls on other products, including unmanned aerial vehicles and riot gear.

That ban was prompted by images of officers using such equipment at protests in Ferguson in the aftermath of the 2014 shooting death by an officer of an unarmed 18-year-old black man, Michael Brown.

Civil-rights activists said having military vehicles and similar equipment in local communities suggests a police force at war with residents.

"When the federal government is putting weapons of war in our communities, there needs to be some accountability," said American Civil Liberties Union Legislative Counsel Kanya Bennett.

U.S. WATCH

MILITARY

Groups Challenge Transgender Ban

Civil-liberties groups filed two lawsuits challenging President Donald Trump's ban on transgender service members openly serving in the military, saying the prohibitions are unconstitutional.

The American Civil Liberties Union of Maryland filed suit on behalf of six current transgender service members. Lambda Legal and OutServe-SLDN filed a suit in Seattle on behalf of a serving transgender person, two who wish to serve and two advocacy groups.

Both lawsuits list President Trump and Secretary of Defense Jim Mattis among the defendants. The service members listed in the ACLU suit informed the military that they were transgender after President Barack Obama last year lifted a longstanding ban with an "open service" order.

"Without input from the Department of Defense and Joint Chiefs of Staff, and without any deliberative process, President Trump cast aside the rigorous, evidence-based policy of the open service directive, and replaced it with discredited myths

and stereotypes, uninformed speculation, and animus against people who are transgender," the ACLU lawsuit states.

Army Col. Rob Manning, a Pentagon spokesman, declined to comment on the lawsuits.

Critics of allowing transgender service members said they don't believe the military should pay what they consider high costs of medical treatment. An independent study concluded such medical costs could reach \$8.4 million annually.

—Nancy A. Youssef

ECONOMY

Consumer Confidence Increased in August

A measure of U.S. consumer confidence rose in August to the second-highest reading since late 2000, a positive sign for growth in consumption in the coming months. The Conference Board on Tuesday said its index of U.S. consumer confidence rose to 122.9 in August from a revised July figure of 120.

The index in March hit 124.9, its highest level since December 2000. It has remained at high levels despite sliding downward in recent months.

"With households unusually upbeat about their current and future prospects there is every reason to expect consumption growth to remain relatively rapid in the coming quarters," said Michael Pearce of Capital Economics in a note to clients.

The rise in confidence was primarily driven by an increase in the present-situation index, which rose to 151.2 in August from a month earlier. The expectations index increased slightly to 104 from 103.

"Consumers' short-term expectations were relatively flat, though still optimistic, suggesting that they do not anticipate an acceleration in the pace of economic activity in the months ahead," said Lynn Franco, the Conference Board's director of economic indicators.

Consumers' assessment of the labor market was also more upbeat. Those stating jobs are "plentiful" rose to 35.4% in August from 33.2% in July, while those claiming jobs are "hard to get" decreased to 17.3% from 18.7%.

The University of Michigan said the preliminary reading of its consumer-sentiment index was 97.6 in August, up from 93.4 in July.

—Sarah Chaney



Treasury Secretary Steven Mnuchin, right, and economic policy chief Gary Cohn have met for months with congressional leaders

Court Hears Case on Enforcing Travel Ban

By **JOE PALAZZOLO**

The Ninth U.S. Circuit Court of Appeals heard arguments on whether President Donald Trump's administration should be able to enforce its travel ban against extended family of U.S. residents.

The lower courts have been wrestling with enforcement of the ban, which suspended the admission of refugees and blocked travel from six predominantly Muslim countries. The Supreme Court in June partially lifted orders blocking the policy but barred the Trump administration from applying the ban to foreigners who have a "close familial relationship" with a U.S. resident or "formal, documented" ties to a U.S. entity, such as a university.

The Ninth Circuit arguments were an offshoot of the Supreme Court's review of the travel ban. The justices are scheduled to hear arguments in October in what could be the most closely watched case of the term. Monday's hearing in the Ninth Circuit, sitting in Seattle, was meant to determine how to enforce the ban until then.

Lawyers for the Trump administration argued that a "close relative" should only include parents, children, siblings and in-laws.

Lawyers for Hawaii and an imam in the state, who are challenging the travel ban, argued for a broader definition that included cousins, nieces, nephews, aunts, uncles, grandparents and grandchildren. The three Ninth Circuit judges, all appointees of President Bill

Clinton, seemed to prefer the more inclusive version.

"How can the government take the position that a grand-mother or a grandfather or an aunt or an uncle of a child in the U.S. does not have a close familial relationship?" Judge Ronald Gould, asked the government lawyer, Hashim Mooppan.

Mr. Mooppan said the administration drew from federal immigration law, which defines "immediate relatives" as children, spouses and parents of U.S. citizens.

A judge questioned the difference between a grandparent and a mother-in-law.

Colleen Sinzduk, a lawyer at Hogan Lovells US LLP who represents Hawaii, said her team grabbed its broader definition from past Supreme Court decisions. "This isn't language plucked out of nowhere," she said, adding that in two cases the high court described close family relationships as including grandparents, nieces, nephews and cousins.

Judge Richard Paez wanted to know what was "significantly different between a grandparent and a mother-in-law?"

Mr. Mooppan explained that in marriage, "your spouse's family becomes your family"—one step removed from the "family unit," unlike grandparents, who are two leaps away.



Protesters in New York City last month rally against the ban on transgender troops in the military.

TEXAS BATTLES FLOODING



Gretchen Shuey, above, used her savings and community donations after flood insurance covered far less than the cost to reopen her cafe in Ellicott City, Md., after a freak rainstorm last year. Below, damage from Harvey at a shopping area in Houston.



INSURE

Continued from Page One

and other contents fell more than \$200,000 short of losses at the turbine business. The policy didn't cover any losses related to being closed.

The need for flood insurance that works for businesses is more dire because devastating storms are hitting the U.S. with increasing frequency.

Twenty storms causing a billion dollars or more in damage have taken place since 2010, not including Hurricane Harvey, compared with nine billion-dollar floods in the full decade of the 1980s, according to inflation-adjusted estimates from the National Oceanic and Atmospheric Administration.

Seven have hit just since 2016, including October's Hurricane Matthew and February's California flooding. A preliminary estimate on Tuesday by Moody's Analytics is that Harvey will cause up to \$75 billion in damages, with up to \$25 billion of that in damages to businesses and lost economic output.

Less-severe flooding in monitored coastal towns has risen an average of 30% over the past five years and 150% over the past 20, said William Sweet, an expert on rising sea levels at NOAA.

About 20% of NFIP claims between 2006 and 2015 came from outside areas considered high risk for flooding, the Federal Emergency Management Agency, which manages the flood insurance program, told Congress this year.

Businesses can have some losses offset by community funds and other programs.

A FEMA advisory committee said in a 2015 report that increased development in floodplains, sea level changes and changing climate patterns have resulted in greater flood damages.

Freak Storm, Big Bill

When a freak storm dumped a torrent of rain on Ellicott City, Md., last summer, more than 5 feet of water swept through the Bean Hollow cafe, destroying a coffee roaster, brewers, grinders and espresso machines.

Floodwaters burst through one wall, damaged joists under the building and gutted the electrical wiring and plumbing.

Owner Gretchen Shuey closed for more than eight months to rebuild, spending

\$250,000 and losing potential revenue of \$450,000.

Her federal flood insurance payout was \$109,000. She said she was barely able to reopen and had to depend on personal savings and donations from the community. She turned to Medicaid for her children's health care.

Ms. Shuey's private insurance for other calamities would have covered her lost business if fire or a tornado had hit her coffee bar and roaster in Ellicott City's historic district. "If I had burned down, I would have had income for the last 8½ months," she said.

Congress is supposed to reauthorize funding for the program's next five years by Sept. 30. A Senate bill introduced this year would direct the flood program to study adding business-interruption coverage.

A separate House bill would make flood insurance optional for businesses that are required to purchase coverage because of their location in federally designated flood zones. A temporary reauthorization of three to six months is possible, according to industry lobbyists, who say Harvey puts additional pressure on Congress to make sure the program doesn't lapse.

FEMA is working with Congress to determine whether additional coverage should be added, said Roy Wright, deputy associate administrator for insurance and mitigation at the agency.

Small businesses are a tiny part of the program, but "local economies would be able to recover more quickly" if more firms had coverage, he said.

In part because of the inadequate products on the market, nonresidential businesses account for just 1% of the NFIP's 5.1 million policies; their \$19.1 billion in insured flood losses are a small part of the program's total \$1.24 trillion in coverage.

Businesses are required to get flood insurance by some mortgage lenders when they are located in areas the federal government has determined to be high flood risk.

The considerable cost and a misunderstanding of potential risks deter most small companies from buying flood coverage if it isn't legally required.

Private insurers largely abandoned the flood insurance market following the Great Mississippi River Flood of 1927, one of the worst natural disasters in U.S. history. Flooding inundated 70 coun-

ties in seven states, according to government estimates. Damages totaled \$1 billion, or about one-third of the federal budget at the time and the equivalent of about \$14 billion in today's dollars.

For comparison, NOAA estimates damage from 2005's Hurricane Katrina, the costliest U.S. natural disaster, to be \$160 billion in 2017 dollars.

Over the years, big businesses could acquire flood insurance through customized packages built to cover their commercial insurance needs, but homeowners and most mom-and-pop companies were left uncovered.

'Only Game in Town'

In 1968, Congress created the federal flood program in an effort to stem the rising cost of providing emergency aid through special disaster relief programs and to encourage sound land use.

Flood policies were designed to provide basic coverage to help homeowners and

businesses get back on their feet. Insurers say policies haven't kept up with overall advances in the industry.

"The policy language hasn't evolved much from the late 1970s and early 1980s," said Don Griffin, a vice president with the Property Casualty Insurers Association of America, a trade group. He said that since the federal government program is "the only game in town," there is little competitive pressure forcing it to improve the product.

Private insurers have been largely unwilling to write flood insurance because of the catastrophic nature of flooding, the difficulty of adequately predicting risk, and the fear that only those at the greatest risk would buy coverage.

Before Hurricane Harvey hit, Mr. Pontez, the Houston business owner, called the flood program "antiquated and in desperate need of revision."

Nearly 40% of holders of nonresidential policies opted for the maximum building coverage in 2016, according to FEMA, up from 20% in 2000.

"The trend is pretty dra-

The need for flood insurance is more dire because of increasing frequency of storms.

matic," said Erwann Michel-Kerjan of the Organization for Economic Cooperation and Development Board on Financial Management of Catastrophes. "We interpret that as essentially demand for more insurance."

William Wilder purchased the maximum building and contents coverage for his Piggy Wiggly supermarket in Kinston, N.C. But when Hurricane Matthew caused the Neuse River to flood last year, sending 2½ feet of water through his store, losses totaled about \$1.5 million. The maximum coverage is "just not enough," he said.

Graig Cone, a developer in Cedar Rapids, Iowa, figures he lost about \$58,000 in expected revenue from two restaurants during the six days flooding shut down the local business district last September.

"I feel like there is definitely a gap that needs to be filled somehow," said Mr. Cone, who has both federal flood insurance and standard business-interruption coverage that doesn't apply in a flood.

Private insurers, who provide business-interruption coverage for other types of perils, use tools such as audits and data on local business conditions to better understand a firm's cash flow, said Rade Musulin, a vice president for the American Academy of Actuaries.

The federal flood program's approach, by contrast, focuses more on understanding the physical characteristics of buildings and local flood conditions, and is less suited to measuring business losses, he said.

The Government Accountability Office said in a 2013 report that adding business-interruption coverage could "offset the need for some government disaster relief payments," but could "further negatively impact the financial stability of the program" by increasing claims.

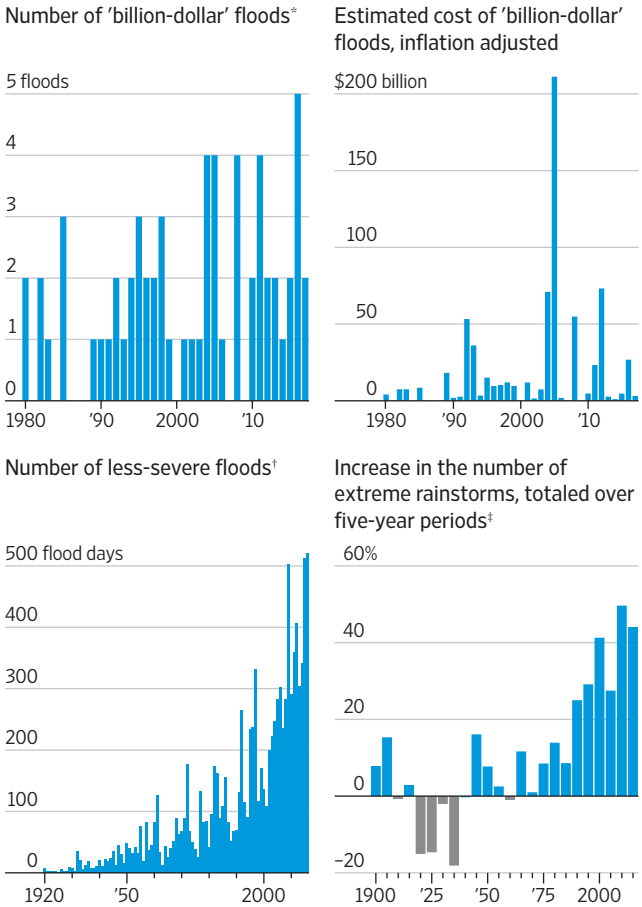
Properly pricing risk, underwriting and paying out claims can be particularly challenging, the report added.

Lost sales and productivity, which aren't covered by the federal program, and steps taken to protect properties from flooding, which are covered in a limited way, accounted for nearly 70% of the more than \$6 million in losses reported by small and midsize firms in Cedar Rapids after the flood, according to a report released by the city in February.

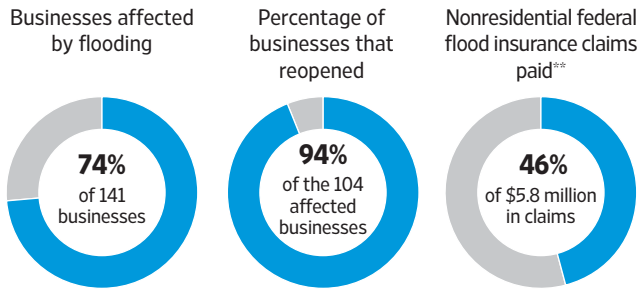
Quinton McClain, co-owner of Lion Bridge Brewing Co. in

Growing Risk

The need for businesses to carry flood insurance has increased as severe storms have hit the U.S. more frequently.



In historic Ellicott City, Md., small businesses incurred significant damages in a flood in July 2016.



*Floods with damages exceeding \$1 billion after adjusting for inflation †Days at 28 locations when high-tide water level exceeded a threshold determined locally by National Weather Service Weather Forecasting Offices ‡Storms with rainfall so severe that analysis shows they are unlikely to happen on average more than once in a five-year period **As of March 31

Sources: National Oceanic and Atmospheric Administration (billion-dollar floods); William Sweet, NOAA (less-severe floods); Kenneth E. Kunkel, North Carolina State University (extreme rainfall); Howard County Government, Howard County Economic Development Authority (Ellicott City businesses); Federal Emergency Management Agency (claims)

THE WALL STREET JOURNAL.

Cedar Rapids, spent more than \$13,000 to protect his restaurant and brewery from the flooding.

His staff piled sandbags, boarded up windows and carted out furniture and kitchen equipment, and he hired plumbers to disconnect brewing equipment and plug drains.

"We were only able to claim up to \$1,000 of those expenses for flood preparation," said Mr. McClain. "It's kind of crazy, but that's the way it works."

Small businesses also felt coverage gaps in the case of Superstorm Sandy, which caused an estimated total of \$70.2 billion in damage mostly along the Atlantic Coast in 2012, according to NOAA.

More than half of small businesses in New York, New Jersey and Connecticut that had flood insurance and suffered damages received no insurance payout, according to a 2016 study by the University of Pennsylvania's Wharton School and the Federal Reserve Bank of New York. An additional 31% recouped only some of their losses, the study said.

Among those receiving no payout, 60% suffered a loss of customers, while 20% were hit by utility outages, according to an analysis conducted for The Wall Street Journal by the study's lead author, Benjamin Collier.

Overall, businesses were more than twice as likely to have suffered customer losses than physical damage.

"People were insured for different losses than what Sandy created," said Mr. Collier, now an assistant professor at Temple University's Fox School of Business.

Russell Rhodes, chief executive of Neuse Sport Shop in Kinston said his flood losses "were significantly higher" than the maximum covered by the federal government.

Mr. Rhodes had shopped for additional private flood insurance for his sporting-goods store, but he said policies were "completely unaffordable."

He also looked at business-interruption coverage for flooding, but insurers offered to pay claims only if the store had been closed for 30 days. "I would have been paid nothing," said Mr. Rhodes, whose store was closed for 20 days after the hurricane.

"The private sector is putting its toe in the water" in "a very nascent private market,"

Unaffordable Policy

said Charles Symington Jr., senior vice president at the Independent Insurance Agents & Brokers of America, a Washington, D.C.-based trade group. Advances in flood mapping and analytics now make it possible to measure risk more accurately, he said.

But low prices of the federal program make it difficult for the private market to develop, he said.

Rates are subsidized for some properties to encourage participation in the federal program. Congress began phasing out subsidies for businesses in 2016.

Private insurers also face higher costs for capital and must build large reserves to cover potential payouts, and, unlike the federal program, they face demands to make profits.

Until 2004, the federal flood program collected enough in premiums to cover most claims. It fell deeply into debt following Hurricane Katrina, when it paid out \$16.3 billion. It added to losses after Hurricane Ike, in 2008, and Superstorm Sandy, and currently owes the U.S. Treasury \$24.6 billion.

The federal government hasn't yet calculated the potential financial impact on the flood-insurance program of Harvey.

The flood program has roughly 444,000 flood policies in potentially affected counties in Texas and more than 490,000 in Louisiana, a FEMA spokeswoman said.

Those facing the greatest flood risk are more likely to take part in the government program, making it harder to balance risk and keep prices affordable by having a pool of customers who are less likely to make claims.

The federal program doesn't have the flexibility of a private insurer to reject customers who are too risky.

For Ms. Shuey, the coffee bar owner in Ellicott City, community support proved crucial to getting back on her feet. She said customers built cabinets free of charge and donated countertop granite, flooring, plumbing fixtures or cash. "A good 40% of our costs were probably covered by donations," she said.

The outpouring helped persuade her to reopen at the same site on Main Street, a district that helps anchor the community.

"It was important to them and to us," she said. Still, she added, "I can't buy insurance to protect myself. It doesn't exist."

TEXAS BATTLES FLOODING

Widespread Destruction Tests U.S. Shale

Storm has shut major portion of Texas output, cutting off as much as 15% of U.S. oil supplies

HOUSTON—Tropical Storm Harvey, the most powerful storm to hit Texas in half a century, has shut a significant portion of the state's shale production, cutting off as much as 15% of U.S. oil supplies.

By Lynn Cook,
Bradley Olson
and Alison Sider

Now, in what is the first major storm to test U.S. shale, the big question is how quickly the sector can make a comeback.

Before Harvey made landfall as a hurricane Friday, many big shale producers in the Eagle Ford shale fields near Corpus Christi, Texas, shut down their oil and gas wells, and initial estimates for lost production were between 400,000 and 500,000 barrels a day.

As the hurricane's widespread devastation has become clearer, several analysts say it is almost certain that much, if not most, of the region's 1.4 million barrels a day of output is shut down.

Shale producers also rely on a vast, multibillion-dollar network of energy infrastructure—from ports to train tracks to pipelines—that has developed in recent years along the Texas coast. Many pieces of that network appear to be swamped too. U.S. oil prices fell more than 2.5% Monday to \$46.57 a barrel, largely because so many refin-



Shale producers rely on a vast, multibillion-dollar network of energy infrastructure that has developed along the Texas coast.

the region's oil production has been halted.

ConocoPhillips, one of the biggest producers in the area, shut its wells ahead of the hurricane. The company normally pumps 130,000 barrels a day in the Eagle Ford. As of Monday, it wasn't producing oil but said it hoped to restart in some areas.

Other big producers in the area, including EOG Resources Inc. and Chesapeake Energy Corp., stopped fracking, curbed production or suspended operations completely, analysts said. EOG wouldn't quantify how much of its production is shut down, but the company said it is working to resume operations "where it is safe to do so."

Chesapeake said that "while it is premature to speculate on the ultimate impact to our production, we anticipate volumes will be restrained until Gulf Coast and Houston refineries are back online."

Restarting wells may not guarantee that they flow at the same rate as before the storm, said Tony Sanchez, chairman of Eagle Ford operator Sanchez Energy Corp., in an interview before the storm.

While Mr. Sanchez said he didn't expect the outages to be too extensive or last too long, he said that on a technical level he fears that shale wells, once shut off, could lose pressure. "It's not just a matter of flipping a switch," he said. "There is significant risk in those wells not coming back to previous levels."

The oil also needs a home. Nearly 15% of U.S. refining capacity is closed in the wake of the storm, which means those plants aren't buying crude.

Federal, Local Relief Efforts Lauded

By MICHAEL C. BENDER

President Donald Trump praised the response to Tropical Storm Harvey on Tuesday, saying federal and local officials have become "a real team" as life-saving missions continue amid poor weather in southeast Texas.

"We want to do it better than ever before," Mr. Trump said about the relief efforts. "We want to be looked at in five years, 10 years from now, as this is the way to do it."

Mr. Trump made his remarks from an impromptu meeting room inside a firehouse in Corpus Christi, a Gulf Coast city about 200 miles southwest of Houston, where he received a briefing on relief efforts from local officials and nonprofit groups.

Brock Long, the Federal

Emergency Management Agency administrator, told the president the situation was still dire and the priority remained rescuing Texans from the flood.

Discussing the Houston convention center, which is sheltering residents, Mr. Long said: "This is not the Superdome." He was referencing the dangerous conditions that developed at that facility after Hurricane Katrina struck New Orleans in 2005.

Mr. Trump told Mr. Long he has become "very famous on television" in the wake of the storm, and praised FEMA's work with local officials.

"You have been just outstanding," Mr. Trump told Mr. Long. "And I can tell you that my folks are telling me how great your representatives have been in working to-

gether. It's a real team."

