

# THE WALL STREET JOURNAL.

DOW JONES | News Corp \*\*\*\*\*

THURSDAY, MAY 31, 2018 ~ VOL. CCLXXI NO. 126

WSJ.com

★★★★ \$4.00

DJIA 24667.78 ▲ 306.33 1.3%

NASDAQ 7462.45 ▲ 0.9%

STOXX 600 385.49 ▲ 0.3%

10-YR. TREAS. ▼ 20/32, yield 2.842%

OIL \$68.21 ▲ \$1.48

GOLD \$1,301.50 ▲ \$2.50

EURO \$1.1666

YEN 108.91

## What's News

### Business & Finance

**T**he Fed proposed easing the Volcker rule, which was designed to curb risky trading by big banks in the wake of the financial crisis. **A1**

◆ **Gross's flagship** bond fund fell more than 3% Tuesday, in an apparent hit from the Italian market tumult. **A1**

◆ **Toyota shipments** from Japan to the U.S. rose 22% in April, highlighting the threat the auto maker could face from higher tariffs. **B1**

◆ **Buffett offered** to invest \$3 billion in Uber earlier this year, but the two sides couldn't agree on terms. **B1**

◆ **Kuwait and Iran** are leading an OPEC faction upset about a Saudi-Russian pact to ease up on oil-output cuts. **B1**

◆ **Stocks snapped** a losing streak as fears about Italy eased. The Dow rose 306.33 points to 24667.78. **B1**

◆ **A deadly E. coli outbreak** linked to romaine lettuce has led to millions in losses for growers and sellers. **B1**

◆ **Canadian Pacific** and the union representing conductors and engineers reached a deal, ending a brief strike. **B3**

◆ **Dick's profit and sales rose**, allaying concerns about the sporting-goods chain's gun curbs. Shares surged 26%. **B3**

◆ **Walmart will subsidize** workers' online college tuition at three schools. **B6**

◆ **Citigroup spent** \$8 billion on technology in 2017, as big banks spend to keep ahead of upstart rivals. **B10**

◆ **Fox shareholders** will vote July 10 on a proposed asset sale to Disney. **B3**

### World-Wide

◆ **The Trump administration** plans to make good on its threat to impose tariffs on European steel and aluminum after failing to win concessions from the EU. **A1**

◆ **The U.S. decision** to move forward with tariffs against China is putting planned weekend talks at risk. **A2**

◆ **Pompeo began** talks with a senior North Korean official, as the administration tries to establish whether there is enough common ground to proceed with a summit. **A7**

◆ **A senior GOP congressman** disputed Trump's claim that "spies" infiltrated his campaign and said the FBI's Russia probe was legitimate. **A4**

◆ **Stormy Daniels' attorney** withdrew a bid to participate in proceedings related to a probe of Trump's lawyer. **A4**

◆ **Trump's criticism** pushed the NFL to shift its anthem stance, depositions in the Kaepernick case indicate. **A6**

◆ **A political impasse** in Italy continued as the nation's president searched for a way to avoid fresh elections. **A9**

◆ **The U.S. has retooled** its aerial bombing in Afghanistan to target the Taliban's revenue, not just its fighters. **A7**

◆ **Virginia is poised** to expand Medicaid after a hard-fought legislative battle. **A4**

◆ **Harvey Weinstein** was indicted by a grand jury on charges of rape and perpetrating a criminal sex act. **A3**

◆ **A St. Louis prosecutor** dropped campaign-finance-related charges against Missouri Gov. Greitens. **A4**

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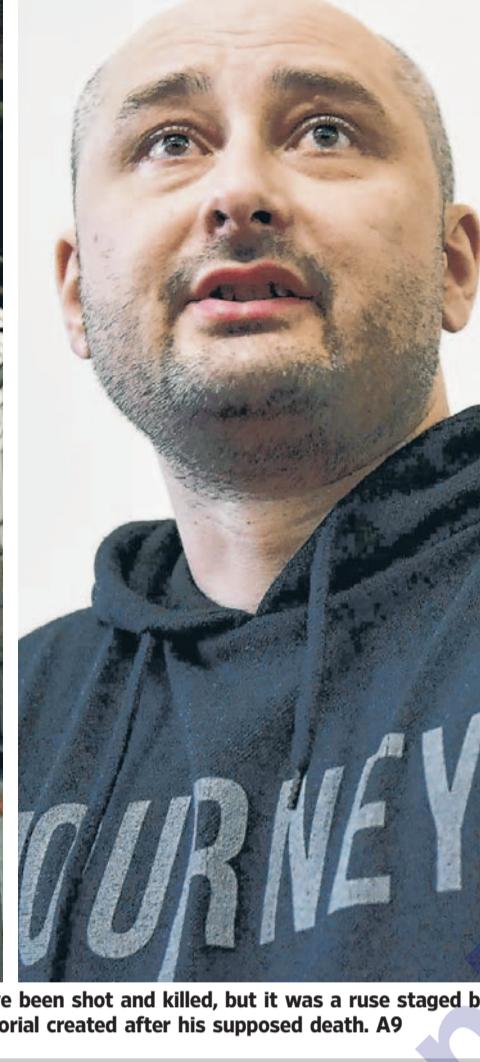
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Please see BANKS page A4

## Russian Journalist, Presumed Killed, Stuns Press Conference



**BACK FROM THE DEAD:** Russian journalist Arkady Babchenko was reported to have been shot and killed, but it was a ruse staged by Ukrainian authorities to catch organizers of an alleged plot on his life. Left, a memorial created after his supposed death. **A9**



## Trump To Impose EU Steel Tariffs

Move prompted by U.S.'s failure to win concessions; Europe likely to retaliate

WASHINGTON—The Trump administration, unable to win concessions from European Union counterparts ahead of a Friday deadline, is planning to make good on its threat to impose tariffs on European steel and aluminum, people familiar with the matter said.

By William Mauldin, Bojan Pancevski and Vivian Salama

The administration is expected to make an announcement as early as Thursday.

The move, which has been threatened for months, is almost certain to draw a response from the EU, which has threatened to retaliate with its own tariffs on such American products as motorcycles, jeans and bourbon.

President Donald Trump announced in March global tariffs of 25% on imported steel, and 10% on aluminum, based on national security concerns. The White House delayed implementation for some countries, giving those trading partners a chance to offer concessions to avoid the tariffs.

The U.S. now plans to let the EU's exemption lapse.

One person familiar with the matter said the administration's plans could still change, particularly if the two sides are able to cobble together a last-minute deal.

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◆ Greg Ip: Lessons in how to do protectionism well..... A2

◆ Renewed offensive against China puts talks at risk..... A2

## Bill Gross Fund Takes Hit From Italy

By JUSTIN BAER

Instead, German prices jumped, sending yields plummeting, following the apparent collapse of a prospective Italian coalition government over the weekend.

Mr. Gross's fund fell 3.04% Tuesday, ranking it last in performance among similar funds this year, data tracker Morningstar said. Similar funds returned, on average, a 0.22% decline in 2018 through Tuesday, Morningstar said.

On Wednesday, Mr. Gross's fund rose 0.34%.

The fund's decline on Tues-

day was the latest setback for Mr. Gross, the onetime "bond king" who built Pacific Investment Management Co. into a dominant force in the debt markets, with more than \$200 billion at one point under management in his Total Return Bond Fund.

Mr. Gross appeared to signal a call for selling German bonds in his first-quarter letter to investors, noting that a March statement by the European Central Bank had paved the way for higher interest rates across the continent.

Unconstrained bond funds like Mr. Gross's are free to invest in a wider array of securities than those with more traditional fixed-income investments, like U.S. government and corporate bonds. The declines in Mr. Gross's fund are an example of how vulnerable investors can be to sudden reversals in market sentiment at a time of low, if

Please see BONDS page A9

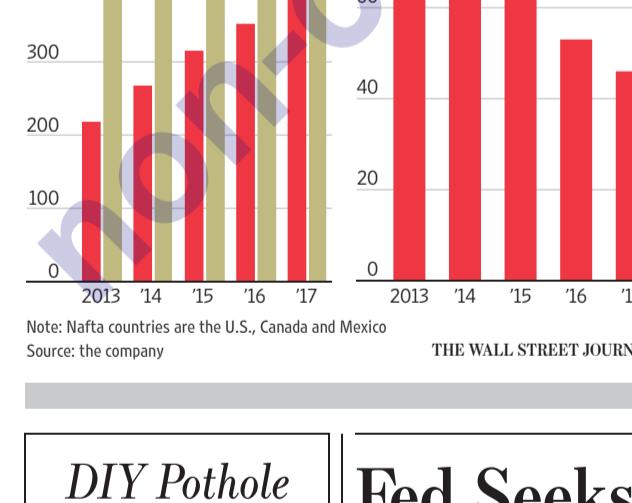
◆ James Mackintosh: Assessing Italy's panic, rescue..... B1

◆ The crisis, in seven charts... B12

## Toyota Imports Pose Conundrum

Toyota faces a risk if the Trump administration boosts tariffs on best sellers like its RAV4, which isn't built in the U.S. **B1**

### U.S. sales of RAV4 and Camry



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## Trump-Style Disrupter Leads In Mexican Presidential Race

López Obrador rattles business with talk of 'mafia of the powerful'

By JUAN MONTES AND JOSÉ DE CÓRDOBA

MEXICO CITY—In 2006, Andrés Manuel López Obrador lost his first presidential race by a hair. He refused to concede, and in a surreal ceremony donned a presidential sash and declared himself Mexico's legitimate president. Earlier, in a fiery speech in the capital's historic square, he cursed Mexico's governing institutions.