After arriving in Corpus Christi, the presidential motorcade passed broken trees, knocked down signs and fences askew. "No one has ever seen anything like this," Mr. Trump said about the storm. While he praised his cabinet and local officials, he warned that he "won't say congratulations."

"We'll congratulate each other when it's all finished," he said.

Later Tuesday afternoon, the president was scheduled to visit Austin, the state's capital city, where he will tour the local emergency operations center and receive a briefing from state officials.

The president boarded Air Force One on Tuesday morning with his wife, Melania. White House Chief of Staff

John Kelly, Deputy Chiefs of Staff Joe Hagin and Dina Powell, Ms. Sanders and Marc Short, the president's legislative-affairs director, also traveled with the president.

Mr. Trump was also joined by Health and Human Services Secretary Tom Price, Housing and Urban Development Secretary Ben Carson, Small Business Administrator Linda McMahon and acting Secretary of Homeland Security Elaine Duke.

On Monday, Mr. Trump said he expects Texas to recover fully from Harvey and anticipated that "you're going to see very rapid action from Congress" in the form of disaster relief funds.

"We think you're going to have what you need and it's going to go fast," Mr. Trump said at a news conference.

HARVEY

Continued from Page One

ued overnight and into Tuesday, with thousands packing evacuation centers across the city. Houston Police Chief Art Acevedo said his officers had performed more than 3,500 rescues and expected to continue with rescue missions for at least two more days before the city shifts to a recovery mode.

Houston authorities confirmed on Tuesday that 34-year-veteran police officer, Sgt. Steve Perez, drowned to death on Sunday. He was noticed missing on Monday when he wasn't present for a roll call, triggering a search, and a dive team found him Tuesday morning.

Intense rains pounded the south and east of Houston. Officials in Brazoria County said the levee at Columbia lakes had breached and urged residents to flee the area. Police earlier had gone door-to-door in the community surrounding the lakes, about 65 miles south of Houston, and told residents to evacuate, officials said.

In Baytown, nearly 30 miles east of Houston, water was rising quickly Tuesday. Dozens of people asked for rescues on Twitter and local officials said an evacuation order hadn't been issued but emergency responders were on the way.

The number of people housed at the George R. Brown Convention Center had swelled to 9,000 people, according to officials who previously had said its capacity was 5,000 people.

Houston Mayor Sylvester Turner said the city planned to open an additional two to three large shelters as thousands more evacuees showed up at the already opened shelters. The city has asked for an additional 10,000 cots and other supplies from the Federal Emergency Management Agency, Mr. Turner said during a news conference Tuesday morning.

The death toll remains unclear. On Monday evening, Mr. Turner said three deaths in Houston had occurred during the storm but he couldn't confirm reports that a family of six had died in their vehicle.

The Pasadena Independent School District confirmed separately that four children and two of their great-grandparents had died while trying to escape the floodwaters.

The incessant rain in the Houston area didn't let up throughout the night Monday, adding to floodwaters that have inundated the area and dumping water into already strained reservoirs that officials said Tuesday morning

would overflow for the first time ever.

The storm is forecast to slowly move inland over the northwestern Gulf Coast on Wednesday after sitting just off the coast of Texas throughout the day Tuesday and continuing to bring rain to the area.

Harvey could dump as many as another 13 inches to east Texas and west Louisiana through Friday, according to the National Weather Service, bringing totals to more than 50 inches in some places, including Houston.

The situation in Louisiana, so far spared the worst of the storm, could deteriorate later in the week as the storm moves slowly on a northeastern track. "The worst is likely to come for us here," Governor John Bel Edwards said Monday. "We do have a long way to go with this particular storm."

If the reservoirs fail, engineers have warned, the flooding would be catastrophic.

Victims Turn to Social Media for Help

By DEEPA SEETHARAMAN
AND GEORGIA WELLS

With local 911 systems choked by calls during Hurricane Harvey, many Houston residents tried going viral over Facebook Inc. and Twitter Inc., one of the widest uses of social media in a natural disaster.

Residents and their friends and relatives used social-media tools to gain assistance and call attention to sometimes life-threatening situations. Some users took the unusual step of sharing their full names and addresses across public channels like Facebook and Twitter.

Others sought to tag news outlets, journalists and other prominent individuals in their social-media posts in hopes their messages would be shared widely and eventually answered.

"People have gotten used to this idea that if you are stuck in an airport and you tweet at an airline, sometimes they will find a way to swoop down and save you when the system isn't working," Ethan Zuckerman, director of the Center for Civic Media at the Massachusetts Institute of Technology, said. "People look for anything else that might provide that salvation."

Social-media experts said the use of social-media platforms to gain attention for distress from the rising floodwater underscores the central role those platforms play in spreading and consuming in-



Arnaldo Iglesias used his phone to photograph the submerged highway interchange of Interstate 10 at Post Oak Road during a break in the rain in Houston on Sunday.

formation.

Users' reliance on social media is amplified during crises, experts said, and was compounded by the fact that emergency hotlines were jammed during the storm. Some calls to Houston's 911 operators were dropped or failed to connect. Other residents said they were losing battery power on their cell phones, making it difficult to continue calling or hang on the line for much longer.

In recent years, Facebook, Twitter and other technology platforms have allowed people to track natural disasters and acts of violence around the world with newfound speed.

In 2014, Facebook launched its safety-check tool, which al-

lows users in emergencies to mark themselves as safe on their profiles and share other information. Facebook users activated the tool on Friday, a company spokesman said in an email. As of Monday evening, users made nearly 900 requests for help and offered help in more than 2,800 posts. "Safety Check" has been activated more than 600 times over the past two years, the company said in June.

One Facebook user said there was water in her Houston apartment, and published her full address with apartment number. Another said a friend in Corpus Christi, Texas, needed baby food and formula and the power was out. The user said her friend

received help, but declined to be quoted.

Twitter's public-policy team maintains contact with government agencies around the world, including those that handle emergencies and disaster relief.

During Harvey, first responders including the U.S. Coast Guard and the Houston Police Department have urged people to call specific phone lines for disaster response, rather than use social media for help. Adrienne Russell, professor of media, technology and society at the University of Washington, said "there are privacy issues associated with all of that personal info flooding into the public in times like these."

MICHAEL WYKE/FERA/SHUTTERSTOCK

SPORTS

RUNNING

A Marathon Icon Races the Clock

60-year-old Joan Benoit Samuelson will try to become the first female sexagenarian to crack three hours in her signature race

BY MATTHEW FUTTERMAN

JOAN BENOIT SAMUELSON is 60 years old. That's 33 years removed from winning the first Olympic women's marathon in 1984, and 34 years past running a world best time for 26.2 miles and nine years after she qualified for the Olympic Trials at 50.

But her addiction to milestones has not abated.

So Benoit Samuelson is spending her summer training hard, on the Maine coast, for the Bank of America Chicago Marathon in October, where she will try to become the first female sexagenarian to crack three hours in her signature race.

Benoit Samuelson, seemingly even trimmer and fresher-faced than when she won gold in Los Angeles, describes the attempt as "a long shot." Those who have watched her set age-group records for 20 years think differently.

Regardless, Benoit Samuelson's mind is fixed on her 3-hour barrier. "It's the human body against the clock," she said in a recent interview.

Eventually, everyone loses that race, but Benoit Samuelson has forced a lot of running experts to re-examine their notions of athletic decay. What makes her different from nearly every other elite athlete is how long she has remained elite.

In all but the rarest cases, the intense training and competition that elite athletes endure leaves them limping in middle age on balky knees, replaced hips and sore backs.

Benoit Samuelson was the best-ever at 25, when she finished the 1983 Boston Marathon in 2:22:43, and again at 55, when she ran 2:50.29 in Boston in 2013, finishing about two hours before the bombs exploded at the finish line. In August, she set the U.S. record for her age group for 10,000 meters, finishing the Beach to Beacon race in Maine, an event she created, in 39:19. That translates to a 6:21 per mile pace.

Such performances have made her an icon of the sport. Earlier this year, she held the tape in Italy as Eliud Kipchoge came within 26 seconds of breaking two hours in the marathon in a Nike-produced stunt.

"What is most remarkable about Benoit is both her greatness while younger and an incredible record of longevity at the highest level," said Dr. Michael Joyner, an expert in exercise and physiology at the Mayo Clinic in Minnesota.

Joyner, who once ran a sub 2:26 marathon and is one of the world's



Joan Benoit Samuelson during her gold-medal run at the 1984 Olympics, left, and during the Quad-City Times Bix 7 in July.



L-R: RON HEFLIN/ASSOCIATED PRESS, JOHN SCHULTZ/QUAD-CITY TIMES/ZUMA PRESS

leading researchers on endurance performance, said at age 35 performance generally begins to decline a minimum of 6% per decade and then accelerates with time, especially after age 60.

Benoit Samuelson's marathon times, beginning with her personal record of 2:21:21 in 1985 on Chicago's fast and flat course, track almost perfectly with a 6% per decade decline.

She has managed that with a regimen that gives new meaning to cross-training and will be music to the ears of runners who hate the labors of quarter and half-mile speed intervals. She says she hasn't been on a track in two decades, fearing the turns will wreak havoc with an irritable "lower back and hip thing" that can aggravate the opposite knee and ankle if she compensates by altering her natural stride.

"I am playing with fire," she said of the attempt to break three hours after her joints have pounded so much pavement the past 40 years.

To prepare, Benoit Samuelson is now stretching her weekly long run to 20 miles every other week. On the other days, she runs no less than three and no more than 12 miles, varying her speed and distance depending on how she feels. She races against cars for short stretches during her runs to keep her speed sharp.

She maintains her upper-body strength partly with cross-country skiing in the winter. A typical winter day will include a morning run, downhill skiing until 1 p.m., and skiing cross-country until darkness descends. In the spring and summer, she stays toned with kayaking and working in her garden, lugging bags of topsoil and digging through the dirt to grow celery, kale, chard and every kind of lettuce she can. Staying ahead of woodchucks has proved challenging, she said.

She didn't foresee competing with herself and ticking clocks at 60, but she is a sucker for numbers and the stories they tell. She

figured she was finished after the 2008 Olympic Trials marathon. She wanted to break 2:50 at 50 and finished in 2:49.08.

The following year organizers of the New York City Marathon convinced her to use their race to celebrate the 25th anniversary of her Olympic gold medal. (Result: 2:49:09, a course record for the 50-plus division). In October 2010 she couldn't resist running Chicago on 10/10/10, 25 years after she set the American record there. (Result: 2:47:50, first woman to go sub-three hours in five separate decades.) Three weeks later she was in Athens to celebrate the 2,500th anniversary of the Battle of Marathon doing, well, you know.

In 2013, she marked her the 30th anniversary of her then best-ever time in Boston with that 55-plus best-ever time.

If Benoit Samuelson does go "sub-3" at 60, her record may stick for a good while. The current 50-and over world record holder,

Tatyana Pozdnyakova (2:31:05), is already 62. Linda Somers Smith, who set the American 50-and-over record (2:37:36) in 2012, is just 56-years-old, but she said her law practice is currently too busy to consider one-upping a legend again, as tempting as it is.

"I would have to have a change in lifestyle or retire to even consider what Joanie is doing," Somers Smith wrote in an email.

With Chicago weeks away, Benoit Samuelson is searching for the right balance between wanting to set another record and not taking the race so seriously that she over trains and wears out her legs on Maine's back roads, or goes out too hard in the first half of the race. She tends to find her rhythm as races progress, and she draws strength from passing people in the final miles as opposed to being passed. If she is under 1:28 at the halfway mark, she will be worried. "I need to run my own race," she said. "I said the exact same thing that day in L.A."

SOCCER

JOSÉ MOURINHO'S BIG REBUILDING GAMBLE

BY JOSHUA ROBINSON

Manchester, England
JOSÉ MOURINHO arrived at Manchester United last summer with the sole mission of restoring the club to greatness. United and its fans had just been through three of their worst seasons in decades, a spell that cost the team tens of millions of dollars, not to mention its old air of invincibility.

But with the Premier League more competitive than ever, Mourinho realized his team wasn't ready. So in his first year at England's most storied club, he did what no other elite manager would dare. Right in front of everyone, he openly put Manchester United through a rebuilding season.

It is paying off very quickly. Three games into this year's campaign, there is an unmistakable menace about the Red Devils. United has swaggered to three straight victories, outscoring opponents by a combined 10-0, and sits alone atop the standings. The club that hasn't finished in the top three since 2013 is now the British bookmakers' second-favorite to win the title.

"If the best needed that time, it means the others also need that time," Mourinho said last winter, recalling that even United's legendary manager Alex Ferguson got off to a rocky start.

The difference between Ferguson and Mourinho, however, is that United wasn't the global sports behemoth it is today when Ferguson took over in 1986. Back then, missing out on Champions

League qualification didn't blow a \$40 million hole in the following season's income. And Premier League managers lasted somewhat longer than the current average of 18 months.

That's why, at the top of English soccer, rebuilding years are like embarrassing rashes. People have them once in awhile, but it's best if no one brings them up. Arsenal's Arsène Wenger has been attempting to rebuild for a decade, though he never once conceded that the club was punting on a season. Chelsea and Manchester City have had similar restructuring campaigns, but their wild spending makes it too awkward to admit that they aren't hoping for immediate returns.

Mourinho had no such qualms. He settled for sixth place last season and made a gutsy call to focus on winning the second-tier Europa League instead of fighting for a top-four spot to secure a lucrative Champions League berth—and it worked.

"We didn't have many matches last season where we played 90 minutes with the control we had today," he said after a commanding 2-0 victory over Leicester City on Saturday.

That United is vastly improved after a year under Mourinho is no surprise. In every head-coaching job he has ever held—at Porto, Inter, Real Madrid and Manchester United—have all opened their vaults and Mourinho has promptly burned every penny available. By some measures, he is the highest-spending manager of all time.

Fourteen months into Mourinho's tenure in Manchester, his transfer-market tab is already \$406 million. That includes the then-world record \$130 million he spent on French midfielder Paul Pogba last summer and the \$98



ANDREW YATES/REUTERS

also proven highly volatile. At previous stops, Mourinho has alienated veteran players, accused his team of "betraying" his work, and lost the confidence of his stars. There's a reason Mourinho has never lasted longer than 3½ years at a club.

But a more tangible secret of Mourinho's signature turnarounds is the bluntest instrument in soccer: money. His employers over the past decade—Chelsea, Inter, Real Madrid and Manchester United—have all opened their vaults and Mourinho has promptly burned every penny available. By some measures, he is the highest-spending manager of all time.

Fourteen months into Mourinho's tenure in Manchester, his transfer-market tab is already \$406 million. That includes the then-world record \$130 million he spent on French midfielder Paul Pogba last summer and the \$98

million he shelled out for Belgian striker Romelu Lukaku this year.

It means that Mourinho finally has this squad where he wants it. In his first campaign, he was able to shore up the team's issues at the back and turned it into the second best defense in the league. Yet problems remained.

The club scored only 54 league goals last season, five fewer than it should have, according to the expected goals statistic, which projects results based on the quality of scoring chances.

Mourinho feels that he has already gone a long way toward fixing that. Nothing made that clearer than the fact that both of United's goals against Leicester came off the bench.

And the squad is only getting deeper. United announced last week that striker Zlatan Ibrahimovic would rejoin the club for

one more season as soon as he recovers from a knee injury.

Of course, Mourinho knows that the first three weeks of a campaign never reflect the reality of midseason—so far he has faced only one game a week with five days to dissect each opponent. Once European competition kicks off in mid-September, United will play every three or four days for at least three straight months.

If that means occasionally reverting to the more defensive style that bored United fans last season, Mourinho said, so be it. At least they know that this season, no longer a reconstruction project, holds the potential for more.

"Probably in some matches where the opponent is playing better than us, we will have to be pragmatic and realistic and defend," Mourinho said. "But in these three matches we didn't need that."

LIFE & ARTS

WORK & FAMILY | By Sue Shellenbarger

When Is it O.K. to Play Hooky?

An educational vacation might give students something school can't, but teachers don't always support such trips

AS SCHOOLS REOPEN, some parents are yielding to a timeless temptation: Playing hooky.

Five-year-old Erica Reed and her siblings Alex, 9, and Katelyn, 12, missed school in Denver on Aug. 21. Their father Scott took them on a camping trip to Halsey, Neb., to see the solar eclipse in totality. Katelyn had told her teachers she'd be absent and Mr. Reed let Erica's and Alex's teachers know, too. But he didn't ask permission.

Mr. Reed has loved astronomy since seeing Neil Armstrong walk on the Moon on his sixth birthday, he says, adding, "I want my own kids to have a similar kind of wonderment and hope" about future discoveries.

Parents often dream of traveling with their children to teach them about science, geography and culture. Many teachers support them, as the Reed children's teachers did. Other teachers bristle at the extra work such absences impose on them. Resistance from school officials is also mounting amid closer tracking of student absences.

Kim Milnes took her sons, Colin, 11, and Cooper, 8, out of school for five days in May to visit a Bigfork, Mont., dude ranch, Flathead Lake Lodge. She was happy to see the boys set aside their phones and iPads to ride horses and build makeshift forts, says Ms. Milnes, owner of Family Travel Boutique in Cherry Hill, N.J.

Ms. Milnes notified her sons' school and teachers a week in advance and had them complete homework while away. Still, she received a letter from the school after the trip, saying Colin, who had missed some additional days because of illness, needed to improve his attendance.

A 2015 federal law, the Every Student Succeeds Act, requires states to report chronic absenteeism—usually defined as being absent for any reason on 10% of school days or more, typically about 18 days a year. This marks a departure from the past practice of tracking only truancy, or unexcused absences. Some states are also using chronic absenteeism as a yardstick for measuring school quality.

British parents can be fined and prosecuted for taking their children out of school for holiday travel without advance permission from their school's head teacher.

The focus on absences is rooted in research showing that students who are absent often, for any reason—excused or unexcused—perform more poorly in school.

Teacher Amanda Grundel says she feels frustrated when parents take students out of school for family trips. If she sends homework, she finds it's often returned incomplete or incorrect, because the absent student didn't hear her



explanation in class. Ms. Grundel, English department chair at **Ponaganset High School**, a public school in North Scituate, R.I., says some students suffer anxiety as they struggle to catch up.

Some parents switch to private schools, partly to gain flexibility, but meet resistance there, too. At **Aspen Country Day School** in Aspen, Colo., the school's parent handbook "plays the guilt card—reminding parents what they're missing," including group projects, class discussions and labs, says Carolyn Hines, a school spokesperson.

Parents under age 37 plan to increase travel spending by 19% in the 12 months ending in January 2018, compared with no increase for all U.S. travelers, according to a survey of 2,900 people by MMGY Global, a Kansas City, Mo., travel-marketing agency.

Confining family travel to school breaks sharply increases the cost as popular peak-season destinations jack up their prices. Neal and Ginny Kistler of Laguna

Niguel, Calif., try to confine trips overseas with their children Conrad, 13, and Sophia, 11, to school breaks, but they often pay about 20% to 40% more, Mr. Kistler says.

Many children missed school to watch the eclipse, not always with their school's blessing.

Many parents try to book travel far ahead to take advantage of early discounts that are offered over a year in advance. But waiting for schools' annual calendars can make that difficult, says Angela Pierson, co-owner of an Amelia Island, Fla., travel agency.

Some schools issue calendars as far as three years in advance to ease planning, says Gail Pletnick, a Surprise, Ariz., superintendent and president of AASA, a national su-

perintendents' association.

Parents should check on schools' absence policies before planning travel and notify officials and teachers as early as possible. Some officials are strict in penalizing absences, but others consider them case-by-case, says Daniel Kelley, president of the National Association of Secondary School Principals. Mr. Kelley, principal at a public high school in Smithfield, R.I., says he weighs requests based on the student's attendance record, the purpose of the trip and the kinds of classes involved.

Dr. Pletnick suggests asking whether students could do activities while traveling that would meet specific learning goals a teacher has set.

When Kate Bostrom's school had to cancel plans for students to view the Aug. 21 eclipse because of problems with viewing glasses, her mother Nancy took her 9-year-old daughter out of class and met her husband Eric near her Holly Springs, N.C. office so the family

could watch the eclipse together. "It was a once-in-a-lifetime opportunity," Kate says.

Valiena and Dan Allison of Troy, Mich., give their children Garrick, 18, and Sky, 16, a say in planning their family trips to Europe, the Galapagos and elsewhere, as well as responsibility for planning homework with teachers at their private school. When Garrick asked to postpone a planned trip to Antarctica three years ago because he didn't want to miss five days of eighth grade, his parents complied.

Garrick agreed to miss five days of school for the Antarctica trip last year as a junior, however. Managing the homework was a challenge, but it helped him gain time-management skills. And the trips are worth the effort, he says, sparking his interest in international relations. "You can't really put a price on altering your world view," Garrick says. "That's what travel has done for me. It has changed how I think about things."

MY RIDE | By A.J. Baime

A CLASSIC LITTLE RED CORVETTE



Vinnie Pacifico of Massapequa, N.Y., 62, owner of wholesale meat and trucking businesses in New York City, on his 1963 Chevrolet Corvette Sting Ray, as told to A.J. Baime.

When I was 9, I had a neighbor who owned a red 1963 Corvette Sting Ray. I would watch him wash that car. I would watch him drive it down the block. Once he

gave me a ride and I was hooked.

In the 1980s, I was visiting my partner's friend's place in Colorado, and he had a 1963 Corvette Sting Ray rusting in his barn. Mice were living in it. I said, "What are you, crazy? Why don't you fix this up?" Two years later, the owner decided to sell. He was asking \$12,000—a lot of money for a

beat-up car back then. I said, "Sold." I put it on a flatbed and had it delivered. It took me 12 years to restore the car. I had it painted red, just like the 1963 Corvette I remembered as a kid.

I am in the meat business, but I have also spent years in the art world. I owned a Manhattan art gallery, and I currently have



Vinnie Pacifico sits in his 1963 Chevrolet Corvette Sting Ray, near his home in Massapequa, N.Y.

a large collection of graffiti. To me, the 1963 Corvette Sting Ray is a real example of the American art form. [Chevrolet still makes Stingrays today, but now spells them with one word.]