"Although my opponents may not like it, to hell with their institutions," shouted the silver-haired politician.

Now the 64-year-old leftist nationalist is weeks away from an election in which he is making his third run for the presidency. Polls

make him the front-runner, and hint at a possible landslide. The prospect has split the country, terrifying many of Mexico's top businessmen and electrifying many average Mexicans who are fed up with the country's politics-as-usual of unbridled corruption, sluggish growth and skyrocketing violence.

If Mr. López Obrador is sworn in as president—this time for real—it isn't entirely clear which man will turn up. Many fear it will be the fervent social activist with an authoritarian streak who sees the country divided in two camps, what he calls a "mafia of the powerful" against Mexico's "good and honest people." Others hope it will be the López Ob-

Please see MEXICO page A10

## DIY Pothole Rebels Tackle Deep Problems

\* \* \*

When cities fail, friends donate beer, asphalt

By VALERIE BAUERLEIN

Neighbors in New Orleans's historic Faubourg Marigny recently threw a street party that marked the first anniversary of a pothole the length of a small sedan.

They brought beer, sliders and 700 pounds of quick-dry asphalt. Somebody googled, "How to fill a pothole." Neighbors blocked off the street with trash cans and took turns hoisting bags and filling the tire-busting crater. "People said it's vigilanism, but I think it's hyper-libertarianism," said party organizer Elisa Cool, a 35-year-old marketing specialist.

Please see HOLE page A10

## Fed Seeks to Loosen Volcker Rule for Banks

BY RYAN TRACY AND TELIS DEMOS

WASHINGTON—The Federal Reserve proposed on Wednesday easing a rule designed to curb risky trading in the wake of the financial crisis, one of the most significant deregulatory measures for banks since President Donald Trump took office.

The proposal, unanimously advanced by the Federal Reserve and known as Volcker 2.0, means JPMorgan Chase & Co., Goldman Sachs Group Inc. and other banking behemoths would face fewer audits of individual securities and derivatives transactions. The banks wouldn't have to spend as much time proving compliance, and traders would generally have more freedom to buy and sell securities.

Please see BANKS page A4

and other powerhouses booked billion-dollar losses. Still, critics said the proposal gives banks too much leeway and could create loopholes that allow banks to engage in risky trading.

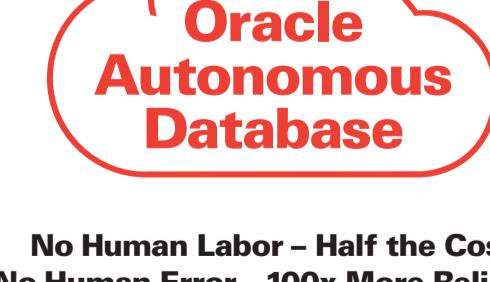
The proposal is part of a broader regulatory rollback that includes a recently enacted law easing rules on small banks and less aggressive leadership at the Consumer Financial Protection Bureau.

Congress told regulators to draft the rule in 2010, named for former Federal Reserve Chairman Paul Volcker, to bar big banks from hedge-fund-like speculative trading activities. That prohibition remains.

Regulators said they want to enforce the rule differently because the existing practices are costly and confusing. The Fed and other agencies wouldn't audit individual transactions as often, but they would check to see that bank managers set limits on traders aligned with ex-

Please see BANKS page A4

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## U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

## Lessons in How to Do Protectionism Well



Free trade, for all its virtues, isn't an easy sell. Every country applies some level of protectionism out of economic or political necessity.

But protectionism can be done well or done badly. Done well, it minimizes costs to taxpayers and consumers, maximizes benefits to domestic industry, and discourages bad behavior by trade partners. President Donald Trump routinely does protectionism badly, using the wrong tools on the wrong behavior and the wrong countries.

On Tuesday, he actually suggested hitting the right target the right way, when he promised to restrict Chinese investment and imports over intellectual-property violations. But his record raises doubts about whether he will follow through.

Here are some lessons in how to do protectionism well:

**Lesson one: tariffs are better than quotas.** Tariffs, which are a tax on imports, are more predictable and transparent than nontariff barriers such as quotas,

which are a quantitative limit on imports.

Yet Mr. Trump is negotiating quotas on imported steel in lieu of tariffs. Quotas, by restricting supply, raise prices, just as tariffs would. But whereas tariff revenue goes to taxpayers, the higher prices on imports caused by quotas benefit foreign companies.

Allocating the quota also invites lobbying, favor trading and opaque gamesmanship, yielding odd results. Argentina's steel quota is 35% larger than recent exports, enabling it to take market share from competitors such as South Korea whose quota is 30% smaller.

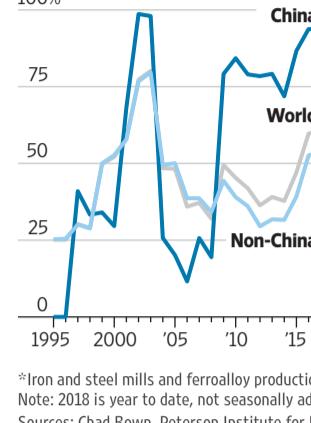
**Lesson two: threatening tariffs is worse than actual tariffs.** For months Mr.

Trump threatened to impose tariffs without actually enacting them. That prompted steel buyers in the U.S. to stock up, an important reason the volume of imports is up 2% year to date. The Alliance for American Manufacturing, which backs the tariffs, complains the influx of imports during the administration's drawn-out investigation into whether steel and aluminum imports threaten national security

## In Decline

U.S. steel has enjoyed varying levels of import protection since the 1990s, but total employment has still shrunk.

## Percentage of steel imports covered by special tariffs

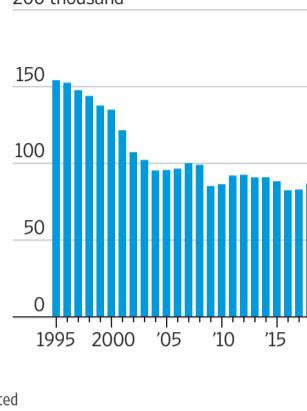


\*Iron and steel mills and ferroalloy production.

Note: 2018 is year to date, not seasonally adjusted.

Sources: Chad Bown, Peterson Institute for International Economics (tariffs); U.S. Labor Department (steel and iron employment)

## Steel &amp; related employment\*



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cost 13,500 jobs last year. Yet because demand for steel is strong thanks to a healthy U.S. economy, prices are up nearly 40% this year—as if a tariff were already in place. That means the foreign suppliers of those imports are enjoying a windfall.

Mr. Trump thinks threats are a useful lever in broader negotiations. But domestic manufacturers can't be sure

if the tariff will ever take effect or if it does, will stay. The gamesmanship thus reduces their incentive to invest in new capacity or jobs.

**Lesson three: punish bad actors, not good.** Presidents typically save their harshest treatment for the most egregious rule breakers in hopes of changing their ways.

Mr. Trump has done the opposite: he has picked

fights with Western Europe, Japan, South Korea, Canada and Mexico, all U.S. allies or neighbors that more or less play by the rules. He has thus far been relatively easy on China, which even free traders agree is a serial violator of the rules of free trade and the ultimate cause of global overcapacity in steel and aluminum. He promised tariffs on \$150 billion worth of imports then suspended them, announced devastating penalties against telecommunications company ZTE Corp. for violating sanctions on Iran and North Korea then softened them.

On Tuesday, he reiterated a threat to hit \$50 billion of imports containing "industrially significant technology" with a 25% tariff, but it might be another negotiating tactic that China doesn't take seriously.

Mr. Trump sees trade as governed by power and leverage, not rules. Because Japan, South Korea, Canada, Mexico and most of Western Europe depend on the U.S. military, market or both, he counts on them rolling over without retaliating. China, which is a strategic and economic rival, hasn't hesitated to exercise all the

leverage at its disposal, from its sway over North Korea to its agricultural imports from key Republican states.

This calculus may yield short-run wins but at the expense of long-term cooperation.

**Lesson four: have a post-protection plan.** China's protectionism is future-focused, seeking to become globally competitive in industries such as aerospace, renewable energy and robotics. Mr. Trump, by contrast, seems obsessed with the past, when American coal, cars and steel ruled the world.

But protection cannot make an industry grow that is fundamentally in decline.

Chad Bown of the Peterson Institute for International Economics notes steel has been protected to varying degrees from imports since the 1990s. Yet U.S. steel employment has since fallen by half.

Even if several thousand manufacturing workers see their jobs brought back by protection, many thousands who aren't so fortunate will need skills in growing industries where the U.S. has an advantage. On this, Mr. Trump hasn't had much to offer.

## U.S. Moves Cloud China Trade Talks

BY LINGLING WEI  
AND YOKO KUBOTA

BEIJING—The White House's renewed trade offensive against China is putting this weekend's planned settlement talks at risk, as well as fueling nationalistic calls for China to take a tougher stance against U.S. demands.

A U.S. advance team landed in Beijing Wednesday to prepare for Commerce Secretary Wilbur Ross's arrival Saturday, according to people with knowledge of the matter from both governments.

But the surprise U.S. decision a day earlier to move forward with tariffs against China—less than two weeks after both sides declared a truce—is casting doubt over whether those talks can advance to the next level, these people said.

"This risks disrupting the negotiations," one of the people said.

If the two sides' teams fail to agree on the issues to be discussed, Mr. Ross's trip could be canceled, according to the people. If they succeed, however, the high-level talks would proceed as planned, they said.

Mr. Ross suggested on Wednesday he was still planning to attend the weekend meetings. "We've had several sessions" with the Chinese, Mr. Ross said at a forum in Paris, "and I'm currently scheduled to go over again on Friday."

For its part, China is looking to line up other countries, especially in Europe and Asia, against the U.S., Chinese officials said. Their companies could benefit from China's plans to allow foreign companies better access to its markets.

The State Council, China's cabinet, said late Wednesday it had decided to lower tariffs on imported washing machines, cosmetics and other consumer goods, starting July 1.

The council also said that by the same date it would complete a "negative list" specifying areas closed to foreign investors.

The U.S. and other countries have asked China to change fundamentally how it approves foreign investment. Currently, it responds to specific applications, but Western nations have urged a negative-list approach that opens the economy to investment apart from certain restricted sectors such as defense.

Beijing has been bracing for lengthy sparring with Washington over trade and other economic issues, but the truce called by both sides had raised hopes for a near-term settlement that would give the world's two biggest economies a way forward.

Then, on Tuesday, President Donald Trump's administration said that by June 15 it would release a final list of \$50 billion in imports from China that would be subject to tariffs of 25%, which would be applied soon after. It also said it planned by June 30 to announce investment restrictions meant to prevent Chinese acquisition of U.S. technology.

The move emboldened hard-liners within China who advocate fighting fire with fire.

Mei Xinyu, an analyst at a think tank affiliated with China's Commerce Ministry, called for hitting back with tariffs on soybeans, sorghum and other products from the Farm Belt states, a stronghold of support for Mr. Trump.

"Since the U.S. side can talk about imposing tariffs again, we can also put forward our previously published retaliation lists," Mr. Mei wrote in an article posted on a popular social-media account run by the official People's Daily.

In response to questions from The Wall Street Journal, Mr. Mei said he believes Mr. Trump announced the tariffs as a negotiating tactic but that the China side can see through the ploy. "Trump overplayed this 'unpredictability' strategy," Mr. Mei said.

—Liyan Qi  
and William Horobin contributed to this article.



U.S. steel industry groups, and their allies in Congress, say the industry needs to be insulated from excess production in major economies.

## METAL

Continued from Page One though both sides suggest such a deal is unlikely.

Commerce Secretary Wilbur Ross, who led the investigation into metal imports as a possible threat to national security, hinted on Wednesday that the EU would face tariffs.

But he emphasized the U.S. wants to keep negotiating a possible deal that opens markets in Europe to U.S. exports.

"It's not that you can't talk just because there are tariffs," Mr. Ross said in Paris at the Organization for Economic Cooperation and Development. "God knows there are plenty of tariffs the EU has in place on us."

European officials have said they plan to swiftly impose levies against as much as €2.8 billion (\$3.3 billion) in U.S. exports under a rule at the World Trade Organization that allows members to punish a country immediately for inappropriately seeking a "safeguard" against their exports.

U.S. officials say the steel and aluminum tariffs—as well as possible future auto-industry tariffs—are based on national security, putting them in line with U.S. law and a WTO exception that allows trade measures that protect a country's security.

The EU says the Trump administration is disguising a move to protect American steel and aluminum industries economically.

"We have not seen any analysis that shows these exports pose a problem to national security," said David O'Sullivan, the European Union ambassador in Washington.

"If the United States wants to open discussions on a possible sort of trade deal, we don't think slapping tariffs on our aluminum and steel exports is a way to start off," Mr. O'Sullivan added.

Most EU member states, along with the U.S., are members of the North Atlantic Treaty Organization, and many European officials bridle at the suggestion the steel they send to the U.S. represents a national security risk.

China's extensive steel and

didn't respond late Wednesday to requests to comment about Mr. Trump's anticipated tariffs decision.

While the EU has repeatedly issued threats of retaliation, it isn't clear whether the two giant economies will escalate tensions or seek to limit the damage.

Mr. Trump has threatened to punish EU car exports if the bloc retaliates, and Mr. Ross is pursuing a study of car and auto-part imports similar to the one he completed on steel and aluminum.

Officials in some EU member states are already angry at Washington over Mr. Trump's decision to pull out of the Iran nuclear deal. Still, others, including some German officials, want to seek a solution that prevents economic damage.

French President Emmanuel Macron said Wednesday the EU shouldn't respond to pressure with weakness.

"The day before an important decision I want to repeat this: Unilateral responses and threats of trade war resolve none of the serious imbalances in global trade," Mr. Macron said at a gathering with Mr. Ross. "A trade war is

always a war lost by everyone."

Peter Altmaier, Germany's minister of economic affairs, said after the meeting with Mr. Ross: "Independently of this decision we must do everything to protect our interests and act with self-confidence and yet preserve free trade as much as possible."

Mr. Ross said in Paris that "every country's primary obligation is to protect its own citizens and their livelihoods."

In the U.S., users of imported steel and aluminum have criticized the Trump administration's tariffs for boosting prices, and many lawmakers have advised against targeting allies. Still, the American industry and labor groups have voiced strong support.

Shares of U.S. Steel Corp. rose in after-hours trading Wednesday after the news, climbing 4.6% to \$37.93 compared with a close of \$36.25.

AK Steel Holding Corp. shares advanced 5.2% after hours, to \$4.82. Century Aluminum Co. stock edged up 3.3% to \$17.72 after hours.

—William Horobin in Paris contributed to this article.

**Commerce Secretary Ross said the U.S. wants to keep up talks on a possible deal.**

Besides the EU, the U.S. granted temporary exemptions to Canada and Mexico while the countries strove to strike a deal on an overhaul of the North American Free Trade Agreement, or Nafta.

The U.S. steel industry and steelworkers are reluctant to punish Canadian steel, which is heavily integrated with the U.S. industry, so many observers expect Canada and Mexico to get a continued exemption as Nafta talks continue.

EU officials in Brussels

said of beef. A U.S. News article Wednesday about Smithfield Foods Inc. incorrectly said Nathan's Famous hot dogs contain pork.

The International Energy Agency lowered its global oil-demand growth forecast for this year to 1.4 million barrels a day, meaning world oil demand should average 99.2 million barrels a day in 2018. A Markets article on May 17 about the oil market incorrectly said that the IEA had lowered its global oil-demand forecast for this year to 1.4 million barrels a day.

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com) or by calling 888-410-2667.

## CORRECTIONS &amp; AMPLIFICATIONS

Nathan's Famous hot dogs are made of beef. A U.S. News article Wednesday about Smithfield Foods Inc. incorrectly said Nathan's Famous hot dogs contain pork.

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## U.S. NEWS

# Housing Shortage Shadows Rural Areas

Lack of homes crimps towns' ability to lure workers, forces firms to delay expansions

BY SHAYNDI RAICE

COLUMBUS, Neb.—Austin Steinbach said he was "dead set" on moving to this rural farming town for a job that offered benefits, a \$500 signing bonus and a higher wage.

But the 25-year-old father of two had to turn it down after a week-long search with his wife for a home failed to turn up anything livable or in their price range.

"What they offered out there was great, but I can't afford to move because I can't afford to rent a house there," he said. Instead, Mr. Steinbach will stay in Creston, Iowa, where he supports his family earning \$2 less an hour power-washing farm equipment and has no benefits.

Fewer homes are being built per household than at almost any time in U.S. history, and it is even worse in rural communities. Developers there can't tap into the economies of scale available in urban centers, making materials and labor more expensive. Rural areas are also seeing their populations stagnate or decline as younger people opt for urban living, adding to the gamble involved in speculative building.

"As a developer or builder, you have to think hard about whether the risk is worth the reward," said K.C. Belitz, president of the Columbus Area Chamber of Commerce. "For a lot, it isn't."

There were 71,000 single-family homes built in rural ar-



Many workers can't find homes in rural towns like Columbus, Neb., where this house is being built.

eas in 2016, representing about 10% of all new single-family homes, according to the National Association of Home Builders. The rural market share of single-family homes has been falling. It was 14% in 2010, the association of home builders found.

The housing shortage in rural communities has become especially acute as unemployment hits record lows. The national unemployment rate in April was at 3.9%, while in Platte County, which includes Columbus, unemployment fell to 2.7% in March.