The 1963 model was special for many reasons. It was the first year of the second-generation Corvette, the one that really made this vehicle America's sports car. It was also the only year of the so-called "split window." A metal bone runs down the back, splitting the rear window into two sections. It truly looks like the spine of a sting ray, and because the 1963 model is the only year of the split window, it is considered today perhaps the most desirable production Corvette ever.

The car is also a blast to drive. I put disc brakes on it and I upgraded the engine for more power, but other than that, it is pretty original. When I am not driving it, I park it in my driveway, grab a chair and an iced tea, and just look at it. Some art you can hang on your walls, and some you park in your driveway. All Corvettes from the 1960s are beautiful, but the 1963 Sting Ray is the Picasso.

OPINION

REVIEW & OUTLOOK

Political Central Bankers

Janet Yellen didn’t run for President, but you wouldn’t know it from her policy *dé-marche* Friday at the Federal Reserve’s annual Jackson Hole retreat. The Fed Chair unleashed a defense of postcrisis financial regulation that shows how political the world’s central bankers have become.

“Already, for some, memories of this experience may be fading—memories of just how costly the financial crisis was and of why certain steps were taken in response,” Ms. Yellen said. She added that regulatory changes “should be modest” and retain the superstructure built under Dodd-Frank.

Ms. Yellen’s comments followed a blunter recent warning from Fed Vice Chair Stanley Fischer, who told the Financial Times that “one can understand the political dynamics of this thing, but one cannot understand why grown, intelligent people” would “reach the conclusion that” you should “get rid of all the things you have put in place in the last 10 years.” Thank you, Senator Warren, er, Fischer.

This is extraordinary. Fed officials are launching a political campaign to retain their vast discretionary control over the American financial system. The brazenness of the effort shows how far afield central bankers have roamed from their traditional remit of monetary policy, which Ms. Yellen barely mentioned. You’d think she’d focus on that duty given that the Fed faces a watershed as soon as next month as it decides whether to begin rolling back the \$4.5 trillion balance sheet it has amassed since the 2008 financial panic.

The size and scope of that balance sheet is itself a political intrusion because the Fed’s bond purchases are a form of credit allocation. The purchase of mortgage securities favors housing, while the Fed’s focus on long-duration bonds has been a deliberate attempt to push investors into riskier assets.

These decisions haven’t done much for the real economy, which has grown at a historically slow pace since the recession ended in June 2009. But the Fed has succeeded in lifting some asset prices, and no one knows what will happen to those prices once the Fed begins unwinding its portfolio. Perhaps it will all unfold without a hitch, but some very smart people aren’t as sanguine.

As for the stability of the financial system, Ms. Yellen and Mr. Fischer are at pains to assure us that, due to their efforts, all is well. “Banks are safer,” she says, thanks to capital and liquidity mandates and the wisdom of financial regulators. Oh, and “credit is available on good terms.”

Fed officials defend regulation that’s great for Goldman Sachs.

But Ms. Yellen wasn’t nearly as optimistic about lending in the later Obama years. She often fretted that tight credit conditions were limiting growth, and the facts bear out that concern. Bank lending in the current expansion has trailed that of seven previous recoveries, and lending for small business has been especially slow. None of

this is cause for Fed triumphalism. Banks are safer, but they should be after eight years of modest expansion. The real test of financial stability comes in times of economic stress, when interest rates rise or investors get nervous and rush to safer assets. The system has already had one liquidity panic, in October 2014, when the yield on U.S. Treasurys moved some 40-basis points in a day.

You have to ignore history to believe that regulators are suddenly so wise that they know the current regulatory regime will prevent the next crisis. The Fed misjudged the economy in the mid-2000s and kept feeding easy credit that produced the housing bubble. Fed officials Ben Bernanke and Tim Geithner then underestimated the financial risks in early 2008 when the stresses were already apparent.

That’s one reason to support a financial regime with high levels of capital to defend against potential losses but with less regulatory micro-managing. This is the trade-off that House Financial Services Chairman Jeb Hensarling has proposed, which contrasts with the lower capital and lower regulatory barriers that the Trump Administration seems to prefer.

This is the debate we should be having, but the Fed wants Americans to believe that Dodd-Frank is gospel and the only alternative is to return to precrisis policies. The irony is that Ms. Yellen is thus associating the Fed with the post-crisis status quo that has been splendid for Goldman Sachs and giant banks that have gained market share and can afford higher regulatory costs.

Ms. Yellen did concede that “there may be benefits to simplifying aspects of the Volcker rule” that limits propriety trading, which is the least she can do since the rule as written is more than 950 pages of text and explanation. But until she runs for public office, she and the Fed ought to stick to executing regulatory policy rather than trying to dictate it.

Ms. Yellen’s term as Fed chair expires early next year, and her Jackson Hole foray is a signal to President Trump about what he can expect if he reappoints her. The Fed needs a leader who won’t bend to political pressure. But it also needs a leader who understands the limits of the Fed’s political role.

direct confrontation. That can include violence, vandalism and other unlawful tactics. Many draw a false moral distinction between damaging private property and “corporate” property.

Antifa activists have also developed their own moral justification for suppressing free speech and assembly. As anarchists, they don’t want state censorship. But they do believe it’s the role of a

healthy civil society to make sure some ideas don’t gain currency.

So they heartily approve of the heckler’s veto, seeking to shut down speeches and rallies that they see as abhorrent. Antifa activists also search for and publicize damaging information on their targets or opponents, or launch campaigns pressuring their bosses or companies to fire those opponents.

Words don’t constitute violence, despite what Antifa activists believe. But there are dangerous ideas and practices, and the radical left has embraced several of them. Democracies solve conflict through debate, not fisticuffs. But Antifa’s protesters believe that some ideas are better fought with force, and that some people are incapable of reason.

Implicit in this view is that Antifa alone has the right to define who is racist, fascist or Nazi. It’s a guerilla twist on the culture wars, when a microaggression must be met with a macroaggression.

Antifa has also widely embraced “Black Bloc” tactics, including disguising themselves with black garb and covering their faces with bandanas and balaclavas. It’s not a good look for a supposedly antiauthoritarian group to show up in uniform, like the KKK in white hoods, much less armed with batons.

Which brings us back to Berkeley. This week-end two right-wing groups sought to hold peaceful rallies. Their leaders—Patriot Prayer’s Joey Gibson, a Japanese-American, and Amber Cummings, a transgender Trump supporter—explicitly denounced racism. Amid fears of violence, both cancelled their events. Antifa showed up anyway, outnumbering and terrorizing any right-wingers or Trump supporters who dared show their faces.

Antifa views itself as fundamentally reactionary, as a necessary opposition to corrosive ideologies. But because your foe is a really bad guy doesn’t mean you’re inherently a good one. Movements are defined not merely by what they oppose but by what they do. Antifa’s censorious criminality resembles the very political behavior it claims to fight. The mainstream left ought to denounce it as much as the right should reject white supremacists.

Steve Bannon’s Revenge



MAIN STREET
By William McGurn

When Steve Bannon phoned an editor at the American Prospect and unloaded on his White House colleagues, he effectively issued his own pink slip. His offense was particularly egregious because it came right after the president had brought in a new chief

of staff to end West Wing behavior like Mr. Bannon’s.

But on his way out Mr. Bannon said something interesting. “The Democrats,” he told Robert Kuttner, “the longer they talk about identity politics, I got ’em. I want them to talk about racism every day. If the left is focused on race and identity, and we go with economic nationalism, we can crush the Democrats.”

Mr. Bannon’s words, like President Trump’s remarks during his ill-fated post-Charlottesville press conference two weeks ago, have been interpreted as smiling on white supremacists. Even some of the president’s own top appointees have felt compelled to put space between themselves and Mr. Trump over his comments about a protest that saw a young woman who was counterprotesting fatally run down by a protester’s car.

Still, Mr. Bannon invites the question whether the spectacle of mobs targeting public statues they don’t like and suppressing the speech of those with whom they disagree really advances the Democratic cause.

Let us stipulate two points. First, Mr. Trump did attack the neo-Nazis and white nationalists in his press conference. He further called the driver who ran down 32-year-old Heather Heyer a “disgrace” and a “murderer.”

Second, the president also rambled, which contributed to his bungling any distinction he hoped to make between Nazis and KKK marchers on the one hand from any others opposed to tearing down the park’s statue of Robert E. Lee.

For Democrats, this Trump Tower press conference was an *Aha!* moment: The president is dog whistling to racists! For the press, it vindicated their abandonment of even the pretense of objectivity in all things Trump.

As for the self-styled Antifa movement, it helped justify Sunday’s effort in Berkeley to deny the First Amendment rights of yet another protesting group.

Mr. Trump was also mocked for asking whether statues of George Washington would be next on the chopping block. We now have our answer: Since Charlottesville, vandals have attacked a bust of Lincoln, a monument to Christopher Columbus and a statue of St. Junipero Serra.

Oh, yes, a Chicago pastor has asked Mayor Rahm Emanuel to take down a statue of Washington from a park because he was a slave owner.

Undoubtedly more is to come. But if Mr. Bannon is right, the anti-Trumpers behind it all might not be making the point they think.

A recent Reuters poll shows 54% of Americans want to keep the statues in place. Surely this majority doesn’t reflect any national love for the Confederacy. More likely it means that, whatever their feelings about Gen. Lee or President Trump, the American people recognize those banging on about “hate” aren’t really pushing tolerance and inclusiveness.

Which feeds Mr. Bannon’s point. In his phone call with Mr. Kuttner, he referred to the KKK, Nazi and white identity marchers as “a collection of clowns.” But he also appreciates that the anti-Trump movement isn’t

The anti-Trump response seems bent on outdoing the president’s excesses.

helped when it is revealed that the woman who toppled a Confederate statue in North Carolina is a member of the Workers World Party that backs North Korea.

Turns out Mr. Bannon has some odd bedfellows here. Take Ohio Gov. John Kasich. While blasting the president’s pardon of Sheriff Joe Arpaio on “Meet the Press” Sunday, he also suggested the Democratic Party is squandering a “golden opportunity” to win elections because Americans don’t know what Democrats stand for “other than the fact that they don’t like Donald Trump.”

Ditto for Bernie Sanders. Like Mr. Bannon, Mr. Sanders appreciates that identity politics is a loser for Democrats. He says the Democratic Party won’t stop “losing elections” until it changes direction and focuses on an *economic* agenda that speaks to American working families and the young. With all this, the received wisdom, especially after the failure of the Republican Congress to repeal Obama-Care, is that the GOP is in the midst of a collapse that may cost them their majorities in Congress come 2018.

Maybe. But it won’t be easy to find the good Democratic candidates necessary to gain the 24 seats the party needs in the House. As for the Senate, 10 Democrats are up for re-election in states that went for Mr. Trump, against only one Republican in a state carried by Hillary Clinton.

During his campaign for the presidency Mr. Trump infamously declared, “I could stand in the middle of Fifth Avenue and shoot somebody and I wouldn’t lose voters.”

If it ends up that Charlottesville doesn’t do the president any lasting damage, it won’t be because of any genius. It will be because as bad or uncouth as Mr. Trump may be, he has a knack for bringing out even worse in his opponents.

Write to mcgurn@wsj.com.

Houston, It Gets Harder From Here

By Danny Heitman

My wife and I sobbed when we saw Houston underwater. After witnessing Hurricane Katrina and last year’s massive Louisiana flood up close, we know in a special way what the people of Texas and parts of my state are going through today. Part of our grief comes from knowing that for those touched by Hurricane Harvey, the hardest part is yet to come.

After last year’s flood destroyed my sister’s house, forcing her family to move in with friends, she asked me to store her salvaged dining-room set until they rebuilt. I made space for the lovely oak table in our living room and dispatched the matching chairs to several corners of the house. The table seemed, in its first few days under our roof, a solemn shrine to my sister’s ordeal, a useful reminder of her daily challenges long after the floodwaters had receded.

But any horizontal plane in our house becomes a kind of coral reef, as oddities large and small quickly colonize the vacant surface. In no time, our 16-year-old son, a robotics buff, had appropriated the table for a workbench. A scatter of copper wire, pliers and screws accumulated where, not long before, a now-displaced household had shared its meals.

I was initially troubled by the thought that my son, a typically sensitive young man, had converted a casualty of catastrophe into a spot to tinker. But I’d done essentially the same thing, using one of my sister’s chairs to hold some books overflowing from my bedroom nightstand. Soon the legacy of loss blended into the background of life. During the year since the flood, I’ve sometimes gone weeks without remembering the extra furniture and why it’s there.

All of this has made me think about the human capacity to domesticate any disaster into a dim memory. The aftermath of Hurricane Harvey has been terrible, yet the real struggle will

emerge in the months ahead, after the news caravans and the national attention migrate elsewhere, as inevitably they will.

The true challenge for disaster victims can be a sense of isolation as people like me, those not directly hit, slip back into comfortable complacency.

It’s easy to think of short attention spans as a weakness of the Twitter age, but the New Orleans journalist Lyle Saxon put his finger on it after the Flood of 1927. “We are a strange people—we Americans: we so soon forget,” he wrote.

After a hurricane, the cameras move on and the world forgets.

“Before the water had begun to recede, and while some of the worst floods of the year were taking place, newspaper readers had become tired of the disasters along the Mississippi. It was already an old story. Newspaper men in the flooded area were fed up on horror, fed up on bravery, bored with the terrible sameness of destruction. Even the rescuers were sated. They had seen too much suffering, had endured too much. . . . The men who had seen the most could not talk about it.”

The tragedy of Harvey has reminded me that compassion for catastrophic suffering shouldn’t be a momentary impulse, but a commitment of months, maybe years. So I’ll clear my sister’s table and chairs, then invite her family over to eat dinner on her dining set. We’ll hold hands and pray for the day when she, those hit by Hurricane Harvey, and all flood victims near and far will be made whole.

Mr. Heitman, a columnist for *The Advocate* newspaper in Baton Rouge, is the author of “*A Summer of Birds: John James Audubon at Oakley House.*”

OPINION

The Danger of a Jihadist Pakistan

By John Bolton

Almost certainly, the war in Afghanistan will be won or lost in Pakistan. President Trump's announcement last week that he will send more U.S. troops—some sources say another 4,000—to Afghanistan represents a change in tactics from President Obama's policy. But the ultimate objective is still opaque, and even once the specifics are articulated, what may ultimately matter more is the still-undeveloped "South Asia policy" promised by Defense Secretary Jim Mattis.

Careless U.S. pressure could push the country's nukes into the hands of Islamic fundamentalists. China can be helpful.

That means dealing with Pakistan. Islamabad has provided financial and military aid, including privileged sanctuaries, to the Taliban, the Haqqani network, Gulbuddin Hekmatyar, Islamic State, al Qaeda and other malefactors, allowing them not just to survive but flourish. Mr. Trump rightly says this must stop and is encouraging Pakistan's principal adversary, India, to increase its economic assistance to Afghanistan.

But the task isn't so straightforward. The Bush and Obama administrations also criticized Pakistan's support for terrorists, without effect. Putting too much pressure on Pakistan risks further destabilizing the already volatile country, tipping it into the hands of domestic radical

Islamicists, who grow stronger by the day.

Peter Tomsen, a former U.S. State Department regional expert, once described Pakistan as the only government he knew consisting simultaneously of arsonists and firefighters—often the same people, depending on the situation.

Pakistan has teetered on the edge of collapse ever since it was created in the 1947 partition of British India. Its civilian governments have too often been corrupt, incompetent or both. The ouster last month of Prime Minister Nawaz Sharif, who stepped down after the Supreme Court disqualified him for not having been "honest," is no reassurance. If anything, it shows the judiciary's excessive politicization, which further weakens constitutional governance.

Islamabad's military, sometimes called the country's "steel skeleton," is equally problematic. It recalls the old remark about Prussia: Whereas other countries have armies, Pakistan's army has a country.

The military is also becoming increasingly radicalized, with Islamicists already in control of its intelligence services and now working their way through the ranks of the combat branches.

In this unstable environment, blunt pressure by the U.S.—and, by inference, India—could backfire. Just as America must stay engaged in Afghanistan to prevent the Taliban and other terrorists from retaking control, it is also imperative to keep Islamabad from falling under the sway of radical Islamicists. Hence the danger of inadvertently strengthening their hand by supplying a convenient narrative of overt U.S. dominion. Such a blunder might help Pakistan's



The country's ousted prime minister, Nawaz Sharif, in Lahore on Aug. 14.

radicals seize power even as the U.S. battles terrorists in Afghanistan.

Remember that Pakistan has been a nuclear state for nearly two decades. The gravest threat is that its arsenal of nuclear warheads, perhaps up to 100 of them, would fall into radical hands. The U.S. would instantly face many times the dangers posed by nuclear Iran or North Korea.

If American pressure were enough to compel Pakistan to act decisively against the terrorists within its borders, that would have happened long ago. What Mr. Trump needs is a China component to his nascent South Asia policy, holding Beijing accountable for the misdeeds that helped create the current strategic dangers.

Of all the external actors, China bears primary responsibility for Pakistan's and North Korea's possession of nuclear weapons and ballistic missiles. For its own strategic reasons, China gave both countries direct financial, scientific and techno-

logical assistance and then flew political cover at the United Nations and elsewhere. Empowering Islamabad was a hedge against India, China's biggest threat in South Asia. Helping Pyongyang was a play against the U.S. and its Asian allies. (And, increasingly, against the wider world, since North Korea appears to have sold its technology.)

In both cases China recklessly disregarded the risks of proliferation and breached its obligations under the Nuclear Non-Proliferation Treaty. By comparison, Beijing's flagrant violations of its World Trade Organization commitments are trifles.

China was hardly unaware that Pakistan has fostered and aided Islamic terrorists in Kashmir, threatening Indian control. Yet Beijing has done nothing to stop it, thus indirectly keeping Indo-Pakistani relations tense.

China has also made Pakistan a considerable beneficiary of the massive transportation infrastructure

and other projects related to its "One Belt, One Road" initiative. Clearly Beijing intends to bind Islamabad ever more tightly into its modern-day "co-prosperity sphere."

It must be core American policy to hold China to account, even belatedly. The U.S. can use its leverage to induce China to join the world in telling Pakistan it must sever ties with terrorists and close their sanctuaries. The Trump administration should make clear that Beijing will face consequences if it doesn't bring to bear its massive interests in support of this goal. Washington could also point out that this is in Beijing's own interest, lest the terrorists rise next among the Uighurs in China's Xinjiang province, what was once "East Turkestan."

Whether Beijing truly intends to be a "responsible stakeholder" in international affairs, as its U.S. advocates insist, should be put to the test—and not merely on monetary and trade issues.

Fighting international terrorism and nuclear proliferation requires determination and action, not the kind of smiling repetition of bumper-sticker phrases that the People's Liberation Army and China's political leadership blithely ignore.

Starting now in Afghanistan and Pakistan, China should be told its bona fides as a state engaging in a "peaceful rise" are on the line. If real proof of that conceit doesn't emerge, Washington will be entitled to draw the appropriate conclusions.

Mr. Bolton is a senior fellow at the American Enterprise Institute and author of "Surrender Is Not an Option: Defending America at the United Nations and Abroad" (Simon & Schuster, 2007).

Russia's Cold War With Scandinavia

By Azita Raji

The current relationship between the U.S. and Russia is eerily evocative of the Cold War, complete with aggressive aircraft interceptions, harassment at sea and diplomatic expulsions. But there are significant, consequential differences between America's relationship with the Soviet Union and with the Russian Federation.

Today's situation is more perilous, made so by Russian President Vladimir Putin's sense of grievance and revenge. Alliances have shifted too. The nations of the Warsaw Pact dissolved that treaty and most then joined the North Atlantic Treaty Organization. What remains of the nonaligned bloc is more nostalgic whimsy than an influential group of nations.

Consider Sweden and Finland. While they no longer assert their neutrality as they did during the Cold War, the Swedes and Finns are finding it hard politically at home to challenge the perceived benefits of non-alignment. They seem to be playing it

safe, with one foot in the NATO camp and the other—even if lightly set down—outside it.

But for all the talk of neutrality, Sweden and Finland are as militarily capable as some NATO allies and enjoy a privileged relationship with the alliance.

The peril in this is Russia's growing ire at the increasingly close relationships among the Swedes, the Finns and NATO. Russia has warned both nations of harsh consequences if they join the alliance. This ought not be dismissed as idle blather: Mr. Putin has sent aircraft close to the Swedish border to run practice strikes on Stockholm. Swedes and Finns suffer Russian cyberattacks, overflights and misinformation campaigns meant to destabilize their governments.

No wonder Sweden and Finland feel more vulnerable than they did during the Cold War. No longer effectively neutral nor members of a broad military alliance, they are subject to Russia's belief that they side with NATO. Swedes and Finns have re-

sponded robustly to Russian aggression. They have boosted military spending and signed a mutual-support agreement with each other.

These nations saw what happened when Russia invaded Ukraine, which also had a privileged partnership with NATO. Without membership,

The Kremlin prepares military maneuvers in the Baltic, as Sweden and Finland sweat.

and the Article 5 protection it offers, the alliance didn't send troops to Ukraine's defense. For Sweden and Finland, the difference between the Cold War and today is that they don't have the vague and unreliable "protection" of neutrality, nor do they have the formal and real protection of NATO. As tensions with Russia increase, Swedes and Finns are trapped in their historical identity of neutral-

ity and their current position of military nonalignment.

The Russian military forces currently gathering for next month's Zapad military exercise across the Baltic Sea will be watched closely and with grave concern in Stockholm and Helsinki. But unlike during the Cold War, the Swedes and Finns will be able to rely on a strong defense relationship with the U.S., sealed with bilateral memorandums of understanding that allow for joint military planning, exercises and intelligence exchanges.

During my time as U.S. ambassador to Sweden, trilateral meetings among the U.S., Sweden and Finland were inaugurated and are further tightening military cooperation.

While this close relationship is no substitute for NATO membership, the Russians know the U.S. won't stand idly by should they attack Sweden or Finland. During my tenure, then-Vice President Joe Biden visited Sweden to affirm the American commitment to the region. Vice President Mike Pence has repeated that pledge.

Close diplomatic and military ties enhance regional stability. But without status and standing in an alliance, and given the chilling example of Ukraine, a feeling of vulnerability persists.

It's a race against time: Will Sweden and Finland be able to join NATO, escaping this perilous limbo, before Russian aggression overwhelms them? Or will they continue to kick the can down the road, hoping that relations with Russia improve?