There are around 990 job openings in Platte County, according to the state. A total of 65 homes are now available for sale with a median listing price of \$209,550, according to realtor.com.

"It's a pretty simple equation," said Lance George, direc-

tor of research for the Housing Assistance Council, a group based in Washington, D.C., that works on affordable housing in rural communities. "The incomes in this country have not really matched housing prices so you continue to have this disconnect."

Columbus, which has a population of around 23,000 and is about 90 miles west of Omaha, still has a few retail shops. A Walmart, fast-food chains and restaurants line the two main highways through town.

Platte County's population growth has been sluggish in recent years. Its labor force grew 1.3% in 2017, after seeing its working-age population contract annually since 2012. Median household income in Columbus was about \$53,857 in 2016, according to Census bureau data, compared with \$54,384 for the state.

The labor shortage is so bad that the chamber of commerce goes town to town to recruit workers like Mr. Steinbach. "The fear is that if we don't solve this in some way, we're gonna lose a big employer," said Kimberly Hoefer, a real-estate broker in Columbus.

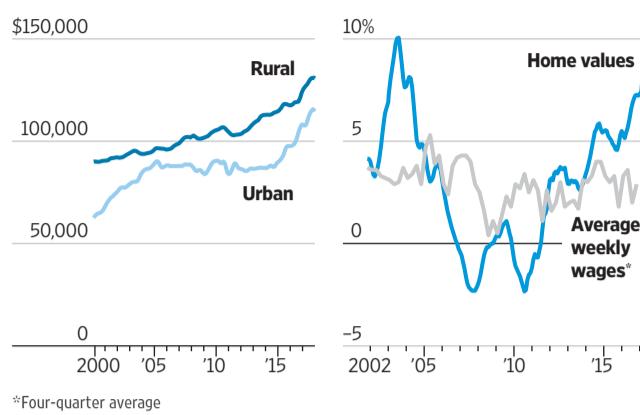
Last year, car-seat maker Camaco Amvian LLC mixed plans to expand in Columbus, citing the lack of available workers. Mike Niemann, the general manager of the plant, said the expansion would have required an additional 300 workers. "There was no way we were going to be able to do that [in Columbus]," he said.

Nebraska recently granted \$7 million to rural communities, including Columbus, to build market-rate homes to help attract more workers. In Columbus, \$850,000 is proposed to go toward incentives

## In a Bind

Rural workers in Nebraska see higher housing prices than their urban counterparts. Home values are growing faster than wages in Nebraska.

### Home values in Nebraska



\*Four-quarter average  
Sources: Zillow (home values); Labor Department (wages)

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first market-rate rental units built since 1985.

Next door in Iowa, some small towns have been trying to get creative. The city of Newton, about 35 miles east of Des Moines, took out \$3.7 million in bonds to fix dilapidated homes and spur local development.

Nearby Schuyler, Neb., about 30 miles east, received grants to build as many as 32 new rental units. It would be the

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Philadelphia officers told a man he had to vacate Wednesday as the city cleared two bridge encampments in the Kensington neighborhood.

## Philadelphia Clears Out Drug Camps

BY JON KAMP

Philadelphia authorities cleared two tent camps where opioid users congregated, capping a monthlong effort to move people into treatment and shelters.

Four tunnels filled with tents and mattresses beneath a freight railway have become symbols of the city's drug problem, spilling out into the Kensington neighborhood. Deeming the tunnels health and safety hazards, the city cleared two of them Wednesday as part of a pilot project.

It will take time to determine whether the outreach ef-

forts work. Authorities said more than 120 people accepted some kind of services, including nearly four dozen who entered treatment.

"We are happy with the preliminary results," Michael DiBernardini, the city's managing director, said in a release. "We provided respite housing for over 100 people and saw more people enter treatment in the first two weeks of the pilot than in the prior six months; however, we have more work to do."

The program will be reviewed by an outside evaluator and neighborhood associations, and may help inform how the city manages the

other two encampments. The city will need more funding to clear those tunnels, a spokeswoman said.

Police enforced the closures by issuing citations to anyone who refused to remove their belongings, the city said. Any personal property left behind will be stored for six weeks.

Signs were posted April 30 telling people they had a month to leave. Over that span, workers made lists of the people to assess their needs and connect them to services, the city said. A van was on site to provide medical care and transport people to services, and workers also

helped more than two dozen people get identification cards.

Kate Perch, housing coordinator with Prevention Point Philadelphia, a harm-reduction nonprofit that contracts with the city, helped with the outreach effort. She said they got five more people to accept emergency shelter on Wednesday. She believes most people left the Tulip Street and Kensington Avenue tunnels before authorities arrived.

"Where they went, only time will tell," she said. "When people know they're going to be forced to leave at some point, a lot of people are going to make the choice not to wait."

## Weinstein Indicted on Sex-Crime Charges

BY ZOLAN KANNO-YOUNGS

A grand jury in Manhattan indicted former Hollywood producer Harvey Weinstein Wednesday on charges of rape and perpetrating a criminal sex act.

The indictment comes after Mr. Weinstein's arrest last Friday for alleged sex crimes in 2004 and 2013 against two women.

"This indictment brings the defendant another step closer to accountability for the crimes of violence with which he is now charged," Manhattan District Attorney Cyrus

Vance Jr. said in a statement.

Mr. Weinstein's lawyer, Benjamin Brafman, said in a statement Wednesday prior to the indictment that it was inevitable because of political pressure on Mr. Vance. Mr. Brafman said Mr. Weinstein wouldn't testify before the grand jury because a request to postpone his testimony was denied.

After the announcement of the indictment, Mr. Brafman reiterated that Mr. Weinstein intends to plead not guilty and vigorously defend against the unsupported allegations that he strongly denies.

The charges of rape in the first and third degree involve a woman, whose name remains under seal, who alleged Mr. Weinstein forced her to have sexual intercourse in a hotel. Another allegation from 2004 was made by then-aspiring actress Lucia Evans, who has accused Mr. Weinstein of forcing her to perform oral sex, according to a law enforcement official.

In a tweet, Ms. Evans's attorney, Carrie Goldberg, said "what Mr. Weinstein's attorneys call casting couch behavior we know is actually a sex crime."

Mr. Brafman criticized the allegations against Mr. Weinstein in his statement Wednesday. He said Mr. Weinstein was in a decades-long relationship with the woman who made the 2013 rape allegation, and the relationship continued for years after the alleged sex crime. He called the 2004 allegation "unsupported."

"The defendant's recent assault on the integrity of the survivors and the legal process is predictable," Mr. Vance said. "We are confident that when the jury hears the evidence, it will reject these attacks out of hand."

## U.S. NEWS

# Republican Disputes Trump on 'Spies'

Gowdy says FBI probe of Russian meddling was legitimate, also faults Sessions move

BY PETER NICHOLAS  
AND SADIE GURMAN

WASHINGTON—A senior Republican congressman disputed President Donald Trump's claim that "spies" infiltrated his 2016 campaign, saying that the Federal Bureau of Investigation was conducting a legitimate probe of Russian election meddling.

Rep. Trey Gowdy (R., S.C.), who heads the House oversight committee, also said he understood Mr. Trump's frustration with Attorney General Jeff Sessions, who recused himself from the Russia investigation based on his involvement in the Trump campaign. Had Mr. Trump known earlier that Mr. Sessions planned to recuse himself, the president could have chosen a different attorney general, Mr. Gowdy said in an interview on CBS.

The president has long complained about Mr. Sessions' recusal and has said Mr. Sessions should have told the White House he would take that stance before he was nominated. Mr. Sessions announced his recusal in March 2017 without first informing the president, after new details emerged about contacts between Mr. Sessions and Russian officials.

Mr. Trump took a fresh swipe at Mr. Sessions on



**Jeff Sessions**, left, recused himself from the Russia probe last year. President Donald Trump criticized that move again Wednesday.

Wednesday in responding to Mr. Gowdy's comments about picking a different attorney general. "I wish I did!" the president tweeted.

John Dowd, the president's former top outside lawyer in the Russia probe, said Mr. Sessions "blindsided the president with his baseless recusal because he worked on the campaign," he had no choice but to

The Justice Department declined to comment on Mr. Trump's tweet.

People close to Mr. Sessions have said he doesn't regret his decision to step aside from the Russia probe, and still believes it was the only ethical choice. Many legal experts have said that, given Mr. Sessions' prominent role in the Trump campaign, he had no choice but to

step away from a campaign-related investigation.

One person close to the White House said Wednesday that Mr. Trump, despite his unhappiness, would be hard-pressed to fire Mr. Sessions. Such a move might trigger a wave of resignations at the Justice Department and possibly the White House, creating an unneeded crisis in advance of

the midterm elections.

Trump lawyer Rudy Giuliani, speaking to reporters Wednesday, said he didn't believe Mr. Trump was planning to fire Mr. Sessions.

"I think in the long run, it will be worked out," he said.

Last week, Deputy Attorney General Rod Rosenstein held a pair of unusual classified briefings with both Republican and

Democratic lawmakers over the FBI's use of a confidential informant in the early stages of the Russia investigation.