It isn't hard for Sweden and Finland to spot the difference between the Cold War and today's pending conflicts. For one thing, ground zero for any potential conflict will be their own backyard.

Leaders in Stockholm and Helsinki are about to witness in Zapad a possible harbinger of the future. How this leads them to rethink their relationship with NATO will have a profound impact on the security of generations to come.

Ms. Raji, a senior fellow at the University of California, Berkeley, was the U.S. ambassador to Sweden (2016-17).

Why Would Anyone Sane Want to Be a Bank Director?

By Thomas P. Vartanian

Bank regulators in America have imposed responsibilities on directors that are hindering good governance of banks. But don't take my word for it. The Board of Governors of the Federal Reserve System and the U.S. Treasury Department say so.

Treasury concluded in June that regulators' expectations may be crowding out critical board functions, blurring the responsibilities between directors and management, and imposing a "one size fits all" approach. On Aug. 3, the Fed asked for comment on the elimination or amendment of redundant and ineffective director responsibilities, including 170 it identified in 27 different regulatory pronouncements.

This represents an about-face. In response to every financial crisis over four decades, Congress and regulatory agencies, including the Trea-

sury and Fed, have sought to improve bank regulation—which in practice has meant continuously increasing it. That has created a "rising dough" syndrome of regulation—a continuing expansion of regulatory obligations imposed on directors, and a corresponding expansion of the basis for lawsuits against them when their institutions fail.

I had a front-row seat at the outset of this trend in 1982, when in the face of the projected failure of nearly all of the nation's 4,000 savings-and-loans, the Federal Home Loan Bank Board launched programs that resulted in an unprecedented number of administrative enforcement actions and liability cases against directors and officers. The goal was to inject market discipline to counter the "heads I win, tails you lose" risk-reward ratio created by federal deposit insurance. The effort focused on those who overtly caused the failures.

Ten years later the Federal Deposit Insurance Corp. issued a similar policy statement articulating its standards for suing directors and officers after the failures of their institutions.

The Fed now believes that "supervisory expectations for boards of directors and senior management have become increasingly difficult to distinguish."

Boards that meet periodically cannot effectively undertake management's day-to-day operational responsibilities, or the oversight role of regulators. Record-keeping, board process and regulatory noncompliance criticisms have increased, but the blizzard of increasing responsibilities hasn't necessarily improved board performance or reduced the risk of financial distress.

The Fed now wants to improve corporate governance by having boards devote less time to satisfying supervisory expectations that don't directly relate to their core responsibilities, and devote more time to what really matters, such as establishing strategy and risk tolerance and holding senior management accountable.

The Fed and Treasury are years late to this conclusion, and two im-

portant factors are missing from their analyses. Neither focuses enough on the most important challenge that directors face: determining how to balance the need to make an objectively measurable profit against

They're asked to do too much, and then they get sued for failing to do the impossible.

more subjective judgments about how much risk a bank can safely assume. If directors mess up that job, not much else matters.

The second unaddressed question is the all-important endgame for directors: When and how are they held financially accountable if their institutions fail? As director obligations have expanded since 1982, FDIC receivership suits against directors of failed banks have multiplied, with an increased focus on the FDIC's recouping its financial losses.

That is a legitimate goal. But when FDIC lawsuits are driven by the avail-

ability of insurance coverage or personal assets, rather than whether directors made inappropriate decisions, the incentives for directors turn perverse. If directors believe they'll be sued in the event of failure no matter how they acted, why not throw a financial Hail Mary when failure looks likely? The FDIC should follow the Fed and Treasury leads and re-evaluate its director and officer liability program to ensure that justice and the facts are the prevailing standards.

Recalibration of the regulatory demands on and potential liabilities of bank directors would give them the tools, incentives and freedom to be more effective overseers of the backbone of the U.S. economy and better avoid future financial crises. Holding bank directors financially responsible only for the actions they can control, rather than the economic events they cannot, would strengthen the banking system, improve corporate governance, and deepen the pool of qualified bank directors.

Mr. Vartanian is a partner at the law firm Dechert LLP and a former general counsel of the Federal Home Loan Bank Board.

THE WALL STREET JOURNAL.

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LIFE & ARTS

MUSIC

A Rapper Sends a Suicide Lifeline

Logic’s anthem ‘1-800-273-8255’ drives calls to a national hotline—while fueling the artist’s breakthrough on the charts

BY JOHN JURGENSEN

A SONG THAT BEGAN with the working title “Suicide” has brought a new burst of life to the career of a rapper who is hammering a message of “peace, love and positivity.”

Logic, 27 years old, has used that mantra and a tour de force rap flow to transcend outsider status and build a groundswell of fan loyalty. Now he has earned an unlikely breakthrough with an anthem that he named for the National Suicide Prevention Lifeline: “1-800-273-8255.”

“Most people don’t usually give a s-h-t about songs like this,” he says of his first commercial hit. On the radio and the streaming music charts, it’s the odd tune out, surrounded by songs about seduction, self-congratulation and nightlife adventure.

It’s not a one-off for Logic. His third album, “Everybody” (which made its debut at No. 1 on the Billboard album chart in the spring) is a front-to-back exploration of thorny human problems, and includes a running dialogue with God (voiced by astrophysicist Neil deGrasse Tyson). Logic burrows into personal issues: a rough upbringing in Gaithersburg, Md., and struggles as a biracial rapper in a no-man’s-land of hip-hop, where identity is strictly policed. After nearly a decade of trying to show off his rap prowess, he says, he shifted his priority: “How about just trying to send the biggest message I can?”

“1-800-273-8255” is written from the perspective of someone who reaches out for help and the operator who answers the call. The chorus shifts from “I don’t wanna be alive” to “I want you to be alive.” It has 167 million streams on Spotify and 46 million views for official versions on YouTube, including a seven-minute music video featuring actor Don Cheadle and a story about a gay teen who fights through his desperation.



Logic performed the song at the MTV Video Music Awards on Sunday, joined by suicide-attempt survivors.

Logic performed the song on Sunday night at the MTV Video Music Awards, where he and the singers featured on the track, Alesia Cara and Khalid, were joined on stage by suicide-attempt survivors wearing white T-shirts. Separately, the award show paid tribute to two rock singers who committed suicide this year, Chris Cornell and Chester Bennington.

Since the release of “1-800,” call volume is 33% higher than the same period last year for the National Suicide Prevention Lifeline, which is on track to field 1.8 million calls this year, director John Draper says. Unlike other portray-

als of suicide in entertainment, such as the recent Netflix series “13 Reasons Why,” he says “1-800” is the rare example that sends a message of prevention, noting that the increase in calls doesn’t take into account the people who heard the song and “just felt more hopeful” without needing to call.

A couple of weeks before the song’s release, the organization gave approval to use its phone number, but didn’t hear the track until the day it was released. Dr. Draper recalls his first listen and his relief that it didn’t include any F-words in its lyrics. “After all, [the hotline] is funded by the govern-

ment,” he says. Staff members have taken to shouting out one of the song’s signature lines to each other at the office: “Who can relate?”

Logic’s birth name is Sir Robert Bryson Hall II and he is known to friends as Bobby. On the song “Take It Back,” he describes a childhood with a black father and white mother “addicted to crack cocaine, alcohol and various other drugs.” Though he grew up poor and identifying as black, people often assumed he was white—and thus more privileged—based on his appearance, a cultural split that would carry over into his music career. The “Everybody” album

is his most public effort to reconcile his past and both sides of himself, a sometimes uneasy peace.

On the title track, he raps: “Everybody talkin’ ‘bout race this, race that. I wish I could erase that, face facts.”

With a tightknit group of collaborators, including a manager his age, Chris Zarou, Logic built a big grass-roots following by touring and releasing a series of underground mixtapes. After signing to the Def Jam label in 2013, he released two albums that got little mainstream notice, setting the stage for the more personal and ambitious “Everybody.”

“I always wanted a hit record. I always wanted to be on the radio. I always wanted love and respect on a mainstream level. I never got it,” Logic says. “When I said, ‘Screw it, I’m going to make this album for me,’ that’s when all that mainstream success started happening.”

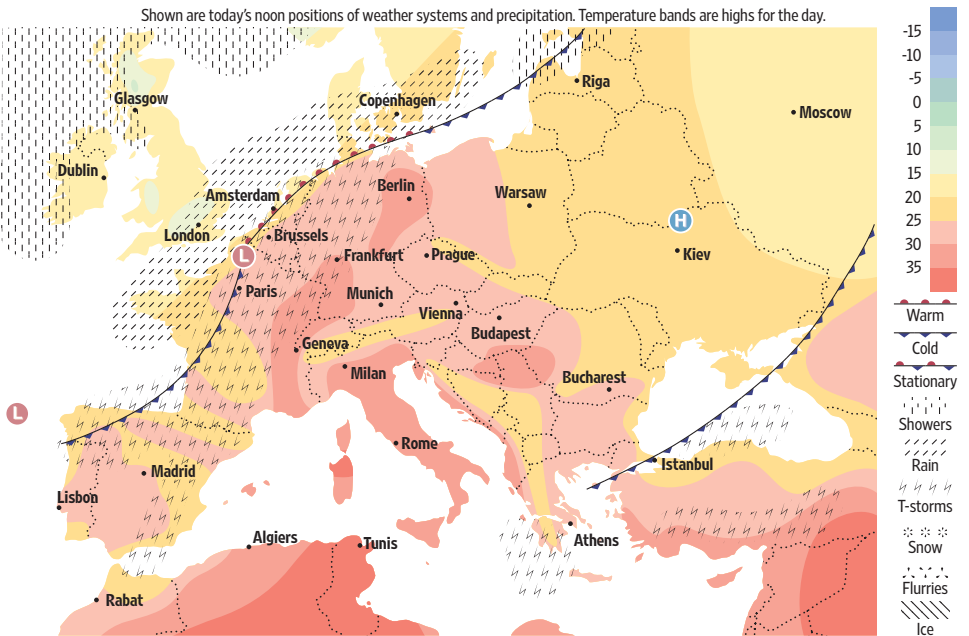
In a genre where decadence and toughness is the norm, Logic’s image is proudly nerdy. In Chicago last week, the last stop on a summer tour, he started the show by urging audience members to stay hydrated and to say hi to the fellow fans standing next to them.

Wearing glasses, jeans and loosely laced Nikes, he paused the show to take on members of his crew in a game of Nintendo Mario Kart, with the race shown on the venue’s giant video screens. He closed out the concert by asking audience members their names and inviting a 17-year-old girl on stage to rap along with him at breakneck pace.

Though he built a career on rap skills, he’s planning to expand his style, starting with the song he now performs at a piano during his shows.

“I’m done with rapping all the time,” he says. “I want to sing and play ballads. I want to give you something like Queen meets James Brown with a positive message. That’s where my mind is going from here.”

Weather



The WSJ Daily Crossword | Edited by Mike Shenk

1 2 3 4 5 6 7 8 9 10 11 12

13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71

4 Bean

5 Scanners at JFK

6 Squeaks from Pokes

7 Islam's holiest city

8 Coverage by the press

9 Shipwright of old

10 Pasteurize, in a way

11 Watts of "The Impossible"

12 He might make himself clear

14 Naturalist nicknamed "John of the Mountains"

16 Mexicali and Calexico, and a hint to this puzzle's perimeter answers

19 Gym routine popular in the 1990s

22 Just fine

24 "Fargo" affirmative

27 Broadway statuette

29 "To Kill a Mockingbird" author

30 Mama moose

31 Ebenezer's utterance

32 Theatrical pieces

34 Shoot the breeze

35 Sch. support group

36 Plural possessive

38 Care provider, briefly

40 Prairie dwelling

43 Soft shoe, casually

45 "Cool" amount of cash

49 Check for messages, perhaps

50 Mississippi or Missouri

51 Like a lamb

53 Take in, take on or take up

54 Daytime refreshers

56 They may reveal one's true colors

57 Athlete's optimal effort

58 Be a real poser?

60 Successor of Claudius

62 Trump, for one

65 Budget rental

67 Next-to-last letter

LIVING ON THE EDGE |

By Herre Schouwerwou

Across

1 Crude abode

7 Sorting through data

13 Brunch beverage

14 Holiday centerpiece

15 Impediment to romance, perhaps

16 Broncobuster

17 One that inspires?

18 Uncomplaining

20 Audition rejects

21 Winona's role in "Beetlejuice"

23 Set out

25 Bit of code?

26 Eminent

28 Lord of the rings?

30 "Bull" carrier

33 City known for its beef

34 Hardly swanky

37 Presidential promise

39 Heading up?

41 Words to a betrayer

42 Evil spell

44 Work group

46 Shucking unit

47 Syrupy sentiment

48 Microscope part

50 Future fish

52 Plea from eager beavers

55 West Coast NFLer

59 2017 Baseball Hall of Fame inductee

61 Zealanders, e.g.

63 Shell, apple or target, e.g.

64 Bookie busters

66 Cloud addition?

68 Lures into bad behavior

69 Self-conscious question

70 Strategy in a difficult situation

71 Holiday trimmings

Down

1 Drink order

2 Casual greeting

3 Add to, as a bill

► Solve this puzzle online and discuss it at WSJ.com/Puzzles.

Previous Puzzle's Solution

AMP	WREST	BOAT
LEO	SEALER	URSA
ARC	CAPITAL	RAIN
SEASALTS	DALLAS	
HUNT	MESA	
FORTH	EMIST	SPART
MANGY	ELIMOS	VIA
ANTE	BARON	HOST
STA	TENTS	BACKS
HASABAD	HAILDAY	
TORS	NEED	
ORIENT	SWANS	SONG
DESSERT	TWIND	POO
EDIT	ARISES	ISR
SONS	PAGER	TIE

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THE WALL STREET JOURNAL.

Wednesday, August 30, 2017 | B1

Euro vs. Dollar 1.2018 ▲ 0.32%

FTSE 100 7337.43 ▼ 0.87%

Gold 1313.10 ▲ 0.26%

WTI crude 46.44 ▼ 0.28%

German Bund yield 0.343%

10-Year Treasury yield 2.134%

Uber CEO Decision Stirs New Concerns

By GREG BENSINGER
AND RACHAEL KING

Uber Technologies Inc. was supposed to be celebrating the end of a nine-week search for a new leader who could restore order to a year of extraordinary tumult.

Instead Sunday's selection is being clouded by disagreement over how the board's unanimous decision to hire **Expedia** Inc. Chief Executive Dara Khosrowshahi unfolded, adding more controversy to a company already plagued by

months of bad publicity.

Board directors Monday were ironing out details of Mr. Khosrowshahi's contract and their plans to introduce him to Uber employees, according to people familiar with the matter. The choice was intended to bring stability to the world's largest venture-backed startup as it seeks to hire multiple executives and make changes to its corporate governance and culture to address concerns about sexism and other issues.

In an interview with The Wall Street Journal on Tues-

day, Mr. Khosrowshahi said he planned to accept the position, calling it a "once in a lifetime" opportunity.

Before Mr. Khosrowshahi had publicly said whether he would accept the role, however, **Hewlett Packard Enterprise** Co. CEO Meg Whitman tossed cold water on the selection process.

In a statement to The Wall Street Journal on Monday night, Ms. Whitman said she hadn't been a candidate for the job until last Friday, when an unidentified Uber director



ROB LATOUREX/SHUTTERSTOCK/ZUMA PRESS

Dara Khosrowshahi called the CEO job a 'once in a lifetime' chance.

called to see if she would reconsider after the board couldn't decide between **General Electric** Co. Chairman Jeff Immelt and Mr. Khosrowshahi.

Ms. Whitman said she laid out her terms: Uber must strengthen its governance structure, and Benchmark Cap-

Please see BOARD page B4

Apple, Movie Studios At Odds

By BEN FRITZ AND TRIPP MICKLE

Apple Inc. is scrambling to strike deals with Hollywood studios to offer ultrahigh-definition films on its new Apple TV, but discussions have been hampered by disagreements over pricing, according to people with knowledge of the talks.

The tech giant will unveil the new version of its streaming media device at an event Sept. 12 and tout its compatibility with new 4K televisions, people with knowledge of its plans said. The 4K format offers more than 8 million pixels per frame—significantly sharper than traditional high-definition video at the same size. Apple will also reveal updates to its iPhone and Apple Watch, according to people briefed on its plans.

Apple wants to have major Hollywood films available in ultrahigh-definition on the new device, expected to go on sale later this year. However, it wants to charge \$19.99 for those movies—on par with what it sometimes charges for new HD movies, the people with knowledge of the discussions said. Several Hollywood studios want to charge \$5 to \$10 more for 4K movies, the people said.

Conflicts over pricing between Apple and media companies are nothing new. The technology company typically argues lower prices will help expand a category and generate more long-term revenue, while studios often worry more about preserving profit margins and higher prices for higher quality formats.

"I wouldn't tell Apple how to price their iPads," said an executive at one studio in talks with Apple.

An Apple spokeswoman declined to comment.

Closing deals with studios before Sept. 12 is important to Apple as it tries to reignite interest in the TV product it first launched in 2007. The company has been losing market share lately to streaming-media players from rivals such as Amazon.com Inc. and Roku Inc., which already offer devices with 4K capability that cost at least 60% less than the \$149 Apple TV. Its market share fell to 15% in the first quarter this year from 19% a year earlier, according to Parks Associates, a market research firm.

The Apple TV accounts for a fraction of the company's revenue, but research by Kantar Worldpanel has found that owning additional Apple devices strengthens consumer loyalty to the iPhone, which accounts for two-thirds of sales.

"Historically, Apple has looked at the levers they can pull to be competitive, and they'll have to have richer 4K content to leapfrog other competitors," said Matt Smith, vice president at Brightcove Inc., which provides online video services.

The availability of Hollywood films in Ultra HD, another term for 4K, also could

INSIDE



GOOGLE OUTLINES PLAN FOR CHANGES

TECH, B4

HEARD ON THE STREET

By Stephen Wilmot

Nestlé Needs More Appetite For Change

Finding a leaner, meaner recipe for growth at food giant Nestlé could

take longer than investors such as New York activist Dan Loeb seem to think. It may be wise to brace for disappointment.

The "Nestlé model" used to involve generating organic sales growth in a loosely targeted range of 5% to 6% by selling a diverse portfolio of food brands in just about every country in the world. For years, the model worked wonders, helped by the emerging-markets boom. Growth exceeded 6% for most of the period from 2005 through 2011, and margins climbed with sales.

But by 2016 growth had slowed to just 3.2% and has been more sluggish again this year. Even this overstates the company's health, because "organic" growth strips out the effect of currency movements while including that of price increases introduced to offset devaluations in Brazil and Argentina. With growth only matching cost inflation, the operating margin has also stalled at 15.8%.

Easing inflation has been one reason for Nestlé's slowdown, but more worrisome is the competitive trend. In developed markets, consumer products companies are caught between disruptive, digitally marketed brands at the high end and supermarkets' private-label products at the low end.

So far, investors have been happy to shrug off these problems. Nestlé's shares trade at 22 times forward earnings, close to their highest level since the dot-com era. Consumer staples are still considered a low-risk investment, with a bondlike income profile. And investors are also excited about the potential for cost savings. This was the stated rationale for Mr. Loeb's \$3.5 billion investment at his Third Point in June, for example.

At Kraft Foods, then at Heinz, Brazilian private-equity house 3G, together with Warren Buffett, pioneered a new approach to the U.S. packaged-food sector that involved radically trimming fat. Faced with the threat of a Kraft-Heinz takeover, U.K. consumer group Unilever announced an aggressive new 20% margin target in April. Judging by this year's share-price rally, hopes are high that Nestlé's new chief executive, Mark Schneider, will announce a similar shake-up at his first "investor semi-

Please see HEARD page B2



MATTHEW MAHON FOR THE WALL STREET JOURNAL

Jeremiah Goldsmith, an in-home adviser for Best Buy in Austin, Texas, can help arrange for repairs, installations and deliveries.

Gadget Sellers Make House Calls

Best Buy and Amazon send staff to homes to advise on devices, drum up business

By KHADEEJA SAFDAR
AND LAURA STEVENS

Best Buy Co. and Amazon.com Inc. see the future of selling electronics—and it's happening in your living room.

Best Buy is hiring hundreds of salespeople to sit down with consumers inside their homes and recommend electronics to buy, part of a free service it has been testing in several cities and plans to roll out across the U.S. this fall.

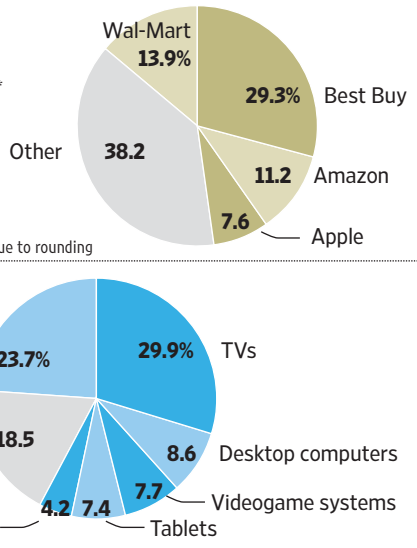
The company hopes its in-home salespeople will help

Plugged In

U.S. electronics sales leaders, by dollar value*

U.S. category leaders¹, by dollar value*

*For the quarter ending June 2017
Source: TraQline



THE WALL STREET JOURNAL.

Mysterious Strangers Dog Insurer's Critics

By MARK MAREMONT

Critics of **AmTrust Financial Services** Inc., which is being probed by a regulator and pressured by investors, say they have been approached by a series of purported overseas consultants dangling enticing offers. Afterward, the critics

discover these people aren't who they say they are.

Chris Irons, an analyst at research firm GeoInvesting LLC, which has published several reports critical of AmTrust's accounting practices, said he was contacted in July by a woman who identified herself as a London-based

consultant to a European software multimillionaire seeking contributors to a new investment website. He agreed to meet at a Philadelphia-area restaurant.

At the dinner, Mr. Irons said, the woman, whom he described as gorgeous, plied him with drinks and slipped in sev-

eral questions about critiques of AmTrust and its accounting methods. "It was the second or third follow-up question on AmTrust that gave me a lot of pause," he said, adding that she "laughed at many things I said that probably weren't that funny."

But the name the woman gave—Diana Ilic—appears to be a pseudonym. The email address she used with Mr. Irons links to a domain name established a few days before the meeting. The London address for her consulting firm turns out to be a mailbox drop.

A woman who made initial contact on social media on behalf of the purported Ms. Ilic doesn't appear to be who she said she was either. The social-media pages under her name used photos of another woman, a French retail marketer. The purported Ms. Ilic doesn't return phone calls or emails to the contacts provided to Mr. Irons.

AmTrust, a rapidly growing, New York-based insurance company with \$5.5 billion in 2016 revenue, in recent years

Please see INSURER page B2



GEOINVESTING LLC

A woman who identified herself as Diana Ilic sought a meeting with a GeoInvesting analyst in July.

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21st Century Fox Takes Fox News Off Air in Britain

By Stru Woo

LONDON—Rupert Murdoch's **21st Century Fox Inc.** said Tuesday that it stopped broadcasting its Fox News Channel in the U.K., amid the media conglomerate's \$15 billion bid to buy the 61% of British pay-television company **Sky PLC** that Fox doesn't already own.

Fox said it was a business decision to withdraw Fox News, which in the U.S. is popular with conservative viewers and recently retained its No. 1 cable-news ranking despite a sexual-harassment scandal that has roiled the unit and its parent company.

"Fox News is focused on the U.S. market and designed for a U.S. audience and, accordingly, it averages only a few thousand viewers across the day in the U.K.," a spokesman said. "We have concluded that it is not in our commercial interest to continue providing Fox News in the U.K."

A Sky spokesman said the move was Fox's decision.

Fox News went off U.K. airwaves at 4 p.m. British time. Fed live from the U.S., its prime-time shows in the U.S. aired during Britain's wee hours. A person close to Fox said the channel's British operation lost money and averaged only 2,000 viewers a day. The person said the decision wasn't related to Fox's bid to buy Sky, which had been the only British broadcaster that aired Fox News. Sky is a subscription service that offers Fox News as part of its offerings. Still, the decision could affect the proposed acquisition's regulatory gantlet.

Fox's predecessor, News Corp., abandoned a bid to buy Sky in 2011 amid revelations that a newspaper it owned hacked into the phones of pol-

iticians and crime victims. The company apologized, closed the implicated newspaper and spun off other newspapers into a new company, which took News Corp as its name.

Mr. Murdoch and his family are major shareholders in Fox and News Corp, which publishes The Wall Street Journal as well as British newspapers.

In December 2016, Fox proposed acquiring the 61% of Sky it doesn't already own for £11.7 billion (\$15.1 billion). The bid won approval from European Union antitrust authorities in April. But British Culture Secretary Karen Bradley, who oversees media mergers in the U.K., said in June that she would likely refer the proposal to U.K. competition authorities after Britain's media watchdog said the merger risked giving the Murdoch family too much control of the country's media.

Ms. Bradley is unlikely to officially make that move until after Parliament returns from summer break on Sept. 5.

Britain's media watchdog this year examined the sexual-harassment scandal at Fox News, interviewing complainants against the channel. A group of prominent British politicians wrote to the media watchdog to urge regulators to block the deal, citing the harassment allegations.

In June, the watchdog said it considered allegations of sexual and racial harassment at Fox News "extremely serious and disturbing," but said there was no clear evidence that senior executives at Fox were aware of misconduct before the issue was escalated to them in July 2016, after which action was taken. Fox has said it is cooperating with U.S. government probes about the sexual-harassment claims.

hardly a game changer; activists with a record of influencing European companies, such as **Cevian Capital** and **Elliott Management**, typically build stakes of at least 5%.

Nestlé's stock trades at a premium to Unilever's, even though prospects for earnings growth look better at Unilever.

Mr. Schneider has been doing his best to damp expectations; his latest results commentary was notably downbeat. If he does unveil a big package of overhauls the stock could jump. But investors are probably better off preparing for another dose of reality.

HOME

Continued from the prior page test its Echo smart speakers and voice-controlled devices. These consultants can also provide fee-based installation services after shoppers purchase the gadgets on Amazon.

The Seattle-based company launched the service in its home market in July 2016 and has since expanded to six other cities. It has job listings for technicians in additional markets, such as Chicago and Hoboken, N.J.

Rohan Joseph recently spent an hour walking room to room in his Seattle suburb home with an Amazon technician, discussing everything from smart light switches to locks. He already has a few Echo Dot speakers and an Echo Show, and was curious to see what else Amazon would recommend. "We're about to have our first kid, so there were a couple things related to the nursery," he said.

Mr. Joseph said he hasn't yet acted on any of the recommendations—but many are now on his wish list. He didn't feel any pressure to buy. "That's what I liked about it," said the 34-year-old CrossFit studio owner. "He wasn't trying to sell me anything."

Best Buy, which had revenue of \$39.4 billion last year, controls about 29% of the U.S. market in consumer electronics, followed by Wal-Mart Stores Inc., with 14%, and Amazon, with 11.2%, according to research firm TraQline.

Best Buy's modest growth over the past five years has stood apart in a retail industry that has struggled with declining foot traffic and a glut of stores. The electronics giant, whose shares are up 45% so far this year, is slated to report second-quarter results on Tuesday.

Unlike its Geek Squad workers who fix gadgets, Best Buy's in-home advisers are traveling sales consultants who are paid a salary or on an hourly basis, not commissions. Based on the customer's needs, they provide product recommendations, ranging from HP and Apple laptops to Amazon Echo and Google Home devices. The

INSURER

Continued from the prior page has attracted skepticism about its results from investors betting against its stock, which has nearly halved this year. The Wall Street Journal, citing people familiar with the matter, reported this year that the Securities and Exchange Commission was investigating AmTrust's accounting practices.

Other AmTrust critics described similar odd approaches to The Journal, including an investor who is betting against AmTrust's stock; a journalist who has published articles critical of AmTrust's founders; and Mr. Irons's boss, who said he had met two months earlier with a different "consultant" dangling a lucrative offer, who then brought up AmTrust.

That consultant, the GeoInvesting team later found, used the same London mailbox drop as Ms. Ilic.

Battles between companies and short sellers sometimes turn nasty and both sides in such disputes occasionally have used private investigators to dig up information, usually in a legitimate fashion. The investigators often are hired through law firms and the information sometimes is used in litigation.

An AmTrust spokeswoman said the company didn't employ investigators to probe its critics. It declined to say whether its lawyers or others in its service had done so. The company has declined to comment on the SEC probe.

AmTrust this year restated some results with relatively minor changes after switching outside auditors.

Investigators using fake identities and misrepresentations could run afoul of several state and federal laws, said Gavin P. Lentz, a Philadelphia attorney and former prosecutor, who isn't involved in the matter.

A company that hires such investigators potentially could be held civilly liable, Mr. Lentz said, because these are agents acting on their behalf.

"Generally speaking, as a private investigator you can't misrepresent yourself" in the

BUSINESS & FINANCE



The U.S.-based retailer is hiring hundreds of in-home salespeople.

prices cited are the same as in the company's store or website.

"They get my cellphone number and can call me for any of their needs," said Jeremiah Goldsmith, 40, an in-home adviser in Austin, Texas. After a consultation, Mr. Goldsmith arranges everything from Geek Squad repairs to installations and deliveries. He also makes repeat home visits, free of charge.

At Amazon, the in-home appointments are booked via its website, and a different employee may make follow-up visits, though armed with data collected from previous consul-

tations.

Amazon, like Best Buy, charges for installations. For example, installing a smart doorbell costs around \$99. "Amazon Smart Home Services isn't just about buying or even installing smart home products, it's about educating customers on how it all works and customizing the products," said an Amazon spokesman.

To free up costs for new services, Best Buy has been outsourcing some tech support jobs at its Geek Squad unit to Accenture, which uses cheaper labor in the Philippines. Last month, the retail chain elimi-

Best Buy to Spend To Stay 'Offensive'

to sell smartphones, laptops and other gadgets.

The retailer's shares, which had rallied about 45% this year, were off 12% at \$55.06 Tuesday afternoon.

Sales at stores open at least a year increased 5.4% in the July-ending quarter, more than twice what analysts were expecting. Much of the growth came from e-commerce sales, which rose 31% to \$1.1 billion.

"So much of the customer experience has been starting online," Mr. Joly said. "What we're seeing today is the continued effect of the cumulative investments we've made in simplifying and streamlining the customer experience."

Best Buy's revenue in the quarter climbed 5% from a year earlier to \$8.9 billion. Profit was little changed at \$209 million.

—Khadeeja Safdar

U.S., said James Cesarano, vice president of ethics and compliance at **Kroll Associates Inc.**, a corporate investigations firm.

In 2016, AmTrust said it hired private Israeli investigators claiming to be consultants to secretly tape a former Italian business partner in Italy, according to a lawsuit AmTrust filed last year against the former partner.

The parties settled after the tape allegedly revealed the former partner had offered a bribe to an arbitrator. Both parties said the settlement was confidential and the former business partner said in a text message that he didn't "corrupt anyone."

AmTrust has been in a long-running battle with short sellers—investors who bet against its stock—and other critics, who have claimed the insurer burnishes its financials partly by underestimating future claims and through reinsurance transactions with overseas affiliates that had the effect of hiding losses.

AmTrust, which denies such allegations, several years ago filed a legal notice threatening to sue GeoInvesting and a vo-

cal short seller, Casey Nelson. AmTrust also has attacked short sellers several times on investor conference calls. On a May call, CEO Barry Zyskind called short-seller claims "false" and "baseless."

The ostensible consultants contacting AmTrust critics have legitimate-seeming websites and social-media identities. They also leave little apparent trace of their whereabouts. The woman who called herself Ms. Ilic, for example, arrived and left in an ordinary taxi and paid for the meal with cash, Mr. Irons said.

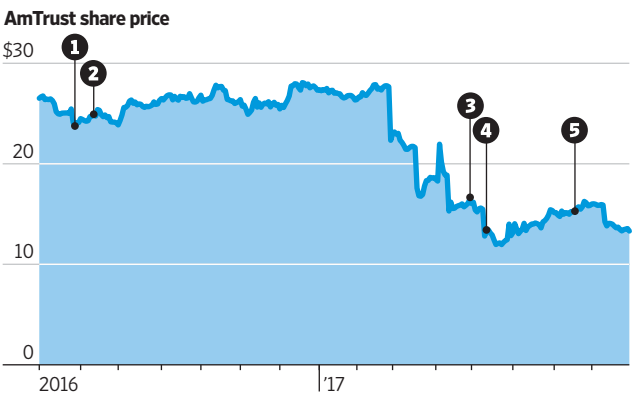
Roddy Boyd, who has written articles for his Southern Investigative Reporting Foundation that raised questions about charitable foundations run by AmTrust's founders, said he received two unusual approaches.

A few months ago, he said, a man claiming to be calling from London offered to donate money to his journalistic foundation, in return for answering questions about AmTrust. Mr. Boyd said he provided a few generalities about the company and told the man not to donate.

In mid-2016, Mr. Boyd said,

Unusual Offerings

Some critics of insurer AmTrust have cited odd consultant outreaches.



- June 27, 2016:** Casey Nelson, a vocal AmTrust short seller, contacted by consultant offering to invest in his fund and fly him to London
- July 12, 2016:** Journalist Roddy Boyd meets in London with adviser to Asian family looking to set up venture; is asked AmTrust questions
- April 27, 2017:** Mr. Boyd, who has written about AmTrust's founders, contacted by British man wanting information on AmTrust in exchange for donation
- May 10, 2017:** Dan David of GeoInvesting, a research firm critical of AmTrust, meets French/British consultant who wants him to speak at London conference, asks questions about AmTrust
- July 18, 2017:** GeoInvesting's Chris Irons meets London consultant who makes repeated AmTrust queries after offering work with investing website

Sources: WSJ Market Data Group (price); the critics

THE WALL STREET JOURNAL.

nated about 400 U.S. Geek Squad positions for online and phone tech support.

The company said it has about 1,000 job openings and encouraged laid-off workers to apply. "Using that highly skilled labor in people's homes and in our stores, directly interacting with customers, seems like the very best way we could humanly use that asset," said Best Buy finance chief Corie Barry.

Increasing face-to-face interactions in the home could help with sales of extended warranties. Warranties accounted for nearly \$900 million of Best Buy's \$40 billion annual sales, but analysts say the high-margin offering made up a significant share of the company's profit, which was about \$1.2 billion last year.

Amazon, with its Echo devices, is vying for market share with Alphabet Inc.'s Google and Apple Inc., both of which have been working on their own voice assistants for the home. Google and Apple, which will begin shipping its HomePod in December, don't currently deploy in-home salespeople.

Best Buy is hoping its brand-agnostic approach will give it a leg up when it comes to consultations. "Despite what the vendors might want, there's no customer who has only one brand in the home," said Mr. Joly, the retailer's CEO.

"This is not a zero-sum game between Amazon and Best Buy," said Mr. Joly. "There's room, frankly, for several players."

he traveled to London to meet a man identifying himself as a Hong Kong-based adviser to a wealthy family interested in starting an Asian journalism venture. The consultant, he recalls, asked detailed questions about his articles on AmTrust founders.

Mr. Boyd said he later discovered the consultant's background had holes; his Hong Kong phone number has since been disconnected. "Something was very wrong," Mr. Boyd said. He said the consultant was armed with a printout of an AmTrust critique by Mr. Nelson, the short seller.

Mr. Nelson, of Dallas-based Alistair Capital Management LLC, said he was contacted around the same time by a London-based consultant, purporting to represent a Middle Eastern investor looking to hire Mr. Nelson's firm to manage at least \$50 million.

He said the man offered to fly him to London to discuss the offer. Mr. Nelson said he was suspicious and declined the offer. The consultant's email address is no longer active; his website domain was registered to a mailbox drop address.

The Israeli firm employed by AmTrust in the Italian matter, Black Cube, has an office in London. Black Cube declined to comment, saying it can't discuss clients "or the work we have done for them, if any." The firm said its work always complies with local laws.

GeoInvesting co-founder Dan David—Mr. Irons's boss—this month filed a civil suit in a Pennsylvania state court against the woman who identified herself as Ms. Ilic and a second purported consultant who contacted Mr. David in May, also asking questions about AmTrust. AmTrust wasn't named in the suit.

Though this second consultant said he was French, Mr. David—whose wife is French—believed the man spoke English with an Israeli accent. The consultant didn't return calls or emails sent to the contact information he gave Mr. David. The legal action allowed Mr. David to get subpoenas for security-camera footage of the meetings with the consultants, in the hope of identifying them.

BUSINESS NEWS

U.S. Miner Soothes Indonesia Tensions

By ANITA RACHMAN
AND I MADE SENTANA

JAKARTA, Indonesia—**Freeport-McMoRan** Inc. will give up its majority stake in the giant Grasberg copper and gold mine in a significant step toward ending a long dispute with Indonesia, dropping the U.S. mining company's ownership from 90.64% to 49%.

The agreement, announced by Indonesian and Freeport officials on Tuesday, will extend the mining company's permit until as long as 2041. It caps an important chapter in a struggle between Jakarta and foreign mining companies in recent years, as the Southeast Asian nation seeks a greater share of the wealth made from its vast mineral resources.

The agreement requires Freeport to build a smelter by October 2022—consistent with a goal of President Joko Widodo's government to in-

crease domestic-processing capacity in Indonesia, but seen by mining companies as an extra cost at the same time that slowing demand from China has hurt commodity prices.

Freeport Chief Executive Richard Adkerson said the company will invest as much as \$20 billion between now and 2041 to develop what had been a largely open-air mine underground. Freeport has invested \$12 billion in developing Grasberg, located in Indonesia's eastern province of Papua, since the 1970s.

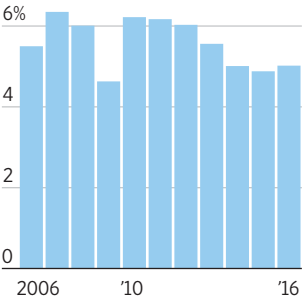
The divestment and the agreement to build the smelter, estimated to cost \$2 billion, amounted to a "major concession" from the company, Mr. Adkerson said.

"For us, the big issue is having confidence that we can make these investments and, having an agreement with the government, that we will have time to recover those invest-

Waning

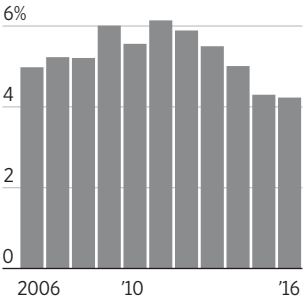
Mining's contribution to Indonesia's growth has declined amid policies aimed at boosting revenue from commodities.

GDP growth



Sources: World Bank; Bank of Indonesia via PwC (mining industry's contribution)

Mining industry's contribution to GDP



THE WALL STREET JOURNAL.

ments," Mr. Adkerson said.

Freeport's current operating license expires in 2021 and negotiations over its renewal had been going on for years. The company had been reluctant to make new investments without

an agreement in place.

Tom Lembong, chairman of Indonesia Investment Coordinating Board, called the agreement "a positive milestone" but said both parties still have to talk about details, such as

pricing and fiscal terms.

Under the new pact, Indonesia has agreed to extend Freeport's license by 10 years to 2031, and if requirements are being met, a further 10 years. The value of the 41.64% stake that Freeport will now have to sell remains to be determined. The government and its state-owned enterprises are unlikely to have the financing to buy it in one piece, so the divestment could be spread across many holders and Freeport might retain the largest single holding, analysts said.

Bill Sullivan, a Jakarta-based legal adviser to mining companies, said foreign investors could see the agreement as a positive development—depending on how outstanding details are resolved.

The mechanics, pricing and timing of the divestiture are critical issues, Mr. Sullivan said, which, until resolved, make it "impossible" to say

whether the long-running dispute between Freeport and Indonesia is over.

This agreement lifts a government threat to ban Freeport exporting a form of unrefined copper, which was to have taken effect in October.

Copper prices rose to their highest level in nearly three years in Asian trading Tuesday, largely because of falling Shanghai inventories, with the benchmark three-month price trading at \$6,802 a metric ton on the London Metal Exchange on Tuesday afternoon.

The agreement will give a boost to President Widodo, who had been determined to end what many in Indonesia see as foreign companies benefiting from generous terms agreed to under former dictator Suharto.

—Deden Sudrajat in Jakarta and Biman Mukherji in New Delhi contributed to this article.

Amazon Gets Jump on Food Prices

By LAURA STEVENS
AND HEATHER HADDON

Amazon.com Inc. on Monday put itself in the unusual position of being a first mover on price cuts when it slashed the sticker price on more than 100 items at Whole Foods Market Inc., many by more than 30%.

Amazon typically relies on algorithms that scrape competitors' prices before automatically matching or narrowly undercutting them on its website. It focuses on items that are most popular on the site and that drive traffic, according to former executives in Amazon's retail divisions. That gives the retail giant a reputation for having the lowest prices.

With Whole Foods, which it officially acquired Monday for about \$13.5 billion, Amazon has broken with its reactive approach. For example, a

dozen organic eggs was for sale at a Chicago store for \$3.99, compared with \$4.39 the day before and lower than the \$4.19 that Mariano's, a division of Kroger's Co., was charging at a nearby store.

The price cuts could partly be a marketing stunt to mark Amazon's ownership of the chain. But they also shed light on how the company is adapting its strategy to seek success in the physical retail world it has long disrupted.

The cuts could improve Whole Foods' reputation for high prices and lure more shoppers into the chain's 470 stores. They also offer a first sign of Amazon's intent to apply order to Whole Foods' decentralized structure. Prices had varied across the grocer's 12 regions, but Monday's reductions brought those of the selected items in line nationally.

"This will make me come

more," said Jen Harris, 33 years old, who skipped her Sunday shopping trip in favor of stopping by Monday morning, looking for cheaper prices on staples like chicken and fish. "I feel like Amazon is great for customers."

The occupational therapist from Chicago typically shops for milk, eggs and snacks at Trader Joe's, Costco Wholesale Corp. or Albertson Cos.'s Jewel-Osco banner because they are cheaper.

Amazon's strategy of being a price follower, not a price leader, has helped make Amazon a major player in everything from books to apparel.

Grocery shoppers typically enter a store with a set list of items but often make impulse purchases once there. Customers at Whole Foods in particular are generally more focused on quality and are less price conscious, making it tougher for Amazon to predict how dis-

counting products may affect traffic. Whole Foods, for example, began cutting prices two years ago, but the cuts didn't reinvigorate sluggish sales growth.

Whole Foods has some way to go to match other grocers. Analysts estimate that prices before the Amazon takeover were roughly 15% higher than conventional competitors for similar items.

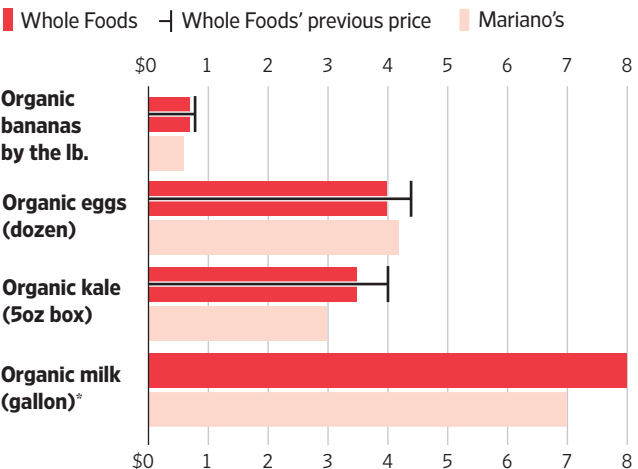
"Amazon cutting prices at Whole Foods likely doesn't mean undercutting other grocers, but rather bringing prices more in line with average market prices," said Forrester retail analyst Brendan Witcher.

For example, Amazon cut the price of Whole Foods' private-label creamy and crunchy almond butters to \$6.99 from \$7.99, matching Trader Joe's.

A Whole Foods spokeswoman said that many store items couldn't be directly compared with competitors be-

Modest Cuts

Amazon is lowering prices at Whole Foods following its acquisition of the organic grocer, hoping to boost sales, but it still can't beat nearby stores on some items.



*Previous price not available; national brand
Note: Whole Foods Chicago-location prices. Mariano's is owned by Kroger.
Source: WSJ analysis of item prices
THE WALL STREET JOURNAL.

cause the chain has higher quality and ethical standards. The price cuts and promotions will continue in the weeks to come as the merger pro-

gresses, she said.

"This is just the beginning," she said.

—Annie Gasparro contributed to this article.