The first briefing at the Justice Department included House Speaker Paul Ryan, House Intelligence Committee Chairman Devin Nunes, Mr. Gowdy and the intelligence panel's ranking Democrat, Rep. Adam Schiff of California, who was invited at the last minute.

In the Wednesday interview, Mr. Gowdy, who isn't seeking re-election this fall, said the FBI's mission was to run to ground suspicions of Russian interference in the election.

Had Mr. Trump seen the same classified material shared with lawmakers last week, he would likely back off his accusations about spies inside his campaign, Mr. Gowdy said. "I think his lawyers have an obligation to share with him what Devin [Nunes] and Paul [Ryan] and I saw last week. I'm convinced when he sees it, he's going to say, 'You know what? That's what I told [Former FBI Director James] Comey I wanted the FBI to do,'" Mr. Gowdy said.

White House spokeswoman Sarah Sanders said Wednesday, "The president still has concerns about whether or not the FBI acted inappropriately having people in his campaign, and certainly the president has concerns about the overall conduct of the FBI when it comes to this process."

—Michael C. Bender contributed to this article.

## Lawyer Withdraws From Cohen Case

BY REBECCA DAVIS O'BRIEN  
AND NICOLE HONG

Michael Avenatti, the lawyer for former adult-film actress Stephanie Clifford, withdrew a bid to participate in proceedings related to the criminal investigation into President Donald Trump's personal lawyer, shortly after other lawyers and a judge raised concerns in court about his behavior in the matter.

Mr. Avenatti withdrew his motion after U.S. Judge Kimba M. Wood issued a stern warning, saying if she allowed him to participate in the case involving Michael Cohen, Mr. Avenatti would have to change his conduct and stop what she called his "publicity tour."

"You will not be permitted to use this court as a platform for anything," Judge Wood said, adding that he wouldn't be allowed to publicize private documents or to share his views of Mr. Cohen's guilt—"which you do," she said.

The hearing in Manhattan on Wednesday was partly focused on whether Mr. Avenatti could be admitted to practice in New York on behalf of Ms. Clifford, known as Stormy Daniels. Mr. Avenatti had sought to be heard in the case



**Stormy Daniels' lawyer Michael Avenatti** was criticized by a judge.

because he believes materials related to his client may have been swept up in a raid by federal agents last month on Mr. Cohen's premises.

About an hour after the hearing, Mr. Avenatti withdrew his motion in a filing, without explanation. The filing said the motion would be "refiled, if necessary, at a later time."

Ms. Clifford received a \$130,000 payment from Mr.

Cohen just before the 2016 election to keep her from discussing what she alleged was a past sexual encounter with Mr. Trump. Mr. Cohen and White House representatives have denied any sexual encounter took place between Mr. Trump and Ms. Clifford.

Motions such as Mr. Avenatti's are routinely granted in federal court and rarely opposed. But in Wednesday's

hearing, Stephen Ryan, a lawyer for Mr. Cohen, said he had "never seen an attorney conduct himself in the manner Mr. Avenatti has," citing Mr. Avenatti's "intentional, malicious and prejudicial" release earlier this month of a document detailing bank transactions by Mr. Cohen.

Mr. Avenatti denied any improper behavior, saying Mr. Ryan's accusations were "without any evidentiary basis."

In court, Mr. Avenatti said a media outlet had contacted him about an audio recording between Mr. Cohen and Ms. Clifford's former lawyer, Keith Davidson, that contained "attorney-client information" about Ms. Clifford, suggesting that somebody associated with Mr. Cohen had leaked it.

Mr. Ryan said if any such recording existed, it would be kept "under lock and key."

Throughout the hearing, Mr. Cohen sat flanked by lawyers, occasionally shaking his head when Mr. Avenatti spoke. The Manhattan U.S. attorney's office has said it is investigating Mr. Cohen for his personal business dealings.

Lawyers for Mr. Cohen have until June 15 to complete their review of the materials seized in the April raid.

search of more stable revenue sources. It isn't clear those jobs will return, even with Wednesday's proposed changes.

The current generation of top bankers, many of whom cut their teeth in businesses outside of trading, have said that whatever happened to Volcker they aren't planning for a return of proprietary trading desks.

"I'm not sure banks should put large parts of their capital at risk in proprietary trading or proprietary investing positions," James Gorman, Morgan Stanley chief executive, told analysts in April.

Wednesday's proposal would eliminate a presumption that positions held for fewer than 60 days violate the rule unless bankers prove otherwise, directly addressing Mr. Corbat's criticism. Instead, regulators would look to how positions are defined under accounting rules to determine whether they constitute short-term trading.

Regulators also would presume traders were complying with the rule if they stayed within limits set by their trading desks, but the government would regularly review those limits to make sure they were set appropriately.

If a trading desk booked gains and losses that exceed \$25 million over a 90-day period, that desk would have to prove it wasn't violating the Volcker rule. But if the desk stayed under that level, regulators would presume it was in compliance.



**The rule, named for former Fed chief Paul Volcker, is designed to curb risky trading.**

mand. Wednesday's proposal wouldn't do away with those systems, but it could allow banks to simplify them.

Observers have said financial markets aren't functioning as well as they could because big banks are nervous that certain positions may violate the Volcker rule, though there is an open debate on the rule's precise effect. Mr. Quarles has said the impact on liquidity is unarguable, though hard to measure. Another Fed official said many factors are affecting financial markets, including new trading technologies.

Big banks have already cut back on trading businesses in

## More States Consider Expanding Medicaid

BY STEPHANIE ARMOUR

Virginia is poised to expand Medicaid after a hard-fought legislative battle, making it one of a growing number of states where there is interest in expanding the program after Republicans failed to repeal the Affordable Care Act last year.

The Virginia General Assembly on Wednesday approved expansion of Medicaid, the state-federal program for the low income. Democratic Gov. Ralph Northam has signaled he will sign the bill, making the state the 33rd to expand Medicaid under the ACA.

Efforts are under way in other states, but the outlook is far from certain.

Organizers who support Medicaid expansion in Utah learned this week that they had obtained enough signatures to put the initiative on the ballot in November, potentially expanding coverage to more than 100,000 people. Republican Gov. Gary Herbert supported a more-limited expansion plan that would have covered fewer residents and required federal approval.

A push has also begun to get expansion on the ballot in Idaho, where voters will select a new governor this fall.

The odds look less likely in other red states. Organizers are trying to get expansion on the ballot in Nebraska, but GOP Gov. Pete Ricketts has been opposed, saying it would be an expensive burden for state taxpayers.

In Maine, a Medicaid expansion

sion was approved by voters in November 2017. But the program hasn't been implemented by Republican Gov. Paul LePage, who has said he has funding concerns, prompting a lawsuit from health-care activists.

Still, the growing interest in Medicaid expansion, even in some conservative states, suggests the program is becoming more accepted as it appears less likely congressional Republicans will successfully revive efforts to repeal the ACA.

In a twist, part of the renewed interest in red states comes from the Trump administration's willingness to let states impose work requirements on Medicaid beneficiaries, making the idea of expanding the government safety-net program more palatable to some conservatives.

More than 12 million people have been covered by Medicaid since the ACA, enacted in 2010, made federal funding available for state Medicaid expansions, according to Manatt Health.

Virginia's action would extend Medicaid coverage to between 300,000 and 400,000 people. It will include some work requirements and premium-payment requirements and will be paid for partly by a tax on hospitals.

The state-by-state battles arise from the Supreme Court's landmark 2012 decision upholding the ACA, which included a finding that states couldn't be forced to expand Medicaid, leaving the decision to individual states.

## Prosecutor Drops Charges Against Missouri Governor

BY SHAYNDI RAICE

A St. Louis prosecutor dropped campaign-finance-related charges against embattled Missouri Gov. Eric Greitens, a day after he announced his resignation amid a series of scandals.

St. Louis Circuit Attorney Kimberly Gardner had charged Mr. Greitens, a Republican, in April with felony computer tampering involving allegedly misusing a charity donor list during his gubernatorial run. The 44-year-old governor agreed to resign if the charges were dropped, according to Ms. Gardner's office.

"There was no witch hunt," Ms. Gardner said Wednesday at a press conference. "The consequences Mr. Greitens has suffered, he brought on himself."

As he stepped down on Tuesday, Mr. Greitens said he maintained it was a private matter.

had broken no laws but was resigning to spare his family.

"This ordeal has been designed to cause an incredible amount of strain on my family," he said. "It's clear that for the forces that oppose us, there's no end in sight. I cannot allow those forces to continue to cause pain and difficulty to the people that I love."

Mr. Greitens, a former Navy SEAL and best-selling author, said he would step down at 5 p.m. on Friday. He also had been under investigation by Ms. Gardner's office after reports surfaced that he had threatened to release nude photos of a former mistress if she publicly spoke about a 2015 extramarital affair they had before he became governor in January 2017. He admitted to the affair but maintained it was a private matter.

## BANKS

*Continued from Page One*  
pected customer demand. The law allows hedging and market-making on customers' behalf.

The proposal "will allow firms to conduct appropriate activities without undue burden and without sacrificing safety and soundness," Fed Chairman Jerome Powell said.