The Face of Real News

Jon Hilsenrath's investigation into the economic workings of America's heartland uncovered the brewing dissatisfaction that led to the election of Donald Trump.

Real journalists and real news from America's most trusted newspaper.

WATCH HIS STORY AT WSJ.COM/JON

#TheFaceOfRealNews

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Source: Pew Research Center, Political Polarization & Media Habits, 2014

Google Readies Europe Search Changes

Plan would address EU order to give rivals equal treatment in shopping results

BY NATALIA DROZDIK
AND SAM SCHECHNER

Alphabet Inc.'s Google has sketched out to the European Union's antitrust authority how it plans to implement the regulator's recent order to stop illegally tipping the scales in favor of its own comparison-shopping service, the EU said Tuesday.

The European Commission, which has for roughly seven years been investigating Google for breaching the bloc's antitrust rules in various areas, in June fined Google a record €2.42 billion (\$2.9 billion) for discriminating against rival comparison-shopping sites in search rankings.

As part of the decision, the EU at the time ordered Google to overhaul its shopping

search results by late September so that the company treats its competitors' offerings and its own shopping service equally. The changes would have to apply for users in all European countries where Google offers its shopping service. Google was due to notify the EU by Tuesday about how it plans to implement the decision.

"The commission can confirm that, as required by the commission decision, it has received information from Google on how the company intends to ensure compliance with the commission decision by the set deadline," an EU spokeswoman said. The EU didn't provide more details of the proposal and Google earlier declined to do so.

The commission has left it up to Google to decide how to change its service and doesn't have to sign off on the company's plans. But should the offered remedies fall short, the EU could issue additional penalties of as much as 5% of



A Google booth at a Berlin digital conference earlier this year.

average daily global revenue for each day the regulator deems Google not to be in compliance with the decision.

Tuesday's proposals aren't the first time Google has attempted to resolve the EU's concerns about how it displays rivals' products in its search results. Since the bloc opened

the case in 2010, Google has made at least three separate settlement offers—only to watch them fall apart because the EU's executive arm ruled them insufficient, often under political pressure from Germany and France.

Google's final binding offer in February 2014, which the

EU made public, would have changed results pages that display Google shopping ads to also include shopping results from rival companies. Those results would have appeared in a shaded box next to Google's shopping ads, according to screenshots the EU published at the time to illustrate the proposed settlement.

That settlement extended beyond the shopping case to include Google specialized results for local search, which searches for nearby businesses such as restaurants, and for travel search, which includes flights and hotels.

Neither of those two categories of specialized results would be covered in Google's proposals Tuesday. The EU continues to investigate Google's behavior with these and other specialized results as well as with its Android mobile-operating service and AdSense advertising service.

Rivals from the German publishing business, and from American firms such as Yelp

Inc., had lobbied heavily for the executive arm to scrap the settlement deal.

The complainants objected that the placement they would receive—to the right of Google's own results—wasn't prominent enough. And they also complained Google would make them bid for the space via an auction mechanism, essentially making money from the settlement.

Rivals could again file complaints to the EU if they find Google's remedies in the shopping case to be insufficient. Should the commission find any merit in the complaints, it could then penalize Google for not complying.

Google has to comply with the EU's order to change its behavior regardless of a potential appeal by the company to the bloc's higher courts.

In addition to an appeal, Google could file for an injunction, or so-called interim measures, to pause the order to change its behavior, pending the outcome of the appeal.

'Amazon Effect' Sparks Deals for Tracking Firms

BY JENNIFER SMITH

A growing number of companies are paying to track in real time everything from truckloads of pork chops to shipping containers full of exercise equipment.

Logistics providers, retailers and suppliers are signing deals with software companies that use location data and weather and traffic information to monitor shipments and alert customers to events that could hold up delivery, such as a loaded truck sitting in a yard for more than an hour.

This month, supply-chain software company **Descartes Systems Group** bought MacroPoint LLC, which provides location-based truck tracking, for \$107 million. Descartes already tracks ocean, air and parcel delivery for customers such as **Home Depot** Inc. and **CVS Health Corp.**, as well as some trucking. Other so-called visibility startups are broadening their scope, adding services such as real-time temperature tracking.

The need for these services is growing as retailers and

shoppers demand faster, more precise delivery. Many **Amazon.com** Inc. customers have become accustomed to reliable two-day shipping, forcing other retailers to offer similar service. Businesses are making new demands of their suppliers as they trim inventories and reduce supply-chain costs. Wal-Mart Stores Inc. in July said it would penalize companies that made deliveries too late or too early.

"It's the Amazon effect—customers are putting more pressure on their supplier to know where their product is," said Bart De Muynck, a supply chain analyst with Gartner Inc. Mr. De Muynck said he expects more tracking startups to get snapped up by larger software companies.

Pork producer Smithfield Foods Inc. hires more than 230 trucking companies to ship about 1,000 truckloads of product in the U.S. a day.

"Managing that is an awful lot of phone calls," said Dennis Organ, Smithfield's senior vice president of supply chain.

Smithfield's on-time delivery rate improved to 94%,



Home Depot and other retailers are increasingly relying on logistics-software companies, as shoppers demand more reliable deliveries.

from 87%, after it began tracking truck freight with software from **FourKites** Inc. Smithfield plans to test its use for ocean freight, Mr. Organ said, and is incorporating a new temperature-tracking feature introduced in June.

Some businesses are using delivery speed as a way to compete on service. "We

have a customer in Australia selling sand for a premium price because they can do time-definite, same-day delivery, with a one- or two-hour window," said Chris Jones, executive vice president of marketing and services for Descartes.

On Tuesday, logistics-software company **Convey**, which

specializes in last-mile delivery tracking, said it raised \$8.25 million in a Series B funding round led by Techstars Venture Capital Fund. The firm, whose platforms are largely used by retail clients such as Wal-Mart's Jet.com, plans to focus on international supply chains and expand into additional

markets, such as medical devices and construction and building materials.

Ingram Micro Inc.'s e-commerce fulfillment unit has been using Convey's software since February to monitor clients' shipments of apparel, electronics and other items from China to consumers' doorsteps.

BOARD

Continued from page B1

ital, one of Uber's biggest investors, must settle its contentious lawsuit with ousted CEO Travis Kalanick over control of board seats. "By midday Sunday it was becoming clear that the board was still too fractured to make progress on the issues that were important to me," she said in the statement.

Her sentiment echoed the situation with Mr. Immelt, who publicly pulled his name from consideration early Sunday after making a formal presentation to directors, apparently spooked by what he felt was a fractious and disorganized board, according to a person familiar with his thinking. In particular, this person said, Benchmark—which is represented on the board by partner Matt Cohler—wanted Mr. Kalanick off the board and Mr. Immelt wouldn't say that the

ex-CEO should be removed. By Saturday morning, Mr. Immelt planned to withdraw his name, this person said.

These accounts suggest Ms. Whitman wasn't pushing for the job, and that Mr. Immelt dropped out, leaving Uber's board with a single candidate. But people familiar with the board's deliberations characterize the events differently.

They say it was clear the 61-year-old Mr. Immelt wouldn't have enough votes to become CEO. So the recently retired GE CEO attempted to save face by tweeting that he decided not to pursue the job, these people said. Mr. Immelt wasn't available to comment.

Ms. Whitman's description of the process quickly became a flashpoint in recounting the chaotic buildup to Mr. Khosrowshahi's appointment.

Ms. Whitman, 61, has longstanding ties to Benchmark, which has pushed for her candidacy, say people familiar with the matter. The venture

firm, which has denied it was a prime advocate for Ms. Whitman, led Mr. Kalanick's ouster in June after a series of scandals rocked Uber, and sued him last month, fueling a public battle among shareholders that remains unsettled.

Soon after pulling her name from the running with a tweet in late July, Ms. Whitman began working to get back into consideration, the people familiar with the board deliberations said. And even as she reiterated on Aug. 23 to The Wall Street Journal that she no longer wanted the job, arrangements were being made behind the scenes to formally present her vision for the company to directors on Friday or Saturday, these people said.

Ms. Whitman had flipped before on a high-profile CEO job. She initially rejected an advance by Hewlett-Packard Co.'s board, where she was already a director, in 2011. She reversed course several weeks later, even though she had

said after leaving eBay Inc. in 2008 that she wouldn't ever take another CEO role.

Ultimately, Ms. Whitman made a formal presentation on Saturday for at least an hour—including PowerPoint slides—at a hotel in San Francisco where the board had assembled to consider the candidates one last time, these people said. While Ms. Whitman said in her statement she was contacted only last Friday to reconsider, these people said her presentation the next day appeared to have taken time to put together.

In the end, Mr. Khosrowshahi's relative youth at 48 years old, his lengthy scandal-free tenure at the helm of Expedia, and what some described as a strong presentation Friday were enough to win him the unanimous vote over Ms. Whitman, people familiar with the decision said. He is expected to meet employees this week.

—Thomas Gryta and Chris Kirkham contributed to this article.

Uber Pays Up to End A Ban in Philippines

BY JAKE MAXWELL WATTS

Uber Technologies Inc. paid nearly \$10 million in fines and compensation to drivers to lift a temporary suspension of its services in the Philippines after a dispute with regulators that had left the U.S.-based company trying to protect its market share in one of its best-performing markets in Southeast Asia.

The one-month suspension, imposed by regulators on Aug. 14, was part of a crackdown by authorities in the Philippines on ride-hailing companies that had operated in the market largely without formally registering their drivers. The ban, met with strong opposition on social media by Filipinos, had hobbled Uber in a market where it was performing well against Singapore-based rival **Grab Taxi Holdings** Pte. Ltd.

The Land Transportation Franchising & Regulatory Board, which oversees regulation for taxi companies, said Tuesday that it had lifted the suspension. Board member Aileen Lizada said Uber had submitted proof that it had paid 190 million Philippine pesos (\$3.7 million) in fines, which will go to the Treasury.

In addition, Uber paid a further \$5.9 million in compensation to drivers over the two weeks it was banned.

Uber said its services had resumed at 5 p.m. local time Tuesday. The company said it is "grateful for the opportunity to serve the Philippines again."

The regulator had banned

Uber after it found that the company had continued registering and activating new drivers after being ordered not to do so.

A month's absence could be highly damaging in this competitive Southeast Asian market, one that analysts see as a winner-take-all opportunity. Uber had initially sought to resist the ban, continuing operations until the regulator threatened its drivers with detention. The company backtracked hours later, but said it was disappointed.

Uber told a government hearing this month that it had more than 66,000 registered drivers who had worked at least once in the past year in the Philippines.

Grab has said it had 52,000 vehicles.

Only about 6,000 vehicles on the two networks had been accredited by the regulator.

Uber's decision to comply with the regulator's suspension order marks an unusual turnaround by the company, which has in other markets around the world often forged ahead with its service despite clashes with regulators.

This has been a tumultuous year for Uber, the world's most valuable startup, which has been beset by legal challenges, the departure of its founder and chief executive, and accusations that its corporate culture encourages sexual harassment. Uber on Sunday selected Expedia Inc. Chief Executive Dara Khosrowshahi as its new CEO, capping a nine-week search.

APPLE

Continued from page B1

rejuvenate the iTunes Store. The company's movie rental-and-sales business has been losing market share to rivals such as Comcast Corp. and Amazon, falling below 35% from about 50% in 2012.

Ultra HD movies have been available online for less than two years, and an executive at one studio said pricing is still in the testing phase. An executive at another studio said \$19.99, Apple's preferred price point, would likely prove more popular with consumers given the vast amount of content available for \$12 or less a



An Apple TV demonstration last year. The company wants to have major films available in ultrahigh-definition on the newest model.

month from Netflix Inc., which offers a limited number of Ultra HD movies and television

shows.

Streaming service Vudu, owned by Wal-Mart Stores

Inc., already offers some digital movies in Ultra HD. "Baywatch," from Viacom Inc.'s Paramount Pictures, and "King Arthur," from Time Warner Inc.'s Warner Bros., cost \$29.99 while Walt Disney Co.'s "Guardians of the Galaxy Vol. 2" is \$24.99.

Hollywood's biggest studios, a group that includes Disney, Paramount, Warner, Comcast Corp.'s Universal Pictures, 21st Century Fox, Sony Pictures Entertainment and Lions Gate Entertainment Corp., are eager to establish a new category for digital movie sales, particularly as that business's growth has been slowing in recent years.

As private employers have shifted away from traditional pensions, Americans are less prepared for retirement. Financial experts advise individuals to

—*Francesca Fontana*

course to prepare them for corporate board duty; half of them now sit on private and public boards, including those of Wells Fargo & Co., USA Truck Inc. and aerospace supplier Wesco Air-

However, outside the defense industry, military brass remain rare in c-suites and boardrooms. The number of top executives who once served has shrunk over the decades as Vietnam War-era veterans have retired. Among S&P 500 firms, only 13 are led by former service members, and just under 5% of their combined board members are veterans, according to S&P Global Market Intelli-

Lt. Gen. Mark Hertling brought disparate brigades and regiments into a cohesive force as commander of the U.S. Army Europe. Simi-

Generals learn lessons, too. After retiring from the Army seven years ago, Lt. Gen. **Stephen Speakes** developed enterprise strategy at financial-services firm USAA for three years before he was let go. In hindsight, he says

He keeps up other practices honed during his 35-year military career, such as making sure he knows the situation on the ground, frequently holding company meetings on the plant floor. "When manufacturing companies get too big, the leaders leave the manufacturing floor," he says. But "the people on the line will tell you in a heartbeat what's going on and why."

—Max Bernhard



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FINANCE & MARKETS

British Firms to Disclose More on Salaries

By NINA TRENTMANN

The U.K. government on Tuesday launched guidelines on executive pay and worker representation aimed at strengthening the country's reputation as a leader in corporate governance as it moves to leave the European Union. About 900 listed companies for the first time have to publish annual pay ratios between their chief executives and their average U.K. worker, according to a set of changes published by the Department for Business, Energy and Industrial Strategy. The corporate-governance overhaul includes the world's first public register of listed companies where one-fifth of investors have objected to executive annual pay packages. The revamp also requires firms to make sure employee interests are represented at board level. The new laws, to be introduced in the coming months and effective by June 2018, come after a monthslong consultation on a so-called green paper on corporate governance changes that was published last November. They are part of an effort to attract new, international investment following last year's Brexit vote. "One of Britain's biggest assets in competing in the global economy is our deserved reputation for being a dependable and confident place in which to do business," said Business Secretary Greg Clark. "Today's reforms will ensure our largest companies are more transparent and accountable to their employees and shareholders," Mr. Clark said. Currently, public companies must disclose their compensation policy to shareholders at least every three years and publish an annual remuneration report. CEOs at Britain's 100 largest firms on average receive pay packages of £4.5 million (\$5.8 million) a year, according to data published earlier this month by the High Pay Centre, a nonprofit focusing on executive pay. The average annual salary for a U.K. worker stands at £28,000. "Pay ratios will sharpen the awareness of boards on the issue of remuneration, but they can be a crude measure," said Stephen Martin, director general of the Institute of Directors. "Companies will have to prepare themselves to explain why executives are worth their packages." Under the new laws, companies of a "significant" yet unspecified size will have to explain how their directors take interests of employees and shareholders into account. All large companies are obliged to make their responsible business arrangements public. The Financial Reporting Council, the country's watchdog for corporate governance, will introduce a new requirement to the U.K. Corporate Governance Code forcing listed firms to make sure that employee interests are represented at board level. The changes to the corporate governance code are expected to apply from 2019 onward.



U.K. official Greg Clark says steps promote accountability.

Fight Over Insurance Lies Ahead

By LESLIE SCISM

Many Texas homeowners and businesses with property damaged by Harvey are under the gun to file insurance claims before a new law favorable to private-sector insurers kicks in Friday. The new Texas insurance law includes changes that affect what happens to a claim that ends up being litigated in court. Among the changes are a sharp reduction in compensation for plaintiffs' lawyers in cases in which their clients are awarded significantly less than initially sought. Plaintiffs' lawyers and other critics of the law are concerned it will hurt policyholders' ability to find lawyers to sue insurers if they are unsatisfied with the outcomes of their claims. Backers of the law say it is aimed at weeding out trumped-up claims after years of allegedly spurious lawsuits claiming hailstorm damage brought by plaintiffs' lawyers against home insurers. For Texans, the law complicates the claim-filing process under ordinary homeowners' and business policies. As a result, some consumer advocates are encouraging policyholders to file claims before Friday to avoid coming under the law. The new law is one of numerous issues surfacing in Texas as damage costs grow and gaps in coverage become evident while locals look for rebuilding options. "History shows that insurers are too attractive to ignore when large amounts of money" are at stake for rebuilding, said Randy Maniloff, an insurance-industry defense lawyer with White and Williams LLP who specializes in coverage disputes. Just as with Hurricane Katrina, one of the biggest gaps emerging in Texas is that only



Houston homes flooded by Harvey. A new law kicks in Friday that is favorable to private-sector insurers in Texas.

a fraction of homeowners in and around Houston have policies from the government's National Flood Insurance Program, according to federal data. Standard homeowners' policies exclude flood damage. In one example, only about 249,000 National Flood Insurance policies were owned by Harris County property owners and small businesses as of June 30, government data show. There are about 1.7 million households in the county, which includes Houston, according to other data. (Some Texans obtain flood coverage from such insurers as Chubb Ltd. and American International Group Inc. that covers expensive homes and other property.) The federal flood-insurance program was created in the 1960s because private insurers

were unwilling to risk catastrophic losses. Because so many in the Houston area don't have government flood insurance, lawyers are expected to target property-casualty insurers—and their record \$709 billion surplus—to get money into the hands of their clients, legal and insurance experts said. Much of the litigation is expected to involve lawyers trying to pierce the exclusion for flood coverage in standard homeowners' policies. After Katrina in 2005, insurers lost one key battle early over the effort by claimants to expand payouts in instances where there was both wind and flooding damage, Mr. Maniloff said. The early loss in the Katrina case affected subsequent claims. Insurers won

reversals on appeal, he said, but by then they had paid out policy proceeds and couldn't go back and collect any money. "The flood exclusion [in homeowners' policies] is strong," the industry lawyer said. "But there is just going to be too much at stake for people not to take a run at it....The language of homeowners' policies is going to get more twisted than Cirque du Soleil performers in an effort to find coverage." Meanwhile, Texans are likely to have another issue with the law going into effect Friday. Some businesses are angry that the provisions apply to commercial insurance, not just the hailstorm claims on homeowner policies that helped inspire the new law. "If you want to restrict hail

claims, you should write it to restrict hail claims," said Bob Ryan, deputy general counsel of Stallion Oilfield Services in Houston. James Cooper of Reed Smith LLP, an outside lawyer for Stallion, said his objections include the law's reducing a longstanding penalty aimed at deterring bad behavior by carriers. Under that change, Texas courts will levy as little as 10% interest on insurers for wrongly delayed payments, down from 18%. Mr. Cooper called that "a dramatic reduction." The law's defenders say it won't affect the claims process for the vast majority of people. The litigated claims it addresses are "the exception, not the rule," said Lucy Nashed, spokeswoman for Texans for Lawsuit Reform, a nonprofit group.

Harvey's Hit Shouldn't Slow Banks for Long

By TELIS DEMOS

Banks may take a short-term hit as Tropical Storm Harvey paralyzes parts of Texas, but analysts say that, as in previous storms, disruptions are likely to be modest and could even portend a longer-term pickup. The KBW Nasdaq Bank index was down 1.6% as of Tuesday afternoon since the storm initially made landfall Friday night, versus a virtually flat S&P 500 index. Shares of banks more heavily concentrated in Texas and the cities affected are down more sharply. Houston, as the country's fourth-largest city, is a significant market for many banks, representing about 2% of big-bank deposits and U.S. mortgage origination volume, according to analysts at Autonomous Research. Some regional and local

banks have higher concentrations of loans and deposits, however. Regional banks **Prosperity Bancshares** and **Zions Bancorp** have 30% and 19%, respectively, of their deposits in the Houston area, according to analysts at **Barclays PLC**. Their shares were off around 2.3% and 2.6%, respectively, since Friday's close. Houston-based **Allegiance Bancshares Inc.**, a commercial bank to small- and medium-size businesses, has virtually all of its deposits in the Houston metropolitan area, analysts said. George Martinez, CEO of Allegiance, said that the bank planned to begin reopening some branches on Wednesday. "We have to go through a period of adjustment for our business customers, but then they'll return to their regular strategies," he said. He noted that customers who used elec-

tronic banking "hadn't been slowed down." Allegiance shares were down 7% since Sunday. Prosperity CEO David Zelman said the bank closed about 25% of its Texas branches on Monday—or about *A banker said 'in the long run, this will create a robust economy for' Texas.* 60 branches, mostly in coastal towns—but had reopened many the next day. It also shifted some operations to West Texas and Dallas, he said. "We're used to this," he said, citing Texas's history with past hurricanes. Despite Harvey's unusually dramatic impact, he said that "in the

long run, this will create a robust economy for the state. You'll see deposits increase in Texas banks because of the insurance money." Shares of **Green Bancorp Inc.**, a commercial and consumer bank also based in Houston, were off around 8.6%. It has about 60% of its loans and deposits in the Houston area. Green has closed its Houston area branches and waived ATM and late fees, with staff either working remotely or staying at a hotel next to the bank's operations center in Houston. Geoff Greenwade, Green's CEO, said he anticipated a slowdown in loan growth in the third quarter, with some loan closings deferred until later in the year. But he said he anticipated "normal or above normal" growth in the fourth quarter and beyond. "What we've typically seen,

because of insurance money and federal assistance and construction, it will provide somewhat of an economic boom for the community over the next year or two," Mr. Greenwade said in an interview. He anticipated pickups in the construction and real-estate sectors, as multifamily properties may find it easier to attract tenants who may be rebuilding their homes. Banks typically slash fees on banking services during disasters, and have less customer activity, which can lead to a dip in revenue. Big banks waiving certain fees, such as ATM or late charges, include **J.P. Morgan Chase & Co.**, **Wells Fargo & Co.**, and **Bank of America Corp.**, which each have roughly 2% of their deposits in the Houston metropolitan area, excluding corporate deposits.

FINANCE WATCH

PROVIDENT FINANCIAL Lender to Lose FTSE 100 Slot

The lender **Provident Financial PLC** is likely to lose its place in the FTSE 100 index later this month as part of the latest quarterly reshuffling of the market benchmark, data from FTSE Russell indicates. The figures, based on Friday's share prices, indicate **NMC Health PLC** will take Provident's place. Provident stock plunged Aug. 22 after the company warned that its core consumer-credit unit was expected to make a loss for 2017. Chief Executive Officer Peter Crook resigned and the company said it won't pay an interim dividend and is unlikely to declare one for the full year. The shares later regained some ground, but ended the week at about half their level before the announcement. The changes are expected to become effective at the close of business on Sept. 15, following the latest quarterly review of the index, which is due to be announced Wednesday. The FTSE 100 is a share index of the 100 companies with the highest market capitalization listed on the London Stock Exchange. Any company that falls

to 111th or worse is automatically ejected, while any firm that rises to 90 or better is added. —Jan Walker

BANK OF NOVA SCOTIA Business Expands At Home and Abroad

Bank of Nova Scotia's income grew in its latest quarter as it expanded its business both in Canada and internationally. Scotiabank said it earned 2.1 billion Canadian dollars (US\$1.69 billion) in the quarter ended July 31, up from C\$1.96 billion a year earlier. Earnings per share climbed to C\$1.66 from C\$1.54 while revenue rose 4% to C\$6.89 billion. Analysts polled by Thomson Reuters had expected earnings per share of C\$1.64 on revenue of C\$6.98 billion. Chief Executive Brian Porter said both Canadian and international personal- and commercial-banking earnings jumped more than 10% from last year as loans and deposits increased. —Cara Lombardo

BANK OF MONTREAL Net Profit Rises As Revenue Falls

Bank of Montreal reported a stronger profit as it lowered its

provision for bad loans and benefited from growth in its Canadian personal- and commercial-banking unit and wealth-management segment. Still, the bank said, revenue fell in its latest quarter due to less active capital markets and lower levels of client activity. Revenue fell 3.1% to 5.46 billion Canadian dollars (US\$4.37 billion) in its third quarter. Analysts polled by Thomson Reuters had expected C\$5.31 billion. Revenue net of certain insurance claims and changes in liabilities rose 5.5% from a year earlier to C\$5.21 billion. Expenses rose 6% to C\$3.28 billion. The total provision for credit losses was C\$134 million, down from C\$257 million. Net income was C\$1.39 billion, or C\$2.05 a share, up from C\$1.25 billion, or C\$1.86 a share. —Austen Hufford



Bank of Montreal said less active capital markets reduced its revenue in the latest quarter.

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FINANCE & MARKETS

Storm Disrupts Key U.S. Pipeline

Fuel shortages are a possibility as Harvey causes problems on the Colonial Pipeline

By LYNN COOK
AND DAN MOLINSKI

Flooding in Texas has disrupted the flow of fuel on a major pipeline that moves gasoline, diesel and jet fuel to the East Coast.

The Colonial Pipeline said its system, which runs from Texas to New Jersey, is starting to have problems stemming from Tropical Storm Harvey. The notice from the company adds to concern that Houston's hard-hit energy infrastructure could result in higher fuel prices or shortages in other parts of the country.

Service at the pipeline's fuel-loading and pumping stations in Houston, Pasadena and Cedar Bayou, Texas, have been interrupted. That doesn't mean the entire pipeline network isn't operating, but it does mean that less fuel was going into the pipeline on Tuesday.

The Colonial is the biggest fuel pipeline in the U.S., stretching 5,500 miles through 12 states. It can transport as



Energy infrastructure at the Colonial Pipeline Co.'s Pelham facility in Pelham, Ala.

much as 2.5 million barrels a day of gasoline, diesel and jet fuel, and is directly connected to several airports, including Nashville, Tenn.; Charlotte, N.C., and Dulles International Airport in Washington.

The pipeline, which was built in 1964, is a main source of fuel for the Southeast, including offshoots to Florida. It ends in New Jersey and is also

a huge supplier of fuel to the greater New York City metro area.

The Colonial is owned by a consortium of companies, including Koch Industries Inc., Shell Pipeline Co. and South Korea's National Pension Service.

Harvey has been downgraded from hurricane status, but the storm continues to

slowly track east through Texas and into Louisiana, where more refineries and vital fuel hubs that feed into the Colonial are located.

Already more than 15% of U.S. refinery capacity has shut down due to the torrential rains that Harvey has dumped across Texas.

As shutdowns continue along the Gulf Coast, one re-

finery operator was trying to restart: Flint Hills Resources owns a Corpus Christi, Texas, plant that closed last week ahead of the storm. The company said it was preparing to restart the nearly 300,000-barrel-a-day plant as early as Tuesday.

Meanwhile, Exxon Mobil Corp. said that it had to shut several fuel-making units at its 362,000-barrel-a-day refinery in Beaumont, east of Houston.

Fuel futures and cash markets swung Tuesday as traders tried to parse news from rumors about refinery outages and pipeline shutdowns, according to analysts at TAC Energy. Gasoline futures for September delivery closed up 7.1 cents a gallon, or 4.15%, at \$1.78 in New York.

Gulf Coast gasoline prices rose, but spot prices in Chicago were actually up more as the area anticipated shutdowns on the Explorer and Magellan fuel pipelines, which originate in Houston.

"While supplies in many regions may not be tight yet, the expectation is that they'll become so shortly and are likely to stay that way for at least a couple weeks," TAC analysts wrote in a note to clients.

—Alison Sider
contributed to this article.

U.S. Treasury Yield at Low For the Year

By AKANE OTANI

The yield on the 10-year U.S. Treasury note fell to its lowest level of the year, as fresh threats from North Korea pushed investors into assets seen as safer stores of value.

The yield settled at 2.134% Tuesday, down from 2.159% on Monday.

Yields, which drop as bond prices rise, fell sharply overnight after North Korea fired a ballistic missile over Japan—the latest in a string of provocations from the isolated state. The launch, officials said, was the first to fly over a main Japanese island since 2009, prompting U.S. President Donald Trump to warn Wednesday that "all options are on the table" in responding.

Prices of so-called haven assets initially rallied. The 10-year yield fell as low as 2.088% overnight, its lowest intraday level since Nov. 10, while gold and the Japanese yen climbed. Meanwhile, assets viewed by investors as riskier, such as stocks, pulled back. By afternoon, however, many of the morning's moves had reversed course—a reflection, analysts said, of some degree of calm returning to the markets.

Positive economic data also helped boost investor sentiment, some analysts said.

Yields on the 10-year U.S. Treasury note also pared losses after data showed a measure of U.S. consumer confidence rose in August to the second-highest level since late 2000, the latest sign that consumers are feeling generally upbeat about the economy.

After an initial shock rippled through the financial markets, investors "apparently are shrugging off the North Korea issue," said Ian Lyngen, head of U.S. rates strategy at BMO Capital Markets.

Dow Industrials Rebound After Jolt by North Korea

By RIVA GOLD
AND MICHAEL WURSTHORN

U.S. stocks recovered from early losses Tuesday after North Korea's launch of a ballistic missile over Japan rattled global markets.

TUESDAY'S MARKETS

The missile was the first Pyongyang has fired over Japan's main islands since 2009 and the latest in a string of direct provocations that have briefly weighed on financial markets in recent weeks.

The Dow Jones Industrial Average closed up 56.97 points, or 0.3%, at 21865.37, after falling 135 points earlier in the session. The S&P 500 added less than 0.1%, and the Nasdaq Composite rose 0.3%.

Selling in global stocks largely moderated throughout Tuesday. The Stoxx Europe 600 fell 1% to 368.42, its lowest close since February, while South Korea's Kospi recovered to trade down 0.2% after earlier falling 1.6%. Japan's Nikkei Stock Average declined 0.4%.

Some money managers said the latest developments con-

tributed to an increase in phone calls from investors who were worried about the impact on their portfolios. But for the most part, investors were staying put, they said, with some choosing to scale back some long-held positions to lock in gains made amid the eight-year rally.

Rising shares of United Technologies helped turn the Dow industrials positive. The aircraft-equipment maker was up 2.1% in late trading after The Wall Street Journal reported the company was near a deal to buy Rockwell Collins

for more than \$20 billion.

Gains in technology stocks, which have led this year's rally, also buoyed major U.S. indexes Tuesday.

Positive economic data helped keep selling at bay, investors added. A measure of U.S. consumer confidence rose in August to the second-highest reading since late 2000, while home-price growth accelerated slightly in June because of upward pressure from limited inventory and strong buyer demand.

Gold for August delivery pared gains to settle up 0.3%

at \$1,313.10 an ounce, its highest close since September.

U.S. government bonds strengthened, sending the yield on the 10-year U.S. Treasury note down to 2.134%, according to Tradeweb, from 2.159% Monday. The falling yields pressured shares of financial companies, which declined 0.4% in the S&P 500. Higher yields tend to boost lenders' profits.

U.S. crude oil for October delivery fell 0.3% to \$46.44 a barrel.

—Kenan Machado
contributed to this article.

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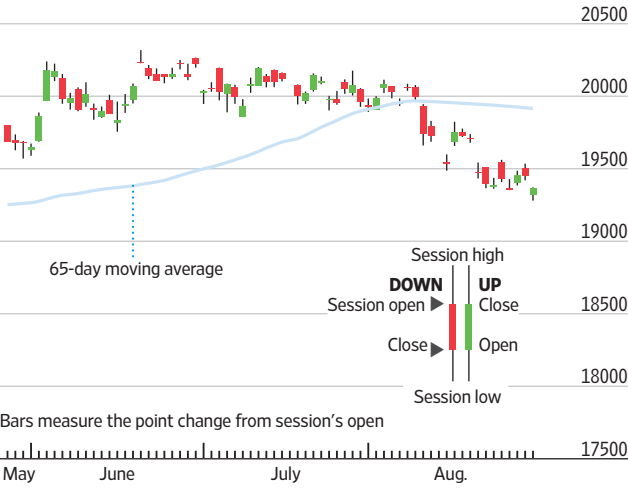
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MARKETS DIGEST

Nikkei 225 Index

19362.55 ▼87.35, or 0.45%
High, low, open and close for each trading day of the past three months.



STOXX 600 Index

368.42 ▼3.87, or 1.04%
High, low, open and close for each trading day of the past three months.



S&P 500 Index

2446.30 ▲2.06, or 0.08%
High, low, open and close for each trading day of the past three months.



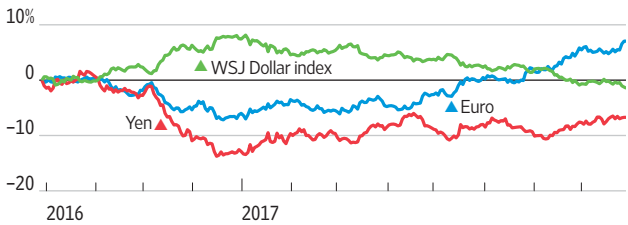
International Stock Indexes

Region/Country		Index	Close	Latest NetChg	% chg	Low	52-Week Range Close	High	YTD % chg
World		The Global Dow	2823.93	-9.91	-0.35%	2386.93		2881.15	11.7
		MSCI EAFE	1915.21	-15.75	-0.82%	1614.17		1955.39	11.6
		MSCI EM USD	1081.47	-3.61	-0.33%	838.96		1085.37	36.2
Americas		DJ Americas	589.27	0.27	0.05%	503.44		599.20	9.0
		Sao Paulo Bovespa	71232.48	215.89	0.30%	56459.11		71505.69	18.3
		S&P/TSX Comp	55079.01	26.98	0.18%	14319.11		15943.09	-1.4
		IPC All-Share	51318.42	51.70	0.10%	43998.98		51772.37	12.4
		Santiago IPSA	3922.20	-6.26	-0.16%	3120.87		3945.90	21.7
U.S.		DJIA	21865.37	56.97	0.26%	17883.56		22179.11	10.6
		Nasdaq Composite	6301.89	18.87	0.30%	5034.41		6460.84	17.1
		S&P 500	2446.30	2.06	0.08%	2083.79		2490.87	9.3
		CBOE Volatility	11.80	0.48	4.24%	8.84		23.01	-16.0
EMEA		Stoxx Europe 600	368.42	-3.87	-1.04%	328.80		396.45	1.9
		Stoxx Europe 50	3000.95	-27.72	-0.92%	2720.66		3279.71	-0.3
	Austria	ATX	3168.82	-34.27	-1.07%	2311.88		3285.00	21.0
		Bel-20	3846.60	-37.95	-0.98%	3384.68		4055.96	6.7
	France	CAC 40	5031.92	-47.83	-0.94%	4310.88		5442.10	3.5
	Germany	DAX	11945.88	-177.59	-1.46%	10174.92		12951.54	4.0
	Greece	ATG	822.67	-15.80	-1.88%	548.72		859.78	27.8
	Hungary	BUX	37639.62	-457.97	-1.20%	27466.59		38147.22	17.6
	Israel	Tel Aviv	1381.61	-10.81	-0.78%	1346.71		1490.23	-6.1
	Italy	FTSE MIB	21408.62	-317.59	-1.46%	15923.11		22065.42	11.3
	Netherlands	AEX	510.03	-4.73	-0.92%	436.28		537.84	5.6
	Poland	WIG	64388.43	-782.13	-1.20%	46321.24		65191.96	24.4
	Russia	RTS Index	1067.58	-1.17	-0.11%	944.88		1196.99	-7.4
	Spain	IBEX 35	10192.60	-93.30	-0.91%	8512.40		11184.40	9.0
	Sweden	SX All Share	545.83	-5.72	-1.04%	489.12		598.42	2.1
Asia-Pacific		Swiss Market	8814.54	-49.69	-0.56%	7585.56		9198.45	7.2
		Johannesburg All Share	56409.62	-146.00	-0.26%	48935.90		56896.89	11.4
		BIST 100	110423.11	83.12	0.08%	71792.96		110530.75	41.3
		FTSE 100	7337.43	-64.03	-0.87%	6654.48		7598.99	2.7

Source: SIX Financial Information;WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Tue in US\$	Tue per US\$	US\$ vs. YTD chg (%)
Americas			
Argentina peso-a	0.0576	17.3627	9.4
Brazil real	0.7985	1.2524	-2.7
Canada dollar	0.7185	1.2524	-6.8
Chile peso	0.001602	624.40	-6.8
Colombia peso	0.0003405	2936.63	-2.2
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0559	17.8805	-13.8
Peru sol	0.3086	3.2408	-3.3
Uruguay peso-e	0.0349	28.660	-2.4
Venezuela bolivar	0.099055	10.10	1.0
Asia-Pacific			
Australia dollar	0.7967	1.2552	-9.6
China yuan	0.1516	6.5981	-5.0
Europe			
Hong Kong dollar	0.1278	7.8247	0.9
India rupee	0.0156	63.9500	-5.9
Indonesia rupiah	0.0000749	13352	-1.3
Japan yen	0.009168	109.08	-6.8
Kazakhstan tenge	0.002982	335.35	0.5
Macau pataca	0.1244	8.0394	1.6
Malaysia ringgit-c	0.2344	4.2666	-4.9
New Zealand dollar	0.7265	1.3765	-4.7
Pakistan rupee	0.0095	105.225	0.8
Philippines peso	0.0196	51.080	3.0
Singapore dollar	0.7395	1.3523	-6.6
South Korea won	0.0008895	1124.20	-6.9
Sri Lanka rupee	0.0065428	152.84	3.0
Taiwan dollar	0.03325	30.076	-7.3
Thailand baht	0.03014	33.180	-7.3
Middle East/Africa			
Bahrain dinar	2.6524	0.3770	-0.04
Egypt pound-a	0.0567	17.6467	-2.7
Israel shekel	0.2801	3.5698	-7.2
Kuwait dinar	3.3188	0.3013	-1.4
Oman sul rial	2.5976	0.3850	unch
Qatar rial	0.2714	3.684	1.21
Saudi Arabia riyal	0.2666	3.7503	-0.01
South Africa rand	0.0771	12.9643	-5.3
WSJ Dollar Index			
	85.29	-0.14	-0.16
			-8.22

London close on Aug. 29

Country/currency	Tue in US\$	Tue per US\$	US\$ vs. YTD chg (%)
Europe			
Bulgaria lev	0.6144	1.6275	-12.4
Croatia kuna	0.1621	6.169	-14.0
Euro zone euro	1.2018	0.8321	-12.5
Czech Rep. koruna-b	0.0460	21.719	-15.4
Denmark krone	0.1615	6.1908	-12.4
Hungary forint	0.003929	254.52	-13.5
Iceland krona	0.009563	104.57	-7.4
Norway krone	0.1293	7.7339	-10.5
Poland zloty	0.2816	3.5512	-15.2
Russia ruble-d	0.01703	58.710	-4.2
Sweden krona	0.1263	7.9147	-13.1
Switzerland franc	1.0544	0.9484	-6.9
Turkey lira	0.2904	3.4439	-2.3
Ukraine hryvnia	0.0393	25.4560	-6.0
U.K. pound	1.2934	0.7732	-4.6
Cross rates			
	USD	GBP	CHF
Australia	1.2552	1.6235	1.3233
Canada	1.2524	1.6199	1.3203
Euro	0.8321	1.0763	0.8772
Hong Kong	7.8247	10.1220	8.2495
Japan	109.0760	141.0800	115.0000
Switzerland	0.9484	1.2268	...
U.K.	0.7732	...	0.8151
U.S.	...	1.2934	1.0544

Sources: Tullett Prebon;WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasuries on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/		Yield	Spread Over Treasuries, in basis points					Yield	
	Maturity, in years			Latest	Previous	Month Ago	Year ago	Previous	Month ago	Year ago
2.750	Australia	2	1.848	52.7	53.6	46.3	67.2	1.869	1.818	1.477
2.750		10	2.635	49.7	51.7	40.0	32.5	2.674	2.693	1.887
3.000	Belgium	2	-0.572	-189.3	-190.6	-187.2	-138.9	-0.573	-0.517	-0.584
0.800		10	0.665	-147.3	-145.0	-147.4	-137.9	0.707	0.819	0.183
0.000	France	2	-0.512	-183.3	-183.9	-181.8	-136.5	-0.505	-0.463	-0.560
1.000		10	0.661	-147.6	-145.8	-148.8	-136.2	0.700	0.805	0.200
0.000	Germany	2	-0.749	-207.0	-207.3	-203.8	-142.0	-0.740	-0.683	-0.615
0.500		10	0.343	-179.4	-177.7	-174.9	-160.5	0.380	0.544	-0.043
0.050	Italy	2	-0.023	-134.4	-135.7	-137.4	-89.0	-0.023	-0.019	-0.085
2.200		10	2.066	-7.2	-6.7	-16.6	-41.6	2.090	2.127	1.146
0.100	Japan	2	-0.155	-147.7	-148.9	-146.8	-98.7	-0.155	-0.112	-0.182
0.100		10	0.004	-213.3	-214.9	-221.5	-162.7	0.008	0.078	-0.065
4.000	Netherlands	2	-0.694	-201.5	-202.3	-203.1	-139.8	-0.689	-0.676	-0.593
0.750		10	0.478	-166.0	-164.3	-163.9	-151.0	0.514	0.654	0.052
4.750	Portugal	2	-0.019	-134.0	-132.7	-131.2	-33.2	0.006	0.043	0.473
4.125		10	2.839	70.2	67.9	58.5	147.2	2.836	2.878	3.034
2.750	Spain	2	-0.342	-166.3	-167.9	-168.9	-101.3	-0.345	-0.334	-0.208
1.450		10	1.567	-57.0	-56.4	-76.3	-60.7	1.594	1.530	0.955
4.250	Sweden	2	-0.692	-201.3	-200.1	-205.8	-142.8	-0.667	-0.702	-0.623
1.000		10	0.573	-156.5	-156.5	-158.9	-142.6	0.592	0.703	0.136
1.750	U.K.	2	0.162	-116.0	-115.4	-110.0	-63.9	0.179	0.255	0.167
4.250		10	1.000	-113.8	-110.4	-107.5	-99.3	1.054	1.218	0.569
1.250	U.S.	2	1.321	...	...	...	...	1.334	1.355	0.805
2.250		10	2.137	...	...	...	...	2.157	2.293	1.562

THE PROPERTY REPORT

Real-Estate Vultures Get Set to Dine

Investors raise funds to buy distressed assets as commercial property sales soften

By PETER GRANT

Investors are raising funds to take advantage of busted condominium projects and other distressed property as weak sales and falling cash flow in parts of the U.S. commercial real-estate industry show signs of spreading.

Firms that are either raising money or are planning to start soliciting funds targeting commercial-property woes include **Madison Realty Capital**, **Delshah Capital** LLC and a venture of investor Michael Ashner and New York developer Steven Witkoff.

Most big private-equity firms, like **Blackstone Group** LP and **KKR & Co.**, aren't raising funds specifically for distressed situations. But they have money available to take advantage of condo developments falling short of sales projections, shopping centers struggling with competition from online retail, delinquent debt and other problems surfacing in several markets.

To be sure, no one expects the kind of carnage that commercial property suffered during the last downturn, which cost investors billions. Many property types—like downtown office buildings and distribution centers—continue to enjoy rent growth and have access to ample financing at

low interest rates.

But some analysts point out that commercial property typically runs in cycles, and it is in one of the longest-running bull markets in recent memory. Lately, the pace of sales volume has slowed, which often is a sign that the market has topped out or is about to top out. "There's a drop coming just like when you get to the top of a roller coaster," said Michael Shah, chief executive of Delshah Capital, which is planning to raise a \$200 million fund to focus on distressed opportunities.

At the same time, values have started falling for some property types, like shopping centers, suburban office buildings and hotels in some markets. These values are measured in terms of yields—or capitalization, or "cap," rates—which rise as prices fall.

According to a recent survey by CBRE Group Inc., the property type that suffered the greatest decline in value from the second half of 2016 to the first half of 2017 were retail "power centers," where typically two or three big-box stores are surrounded by other retail and parking. Their average cap rate rose to 7.31% the first half of this year, compared with 6.92% six months earlier.

The rate of owners falling behind on loan payments also has increased this year. In July, a Moody's Investors Service delinquency tracker of a popular type of commercial mortgage-backed security was



A battle among equity investors in the Steinway building in Manhattan, a condominium project, has spilled into court.

at 6.7%, compared with 6% at the end of 2016. That is well below the peak of 10.1% the tracker hit in July 2012. But the current number is much higher than the tracker was at in 2008: 0.5%.