Citigroup Inc. Chief Executive Michael Corbat told investors on Wednesday that the bank advocates the "spirit of Volcker."

But "we're all somewhat perplexed and challenged by the implementation," Mr. Corbat said, citing the "presumption of guilt," the lack of a single regulator and the collection of trading data that the government doesn't appear to use.

Four other U.S. agencies are expected to follow the Fed in proposing the changes over the next week. They will take public comments before completing the proposal.

The proposal is drawing strong support, including the backing of banking regulators who were tapped by former President Barack Obama, a Democrat. A separate proposal on bank capital rules has sparked opposition from Obama-nominated regulators.

Fed Vice Chairman for Supervision Randal Quarles, who was nominated by Mr. Trump,

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TIM FERRISS

"I FOUND IT TO BE TRULY EXTRAORDINARY."

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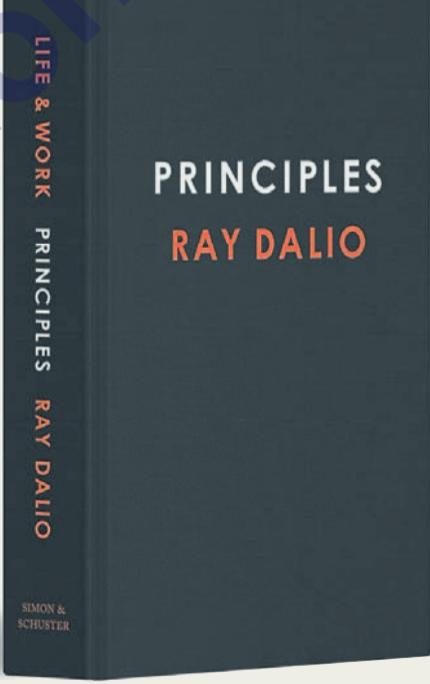
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## U.S. NEWS

# How Trump's Anthem Play Worked

By ANDREW BEATON

President Donald Trump didn't mince words last fall when he explained to Dallas Cowboys owner Jerry Jones that he wouldn't relent in his criticism of NFL players who were kneeling during the national anthem to protest social injustice.

"This is a very winning, strong issue for me," Mr. Trump said in a phone call, according to a sworn deposition given by Mr. Jones and reviewed by The Wall Street Journal. "Tell everybody, you can't win this one. This one lifts me."

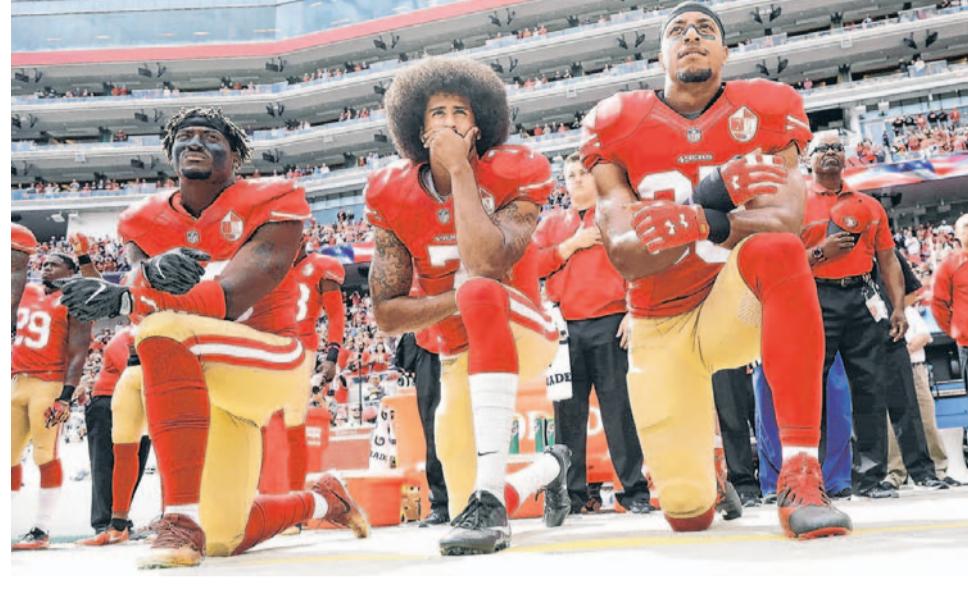
Mr. Jones was deposed in a grievance filed against the National Football League by former San Francisco 49ers quarterback Colin Kaepernick, who contends that National Football League teams have blackballed him over his anthem protests.

A White House official said Mr. Trump was advising Mr. Jones on what he believed would be good for the country and good for the sport. "The majority of the American people agree with the president, love our country, love our flag and believe it should be respected," the official said.

Nearly two years since Mr. Kaepernick's initial protest, NFL owners last week voted to change league rules: Players on the field for the national anthem are required to stand, or their teams could face repercussions. The overhaul allows players to remain in the locker room for the anthem, which was previously banned, but it also permits teams to punish players that violate the new protocol.

"I brought it out," Mr. Trump said of the issue in a Fox News interview after the rule change was announced. "I think the people pushed it forward."

Depositions given by Mr. Jones and other owners indicate that Mr. Trump's criticism pushed the league to shift its stance. League executives pub-



MARCIO JOSE SANCHEZ/ASSOCIATED PRESS

**In October 2016, above, then San Francisco 49er Colin Kaepernick and some of his teammates knelt during the national anthem. Mr. Kaepernick, who is no longer on any NFL team, has filed a grievance against the league. Right, Dallas Cowboys owner Jerry Jones took a knee with his players before the anthem in September 2017.**



MATT YORK/ASSOCIATED PRESS

licly repeated the NFL's aim to stay out of politics. Privately, they made political calculations in response to Mr. Trump's repeated hammering of the issue.

The controversy over anthem protests had already been raging for a year when Mr. Trump—at a stump speech in Alabama in September—said that if a hypothetical player knelt during the national anthem, his team's owner should "get that son of a bitch off the field now." On Twitter, he later encouraged

and suggested a boycott.

"I was totally supportive of [the players] until Trump made his statement," Stephen Ross, the Miami Dolphins' owner and creator of programs advocating for social justice, said in his deposition.

Mr. Trump's stance is a key point in Mr. Kaepernick's grievance, which was filed in October. It alleges that the league and its 32 teams colluded to keep him unsigned last season because of his political views.

Mr. Kaepernick, who ignited the anthem demonstrations in

2016 to draw attention to racial inequality and other social-justice issues, has remained unsigned despite statistics superior to other quarterbacks who have gotten jobs. His grievance argues that Mr. Trump was an "organizing force in the collusion" because of the president's relationships with various NFL owners, many of whom have backed him with campaign contributions.

When the 2017 season began, only a handful of players were still kneeling. But Mr. Trump's fiery comments in Ala-

ma—just before the season's third weekend—changed that. The following Sunday, players knelt en masse to directly rebuke the president.

Many owners took a knee alongside their players. Mr. Jones, in a high-profile Monday night game Sept. 25, knelt with his players before the anthem, but they stood when it was played.

Publicly, the NFL fought back and touted the moment as a display of unity. Commissioner Roger Goodell called Mr. Trump's comments "divisive."

Behind the scenes, the kerfuffle rankled a league that was already grappling with declining ratings. Messrs. Ross, Jones and Bob McNair, the owner of the Houston Texans, said in their depositions that they believed the protests were financially hurting their teams.

This off-season brought both new opportunity and scrutiny. The league's owners had two scheduled meetings, in March and May, to discuss an array of topics, including the anthem. At the same time, a former teammate of Mr. Kaepernick's who also had taken a knee during the anthem, Eric Reid, was going unsigned.

In May, Mr. Reid filed a collusion grievance against the league, like Mr. Kaepernick. The NFL Players Association also filed a grievance, saying a team violated league rules by asking Mr. Reid about his intentions during the anthem. When the owners met last week in Atlanta, the host city for next year's Super Bowl, they changed the rule.

Mr. Jones declined to comment. In his deposition, which was taken before the rule change, he fought back against the idea that Mr. Trump reframed the conversation. "Let's [not] give him that much credit," he said. "But I recognize he's the president of the United States."

—Louise Radnofsky contributed to this article.

## Governor Has Plan To Boost Gun Safety

By TAWNELL D. HOBBS

DALLAS—Texas Gov. Greg Abbott called for strengthening gun storage laws and indicated he is open to making it easier to remove firearms from potentially dangerous people, moves that could be a turning point for a state that has some of the most lenient gun laws in the country.

Mr. Abbott, a Republican, provided 40 recommendations Wednesday to improve school safety following the school shooting at Santa Fe High School in south Texas this month that left 10 dead and 13 injured. About \$120 million in funding, including a mix of federal and state dollars, has been identified to begin work under the plan.

"We must take steps to enhance gun safety in the state of Texas," Mr. Abbott said. Some of Mr. Abbott's proposals would need legislative approval, including one that entails increasing penalties for violating gun storage laws and raising the age of children considered minors when it comes to holding their parents criminally liable if they use a firearm that hadn't been properly secured.