Some regions are being hit worse than others. The delinquency rate in Washington, D.C., is 2.5 times the national average, with the problem resulting largely from "suburban office properties with concentrations of government tenants," Moody's said in a report this month.

One of the largest defaulted loans in the Washington area is backed by Fair Lakes Office Park, a nine-building complex in Fairfax County, Va. The property, which was almost half-empty, was handed over

to its lender by **Shorenstein Properties** LLC last year, according to a Shorenstein spokeswoman.

Mr. Shah said that market for sales of distressed debt was quiet between 2012 and 2017. "This year I've picked up four notes worth a total of about \$30 million to \$40 million," he said.

Funds investing in distressed properties also have their eyes on hotels and high-end condominium developments that have run into problems in New York, Washington and other areas.

Executives at firms raising distressed funds say this market offers different opportunities than previous cycles because of the large number of nontraditional lenders—like

mortgage real-estate investment trusts and private-equity firms—that have been active in recent years. Some of these debt sources are willing to sell assets to investors with more expertise in real-estate bankruptcy foreclosures and other restructurings.

One example of a nontraditional lender is Apollo Commercial Real Estate Finance Inc., a mortgage real-estate investment trust launched in 2009 by Leon Black's Apollo Global Management LLC. On its earnings call this month, Apollo Commercial executives discussed several problems in its \$3.5 billion portfolio.

One was a condominium project on 57th Street in Manhattan known as the Steinway building. In 2015, Apollo pro-

vided a \$325 million mezzanine, or junior, loan for the development behind a \$400 million construction loan. Since then, a battle among equity investors on a wide range of issues, including alleged cost overruns, has spilled into court.

Apollo this year sold at par a \$25 million junior piece of its loan to another investor "with strong experience in the New York City condo market," said Stuart Rothstein, chief executive of Apollo Commercial on the earnings call. Mr. Rothstein didn't identify that investor, but other people familiar with the matter say it is New York investment firm **Spruce Capital Partners**. Spruce executives didn't return a call seeking comment.

Retail Pain Cuts Property-Tax Take

By ESTHER FUNG

In April, the Indiana Supreme Court handed **Kohl's** Corp. a victory when it agreed not to review a lowered property assessment that was awarded to one of the retailer's stores because of the rising vacancy rates and dropping values of other shopping centers in its area.

The decision, which translated into a \$219,000 refund for Kohl's, was a sign of the drain to tax revenue resulting from the worsening retail real-estate landscape for Howard County, the taxing jurisdiction, as well as other local governments throughout the country.

Retail sales and occupancy rates are falling in many parts of the U.S., partly because of oversupply of stores and competition with online retailers. That has meant lower property values, lower tax collections and—in some cases—less to pay teachers and firefighters.

But property owners and retailers say lower tax bills, which are a large part of operating costs, will help to keep them in business. "This is one of the ways to lower operating costs, and the new owner would then be able to negotiate better deals with tenants and keep them in the mall," said Thomas Dobrowski, executive managing director of capital markets at real-estate-services firm Newmark Knight Frank.

National statistics aren't available on reduced tax assessments and refunds for retail landlords. But the sector clearly is suffering reduced property values as landlords face more pressure these days from department stores and other tenants downsizing or filing for bankruptcy protection.

Property-services firm **Cushman & Wakefield** estimates that the number of store closures this year will reach at least 8,000. That would be up from more than 4,000 in 2016.

Buyers of struggling U.S. malls often quickly pursue a reassessment to lower property taxes.

More retail landlords are defaulting on loans than owners of other property types. In the first seven months of 2017, the loan balances of these defaulted mortgages increased roughly 20% to \$1.34 billion, according to data from Trepp Inc.

Buyers of struggling malls that pay low prices often quickly pursue a reassessment of the property to lower the tax bill. Assessors say more store owners and mall landlords are lodging appeals for a lower assessed valuation for their shopping centers and malls.

"There's a cottage group of

people who do nothing but appeal tax assessments. They're tax agents, and their job is to look for loopholes to get property taxes lower," said Tim Wilmath, chief appraiser at the Palm Beach County Property Appraiser's Office. "I've heard lots of reasons why taxes have to be lower due to e-commerce."

Property-tax bills are some shopping-center owners' biggest expense, outpacing salaries and rents. "There's a lot of activity in the appeals space. There's a lot of value in doing

that," said Tim Trifilo, a partner in the tax practice of **Cohn-Reznick** LLP, an accounting, tax and advisory firm.

Some landlords appealing assessments point to the declining amount of sales taxes being generated by their stores. Others cite market conditions in the region, such as sales prices of vacated stores.

Frank Lima, who heads real-estate-services firm Hilco Global's tax advisory practice, recently included a value analysis of vacated stores of appliance seller **Hhgregg** Inc. to lower the assessed value of another retailer's property. "We

look at market rents, what an empty box would sell for," Mr. Lima said.

Some battles over tax assessment focus on what is known as the "dark store" method of analyzing value. According to this method, even if a shopping center has solid tenancy and cash flow, its value is affected by low vacancy and store closings in the surrounding area.

In the Kohl's case, the retailer challenged the Howard County assessor's valuation for 2010 to 2012. The retailer's appraiser looked at sales of what the appraiser said were comparable retail property in the Midwest, including former Wal-Mart and Kmart stores.

These properties were sold for prices ranging from \$5.13 to \$63.65 a square foot. Howard County Assessor Mindy Heady hired another appraiser who opined that only one property that sold at \$63.65 a square foot was comparable.

The others were in markets with smaller demographics. One was located in a "dead" mall, according to documents from the Indiana Board of Tax Review.

"We as assessors think that they [landlords and retailers] are misusing it. That's why we're battling it," said Ms. Heady, referring to the "dark store" method.

Kohl's didn't respond to requests for comment.

Reverse-Mortgage Rules Are About To Be Tightened

By LAURA KUSISTO

The Trump administration is planning to raise premiums and place tighter loan limits on some borrowers in a mortgage program that helps seniors supplement their incomes.

The U.S. Department of Housing and Urban Development on Tuesday plans to announce the changes in a letter to lenders to the so-called reverse-mortgage program, which allows seniors to take out a loan against the value of their home. The Trump administration feels the changes are necessary to put the program, which is backstopped by taxpayers, on a sounder financial footing.

"Given the losses we're seeing in the [reverse mortgage] program, we have a responsibility to make changes that balance our mission with our responsibility to protect taxpayers," HUD Secretary Ben Carson said through a spokesman.

The modifications won't apply to borrowers with existing mortgages, but will affect those who take out new loans. Some 650,000 borrowers have outstanding reverse loans insured by the Federal Housing Administration, which is part of HUD.

Most new borrowers will pay bigger premiums upfront but lower ones over the life of the loan, lessening the risk to taxpayers if seniors live longer than predicted. Borrowers will now pay 2% of the amount of the home's value upfront and 0.5% annually over the course of the loan.

Currently, most borrowers pay 0.5% upfront and 1.25% annually over the remainder of the loan. Some who borrow more than 60% of the amount they can borrow against the home in the first year already pay 2.5% upfront so they will see premiums go down slightly.

On balance, most seniors will also be able to borrow less money. The average borrower at current interest rates will be able to borrow roughly

58% of the value of their home, down from 64%. But those limits vary significantly based on interest rates and the age of the borrower. While most seniors at current interest rates will be able to borrow less, some may be able to borrow more if rates rise.

The Federal Housing Administration's reverse-mortgage program allows seniors to take out loans from private lenders against their homes to supplement pension income and help those on fixed incomes deal with unexpected or rising expenses. When the

Officials say changes are needed to avoid unduly burdening the FHA's reserve fund.

borrower moves or dies, the lender that originated the reverse mortgage takes possession of the home and sells it, and the proceeds are used to repay the loan.

But the program also carries significant risks for the federal government, which backs the loans.

The Federal Housing Administration covers the losses on the loans from a reserve fund that is supported primarily by premiums paid by younger borrowers on traditional FHA mortgages. Since 2009, the reverse-mortgage program has drained nearly \$12 billion from that fund.

Loans can end up losing money if home-price growth is slower than expected, seniors don't keep the homes in great repair or they live longer and more interest accrues on the loan. Without changes, federal officials say that the program is placing an increasingly large burden on the reserve fund.

Advocates for the program, who had yet to be briefed on the changes, acknowledged that it has issues that need to be addressed but said it remains a critical resource for many seniors.



A Kohl's store in Oklahoma. Kohl's Corp. challenged the valuation of an Indiana store and received a property-tax refund.

MARKETS

Euro’s Climb Places the ECB in a Bind

By Mike Bird

The euro jumped above \$1.20 for the first time in 2½ years, a headache for the European Central Bank as it balances weak inflation with constraints on the bond-buying program that it uses to boost prices.

The common currency has been rising for months on expectations among many investors that the central bank will begin tapering its monthly €60 billion (\$71.9 billion) of bond buying as it runs out of assets to purchase, even as inflation falls short of its target.

The euro was up 0.2%, to \$1.206, Tuesday afternoon in New York after trading as high as \$1.2062. It is up more than 14% against the dollar this year to reach the highest level since just before the ECB an-

nounced its stimulus program in January 2015.

On Friday, ECB President Mario Draghi didn’t provide fresh clues on the direction of monetary policy at a speech in Jackson Hole, Wyo. That didn’t put investors off the euro.

“The market is challenging the ECB,” said Richard McGuire, head of rates strategy at Rabobank.

One reason that bond buying can boost inflation is by reducing the value of a currency. It does that by pushing down yields on bonds, making the region less attractive for foreign money.

Like many other analysts, Mr. McGuire believes the bank will start running out of some bonds to buy, making the program hard to implement in its current structure.

“We believe they’ll have to



ECB President Mario Draghi

rein in stimulus even if they’re doing so at a time when the inflation outlook is deteriorating,” he said.

Those constraints include a self-imposed limit preventing the ECB from holding more than 33% of any country’s outstanding debt. If Germany’s central bank continues govern-

ment-bond purchases at its current rate, Rabobank believes that limit will be reached around April.

The rise in the euro exacerbates the tension between those constraints and the ECB’s main target, keeping inflation close to, but below, 2%.

A 10% rise in the trade-weighted index, which measures the euro against a basket of other currencies, reduces consumer-price inflation in the eurozone by around 0.45 percentage point over the subsequent 12 months, according to analysts at BNP Paribas SA.

So far this year, the euro has performed its strongest since its inception in 1999, rising more than 7% on a trade-weighted basis.

The euro is also gaining on the strength of the economy, keeping pace with the

U.S. expansion. A series of recent elections doused fears that a series of antiestablishment politicians would break up the eurozone, concerns that had pressured the currency. Meanwhile, the dollar has weakened.

So far this year, the euro has performed its strongest since its inception in 1999.

Data suggest that traders see the euro’s rally continuing. In the week to Aug. 25, speculators held 87,976 more contracts betting the euro would rise than those wagering it would fall, according to

the Commodity Futures Trading Commission. In the past two months, the CFTC has recorded the largest number of positions betting on a strengthening euro in six years.

At the ECB’s most recent monetary policy meeting, the strength of the currency was mentioned as a potential worry.

“Concerns were expressed about the risk of the exchange rate overshooting in the future,” according to official minutes from the meeting.

The central bank has trimmed its own forecasts for inflation this year. In March, it predicted that prices would rise 1.5% in 2018, but in June that expectation fell to 1.3%, a forecast that then presumed a euro-dollar exchange rate of \$1.08.

Conditions Look Right for Gold to Move Higher Still

By Chris Dieterich

Retail and professional investors are in sync with their bullish bets on gold, a sign that the precious metal can push to fresh highs.

Gold for August delivery on Tuesday added 0.3% to \$1,313.10 an ounce on the Comex division of the New York Mercantile Exchange, following a 1.3% advance on Monday. The precious metal is at levels it hasn’t reached since September, before Republicans in the U.S. took the White House and retained Congress. The election boosted hopes for economic growth and prompted traders to dump gold.

Now, for the first time since June, both futures contracts and flows into exchange-traded funds are look-

ing similarly supportive. Bullish futures positioning in gold has risen for six straight weeks, and the two largest gold ETFs have pulled in new money in each of the past two weeks, according to the Commodity Futures Trading Commission and Morningstar.

Investors big and small moving the same direction is an important step for prices to break out through key levels of resistance, market technicians say. Twice this year, gold’s charge higher was denied around the \$1,300 level, but positioning is more bullish this time around.

Futures contracts tend to be the domain of hedge funds and big speculative traders, while ETFs, with their lower per-share prices, tend to be a favorite of retail investors and retail-facing financial advisers.

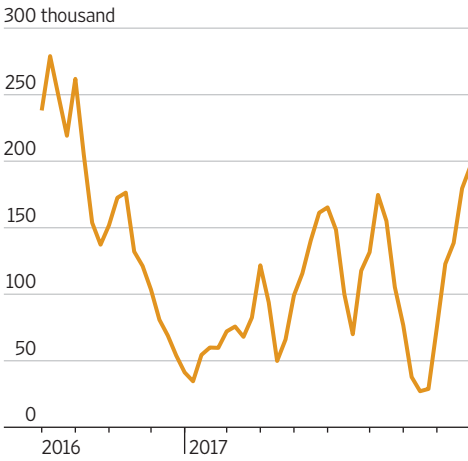
Some analysts had been reluctant to endorse gold until ETF money flows turned positive. Investors withdrew a total of \$2.6 billion from the \$33 billion SPDR Gold Shares exchange-traded fund and \$8.9 billion iShares Gold Trust from the week ended April 26 through Aug. 9.

Now a shift is taking place. The two large gold ETFs pulled in \$680 million in the two weeks ended Aug. 22. And, Monday, the SPDR Gold Shares ETF by itself recorded an inflow of \$379 million, the largest one-day flow since June 7, according to FactSet.

Gold drew haven buyers earlier this month in the wake of U.S.-North Korea saber-rattling. North Korea is a concern, and that drove the climb again on Tuesday, but gains have mostly been powered by

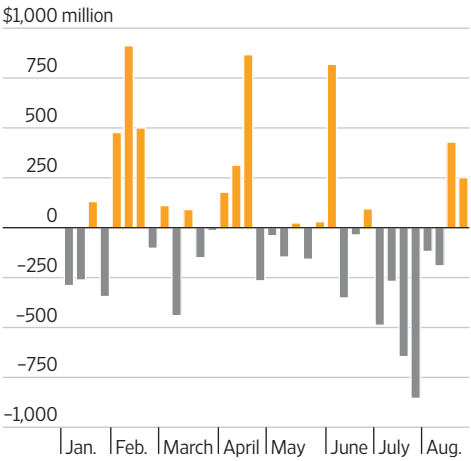
Charging Into Gold

Net futures-market bets that gold will rise are at their highest level since October*...



*Through Aug. 22. †Combined weekly money flows into the SPDR Gold Shares ETF and the iShares Gold Trust, through Aug. 23. Sources: Commodity Futures Trading Commission (futures), Morningstar (funds)

...and money is pouring into exchange-traded funds†.



a weakening dollar and diminished expectations for the Federal Reserve to boost interest rates again this year. Gold is priced in dollars and a weaker dollar makes the metal cheaper for overseas buyers.

Higher interest rates, adjusted for inflation, make owning bonds more appealing than gold, which begets no income. Another reason to favor gold in the weeks ahead: There is a risk lawmakers will

fail next month to authorize new spending and raise the statutory debt limit. A government shutdown or questions about the Treasury’s ability to pay its bills could stoke market turmoil favorable to gold.

HEARD ON THE STREET

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Phone Prices Go Toward the Edge

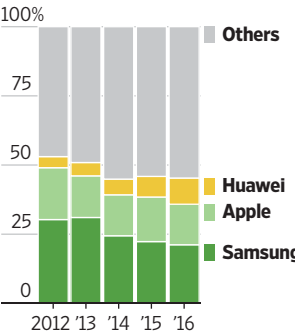
The newest smartphones are taking their screens to the edge. **Apple Inc.** and **Samsung Electronics** seem to be doing the same with their prices, in what amounts to a gamble to revive growth.

The two companies have long dominated the high end of the modern smartphone market. But that part of the business has gotten saturated, curbing the runaway growth they once enjoyed. Apple and Samsung combined accounted for 36% of smartphones sold globally last year—down from 49% five years ago, according to IDC.

Both companies also saw smartphone revenue decline in their latest fiscal years. They are betting they can revive growth by selling ever more expensive phones to their most loyal customers. Samsung unveiled its Galaxy Note 8 last week, which includes the same edge-to-edge display design as the smaller Galaxy 8 smartphone that went on sale in April. That sort of design uses

Dialed Down

Share of global smartphone sales



Source: IDC
THE WALL STREET JOURNAL.

curved glass and organic light-emitting diode, or OLED, technology to add more high-definition display space to the phone without increasing its overall size.

It is expensive: Samsung’s Galaxy Note 8 will start at a price of around \$950 depending on the carrier, which is 8% to 12% higher than the starting price of last year’s Galaxy Note 7. The smaller Galaxy 8 was also priced about 12% higher



Samsung unveiled its Galaxy Note 8 last week.

than last year’s models.

Meanwhile, Apple is expected to introduce three new iPhone models at a Sept. 12 event. At least one is widely believed to feature an edge-to-edge display along with a glass-covered frame. Analysts expect this new model to start at \$1,000 or more, which would make it the most expensive smartphone to ever launch in the U.S. market. The current iPhone 7 starts at \$649.

Price increases seem risky in a slowing market, though Apple may be hoping to repeat some of the success of the iPhone 6, which launched in late 2014. That phone was the company’s entry into the larger-screen smartphone segment and it paid off handsomely, boosting both iPhone unit sales and Apple’s operating profit by more than 36% for the company’s 2015 fiscal year.

The iPhone’s average selling price rose 11% to \$671 for the same period. Apple’s stock price, which rose about 30% in the six months prior to the iPhone 6 launch, gained another 30% in the six months that followed.

Still, prices approaching \$1,000 will be a shock. A Barclays survey earlier this month found that only 18% of iPhone users are willing to pay more than \$1,000.

Both Apple and Samsung have proven skilled at making eye-catching designs. But now the price of those designs seems likely to make their customers’ eyes bulge.

—Dan Gallagher

OVERHEARD

Company executives who complain about short sellers should think before they speak. Biotech company **aTyr Pharma** announced a \$45.8 million equity financing on Monday at an 81% discount to its 2015 initial public offering price.

The company raised cash at such a dismal price just over a month after senior finance executive **John Blake** testified to Congress about investors who bet against shares of biotech companies.

“We strongly believe that the current lack of transparency related to short positions is enabling trading behaviors that unfairly harm growing companies, long-term investors and, most importantly, patients,” he said on July 19. The causes of the decline were more likely repeated clinical disappointments at aTyr and a very high initial valuation, not short sellers. In fact, Mr. Blake’s testimony was a good sell signal; shares are down about 20% from that day’s closing price.

Will Harvey Soak Auto Insurers?

Most of those cars seen floating or submerged in pictures from Houston this week are auto-insurance claims waiting to happen.

Harvey may be remembered as the biggest storm that had the smallest impact on the insurance industry. That is because most damage was caused by flooding, which is mainly covered by the federal government.

Auto insurance does cover flood damage, which is why shares of the big auto insurers in the region are down more than those of other insurers.

Auto insurers with the biggest Texas market share include **State Farm**, an unlisted mutual insurer owned by policyholders, as well as listed companies **Allstate** with 12% share, **Berkshire Hathaway’s** Geico with 10% and **Progressive** with 9%, according to analysts at Morgan Stanley.

Allstate and Progressive were among the biggest decliners among insurers Monday, falling 1.5% and 2.3%, respectively.

So far these declines seem about right, because investors know that insurers have ways to limit their risk. Allstate, for instance, has substantial protection from reinsurance, notes Barclays analyst Jay Gelb.

“The ultimate impact on insurers and reinsurers is likely to be absorbable within a single quarter of earnings for most major insurance companies,” Mr. Gelb said.

However, with Allstate and Progressive up 22% and 33% this year, even a modest hit could knock the shares down further. Investors may want to stay away until the clouds finally part.

—Aaron Back

Weak Wage Growth Likely to Remain Problem for the U.S.

U.S. employment data for August have often been a downer over the past decade, with seasonally adjusted job growth of at least 200,000 positions occurring just twice, the least of any month. Fresh government figures suggest this month’s report Friday will be the third.

Yet it may not result in the long-awaited acceleration in hourly wage growth, which has been below 3% since 2009.

Whether the slow gains are the result of slack inflation or a key cause of it, wages rising at a historically low rate have kept the Federal Reserve in a go-it-slow

stance regarding interest-rate increases. Without signs of faster hourly pay growth before December’s meeting, the Fed could have already made its last increase of 2017.

Why there haven’t been stronger wage increases with some unemployment data hitting levels last seen in 1973 has been long debated, including at the central bank.

If there are to be signs of accelerating wage gains, now is the time.

Beyond the unemployment rate already being at 16-year lows in July and payrolls growing for a record 82 months and counting, unemployment claims seasonally

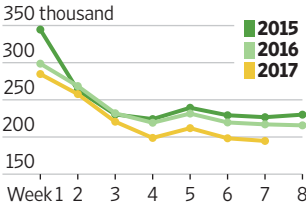
hit their annual lows in September as schools are back in session and other industries that pare back in the summer ramp up.

In September 2015 and 2016, initial jobless claims on an unadjusted levels—not the seasonally adjusted figures which grab headlines each Thursday—saw a combined three weeks’ readings come in below 200,000. They were the first such occurrences since 1973. But in three of the past four weekly reports from the Labor Department, unadjusted claims have been under 200,000.

Based on historical norms, the number could bottom out around 180,000 next

Work Experience

Unadjusted U.S. jobless claims, eight weeks starting in July



Source: Bureau of Labor Statistics
THE WALL STREET JOURNAL.

month, also a level not reached since 1973.

A labor market near what some consider full employment should be resulting in faster wage gains. It hasn’t

to date, perhaps as the result of the U.S. workforce being in stasis as firings and layoffs are around record lows or retiring baby boomers capping overall average wage growth, as a recent paper from the San Francisco Fed suggested.

Whatever the reason, the Fed—and the American worker—wants more than just another month of the strong job growth that Friday’s report for August should contain.

If hourly wage gains remain around 2.5%, it would be yet-another sign of the post-financial-crisis new normal.

—Kevin Kingsbury