It is unclear how Texas' Republican-dominated Legislature will respond to his recommendations. Some lawmakers have spoken out against gun-control measures. The governor hasn't ruled out calling a special session to get his measures considered instead of waiting until the regular session convenes in January.

The National Rifle Association and the Texas State Rifle Association didn't respond to requests for comment.

Currently, minors are considered those age 16 and under when pertaining to the state's firearm storage law. Mr. Abbott's plan would raise that to include anyone 17 and under. He noted that the parents of the 17-year-old accused in the mass shooting at Santa Fe High weren't obligated to securely store their firearms under current law.

Penalties for violating the law in instances of death or serious bodily injury would be increased to a felony instead of being just a misdemeanor.

Mr. Abbott also wants Texas Senate and House leaders to consider the merits of adopting a "red flag" law that would allow law enforcement, a family member, school employee, or a district attorney to file a petition seeking the removal of firearms from a potentially dangerous person, after legal due process is provided.

## U.S. WATCH

### VETERANS AFFAIRS Acting Secretary Appointed at Agency

The White House on Wednesday announced a new acting secretary at the Department of Veterans Affairs, ending confusion about who is in charge of the agency.

Peter O'Rourke, the VA's chief of staff, succeeds Robert Wilkie, whom President Donald Trump has nominated for VA secretary.

Mr. Wilkie had to vacate his acting position because of civil-service procedural regulations. The move sets groundwork for a confirmation hearing. The White House didn't respond to a request for comment.

Mr. Wilkie initially took over

the helm after the ouster of David Shulkin in March, following a controversy involving a taxpayer-funded official trip to Europe.

—Ben Kesling

## KENTUCKY

### Explosion Damages UPS Freight Hub

An explosion at a Lexington, Ky., **United Parcel Service** Inc. freight facility Wednesday sent several people to the hospital and prompted an evacuation, according to the local fire department.

Jason Wells, a battalion chief at the Lexington Fire Department, said the explosion appears to have started with a truck and trailer that had acetylene gas.

"Nothing leads us to believe this is anything other than an accidental explosion," the fire department said.

Eight people were transported to the hospital, the department said. There was "significant" structural damage to the building.

—Jon Kamp

## FDA

### Device Helps Identify Worst Stroke Cases

The Food and Drug Administration gave marketing clearance for a device that can potentially revamp stroke care by allowing paramedics in the field to diagnose severe strokes requiring

specialized treatment.

The Lucid Robotic System, manufactured by **Neural Analytics** Inc. of Los Angeles, is aimed at one of the central dilemmas of modern neurology: How to quickly identify patients with the most severe strokes who could benefit from being taken immediately to hospitals that can perform a complex clot-removal procedure.

—Thomas M. Burton

## STATE DEPARTMENT

### Chinese Will Face Tougher Visa Process

The Trump administration ordered State Department officials in China to take a tougher ap-

proach to visa applications by Chinese citizens, according to a person familiar with the policy, the latest move in tensions between the two countries over trade and other economic issues.

The fresh guidance for consular officers in China could result in shorter visas for some Chinese students and longer delays for some Chinese business visa applicants, this person said.

A State Department official declined to comment on the details but said any changes would take effect June 11.

The new measures target students studying robotics, aviation and high-tech fields, according to the Associated Press, which earlier reported the move.

—Jessica Donati

## For-Profit Colleges Pursue a Status Change

By MICHELLE HACKMAN

WASHINGTON—Ashford University is one of more than a dozen for-profit colleges looking to become nonprofit institutions, a change that would reduce federal oversight and allow them to shed the often-maligned "for profit" designation.

Switching "to nonprofit status will allow Ashford University to...be judged and measured as colleges and universities should be—on their ability to support student success," said Nolan Sundrud, a spokesman for Bridgepoint Education, Ashford's corporate owner.

The plan requires Internal Revenue Service and Education Department approval.

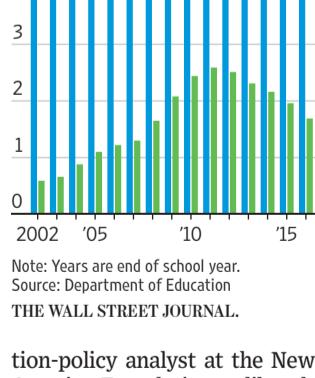
Several other prominent for-profit chains are seeking similar approvals. The Dream Center, a nonprofit religious institution, has purchased a chain of art institutes it is hoping to convert to nonprofits, and Grand Canyon University, a school with 70,000 online students, is also looking to change.

The shift follows the Obama administration's crackdown on what it viewed as predatory practices by for-profit schools. The schools say converting their tax status would free up more money to educate students and redirect unnecessary government scrutiny.

"They are getting smart and getting ahead while they have someone friendly in office," said Clare McCann, a higher-edu-

### Educational Shift

Annual enrollment at private for-profit and nonprofit four-year or above postsecondary institutions



Note: Years are end of school year.  
Source: Department of Education

THE WALL STREET JOURNAL.



For-profit leaders say the collapse of ITT Technical Institute and Corinthian Colleges tarnished the industry's reputation.

as the so-called 90/10 rule, which limits for-profit schools to receiving no more than 90% of their revenue from federal financial aid. For-profit leaders also say the collapse of two for-profit chains, Corinthian and ITT Technical Institute, tarnished the industry's reputation.

"The real reason that schools move to a nonprofit status is because there has been an attack on our sector that has clearly created some bad public relations and images," said Steve Gunderson, a former Republican congressman who now heads Career Education Colleges and Universities, the for-profit industry's main trade group.

If Ashford's conversion is ap-

proved, it would maintain a relationship with Bridgepoint. The school, which operates online, would contract with Bridgepoint to provide many academic and technical services. Critics say that arrangement doesn't adequately divorce the school from profit incentives.

"The purpose of a nonprofit is to ensure there is a shield between profit making and decisions that are good for students," said Bob Shireman, a former Obama-administration higher-education official.

A Bridgepoint spokesman said Ashford wouldn't have any ties with Bridgepoint and could find a different online-services vendor.

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## WORLD NEWS

## U.S. Bombing Hits Taliban in the Wallet

Airstrikes hammer at Afghan insurgents' opium labs, tax points to choke off revenue

By MICHAEL M. PHILLIPS

**KABUL**—The U.S. has retooled its aerial bombing campaign in Afghanistan to target the Taliban's sources of money, not just its fighters.

Since the strategic bombing campaign began in November, U.S. aircraft have conducted 113 strikes aimed at cutting off revenue the Taliban allegedly receive from opium poppies and roadside taxes, a major shift in war strategy intended to drive the insurgents to the negotiating table.

The strategy is to "go after the Taliban in a way that they had never been pressured before," said U.S. Air Force Brig. Gen. Lance Bunch.

The air campaign is modeled on the successful fight waged in recent years against Islamic State in Syria and Iraq, where U.S. aircraft regularly attacked refineries, tanker trucks and other infrastructure that provided the militants millions of dollars in oil revenue. It even harks back to World War II, when Allied bombers went after German and Japanese industry.

In a typical recent strike, a pair of F-16s took off from Bagram Air Field and flew south to Helmand province, the heart of Afghan poppy production. The target was a drug lab housed in a mud-walled compound perhaps 100 feet by 100 feet, according to the military.

Once airborne, the lead pilot was able to use electronic sensors to spot buildings and piles of plants in the open yard. Both planes dropped bombs on the compound. "The buildings were completely destroyed," said the pilot.

President Donald Trump's South Asia strategy, an-



An F-16 takes off from Bagram Air Field in Afghanistan, a base of operations for U.S. strikes against the Taliban's financial resources.

nounced in August, loosened restrictions on American operations in Afghanistan, an effort to break the stalemate in a war now in its 17th year. Under previous rules, for instance, U.S. aircraft could target militants if they were threatening or fighting allied troops.

(Special-operations forces also direct airstrikes at key figures in insurgent and terror groups, such as Islamic State.)

Under the new strategic-bombing policy, U.S. jets can attack insurgents wherever they are found, and attempt to destroy Taliban weapons caches, command facilities and revenue sources.

"Anywhere in the country where they previously thought they felt safe or could have freedom of movement, we now had the authorities to go and target," Gen. Bunch said in an interview.

U.S. aircraft have hit road checkpoints where insurgents collect money from passersby.

And American officers say they may add illegal mining operations to the target list.

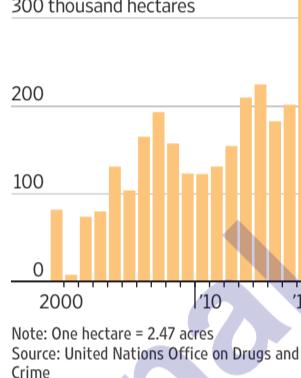
But most counter-revenue airstrikes—which still make up a small portion of overall U.S. air missions—are aimed at labs that process the raw opium produced by Afghanistan's vast poppy fields. Afghan military aircraft conduct strikes as well, and Afghan counternarcotics troops on the ground raid drug bazaars.

The Taliban deny any connection to the drug trade.

"At the time of our government, poppy cultivation was down to zero," said Zabiullah Mujahid, a spokesman for the group, which ruled Afghanistan with its own harsh interpretation of Islamic law before the 2001 U.S.-led invasion. "With the arrival of the invaders, this phenomenon was reborn. American generals and senior intelligence officials, along with Kabul government ministers and lawmakers, are involved in opium trafficking

### Funding Source

Opium poppy cultivation, a major revenue generator for the Taliban, reached record levels in Afghanistan last year.



and keep the trade going."

The U.S. military, however, estimates the Taliban get 50% to 60% of their revenue from narcotics, according to Gen. Bunch. That represents about \$320 million a year in funds

the insurgent group uses to pay fighters and purchase weapons, he said.

The bombing campaign so far has deprived the Taliban of \$44 million, he said.

"You're not just going to bomb [the Taliban] into submission," U.S. Air Force Maj. Gen. James Hecker said in February, during the early days of the strategic-bombing campaign. "But it is another pressure point that we can put on them."

Johnny Walsh, lead Afghanistan expert at the U.S. Institute of Peace, an independent organization established by Congress to provide peace-related training and analysis, said the Taliban "are both extremely ideological, and they benefit to the extreme from the drug trade."

"They can't raise money with ideology, and they can't recruit with drugs," he said.

—Habib Totakhil and Craig Nelson contributed to this article.

### Allies Have Tried Different Tacks in Fighting Drug Trade

Afghanistan is the world's largest producer of opium, which is refined into morphine and heroin.

Since 2001, the U.S. has pursued a variety of policies toward Afghanistan's drug growers and traffickers. Early on, U.S. forces teamed up with warlords who were themselves involved in the narcotics trade, according to a report by the independent Afghanistan Analysts Network.

The U.K., which led initial antidrug efforts for the West's alliance in Afghanistan, emphasized paying farmers to eradicate their own crops. In 2008, the U.S. persuaded allies to authorize troops to kill traffickers linked to insurgents, the report said.

At the height of the American forces' presence, from 2010 to 2012, frontline troops prioritized the war on insurgents over the war on drugs. U.S. Marines routinely patrolled through Helmand province, largely ignoring the sprawling fields of pink and white poppies around them.

Ironically, those farms were watered by the Kajaki Dam and the expansive irrigation system downstream from it—projects built with U.S. agricultural-aid money in the 1960s.

The allies came to embrace both interdiction and eradication, provoking worry among the troops on the ground that the campaign was alienating local farmers and creating recruits for the Taliban.

"Destroying poppy harvests won't help unless an alternative is provided to the poor and vulnerable farmers," said Zabiullah Mujahid, a spokesman for the Taliban.



North Korea's Kim Yong Chol, left, met in New York with Secretary of State Mike Pompeo, center.

## Talks Aim to Put Summit With North Korea on Track

Secretary of State Mike Pompeo opened two days of high-level talks with a senior North Korean official Wednesday night, as the Trump administration tries to establish whether there is enough common ground to proceed with a summit meeting in Singapore next month.

By Michael R. Gordon in New York and Andrew Jeong in Seoul

The discussions began with a dinner Mr. Pompeo hosted for Gen. Kim Yong Chol, who is often described as the right-hand man to North Korean leader Kim Jong Un and is making his first visit to the U.S. His arrival on Wednesday made him the highest-ranking North Korean to visit the U.S. in 18 years.

Mr. Pompeo and Gen. Kim are planning to meet for more in-depth talks Thursday.

"We want to see if we have the makings of a successful summit," said a senior State Department official.

With less than two weeks left before the planned June 12 summit, significant differences remain over the terms on which Pyongyang might give up its nuclear arsenal in

exchange for security assurances and economic relief.

In a sobering assessment in Seoul, a senior South Korean official warned that a deal between Washington and Pyongyang still faced big obstacles.

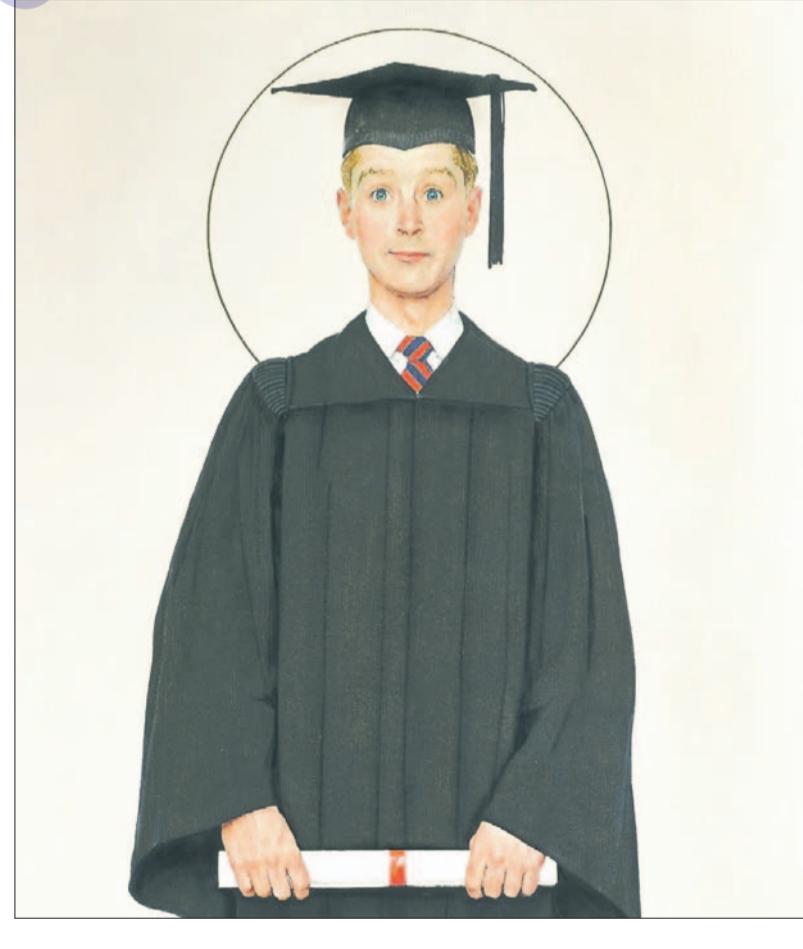
"The differences between North Korea and the U.S. remain quite significant. It won't be easy to narrow the gap and find common ground,

but I think it would not be impossible," the South's unification minister, Cho Myoung-gyon, said in a speech to European diplomats on Wednesday.

Public statements by each side indicate that one major

Differences remain on the terms on which the North might give up its nuclear arsenal.

obstacle is the pace of disarmament. The U.S. is pushing the regime to commit to "complete, verifiable and irreversible" denuclearization as quickly as possible, while the North Korean leader, Mr. Kim, has described a more phased



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## WORLD NEWS

# Spain Briefly Holds Foe Of Putin

Spanish police detained a critic of the Russian government in Madrid, acting on a request from Moscow, highlighting the Kremlin's attempts to intimidate its foes.

*By Jeannette Neumann in Madrid and James Marson in Moscow*

Bill Browder, a U.S.-born investor, was arrested on what police and Mr. Browder said was a request from Russia. Police soon released him.

Shortly after, Mr. Browder tweeted: "Spanish National Police just released me after [the] Interpol General Secretary in Lyon advised them not to honor the new Russian Interpol Red Notice."

The Kremlin didn't respond to a request to comment.

Mr. Browder has lobbied the West for laws to punish Russian human-rights violations. Mr. Browder is the founder of Hermitage Capital Management, formerly a major investor in Russia. He became a critic of high-level corruption in Russia and was barred from the country in 2005.

Sergei Magnitsky, a Hermitage auditor, accused Russia of large-scale fraud and died in a Russian jail after he was arrested for alleged tax evasion.

Russia accused Mr. Browder of directing the fraud and convicted him of tax evasion as well. Russia has repeatedly sought to use Interpol to have Mr. Browder extradited.

# 'Dead' Reporter Tells Lively Tale

Russian journalist who was thought killed in Kiev emerges to say he was part of a sting

BY JAMES MARSON

The reported murder of Russian journalist Arkady Babchenko at the door of his Kiev apartment late Tuesday appeared to be another case of a Kremlin critic turning up dead.

A photo apparently showing the balding 41-year-old in a pool of blood was shared on Ukrainian websites and social media. Foreign governments registered their outrage. Russia and Ukraine traded blame.

But then he showed up alive and well in public.

The journalist, who most recently has been working for a Ukrainian television channel, stepped out at a press conference on Wednesday—ostensibly organized to discuss his killing—to gasps from reporters and said it had all been part of an elaborate ruse put on by Ukrainian authorities to catch the organizers of the alleged planned hit.

Mr. Babchenko's appearance was the latest bizarre chapter in the conflict between Ukraine and Russia, which has fought a covert war in its neighbor's east since 2014.

Ukraine has long accused Russia of lying about sending troops across the border and using slanted or false reporting to fuel fighting.

Western and Ukrainian officials have said Russia kills critics at home and abroad, including Boris Nemtsov, a Russian opposition leader who was gunned down on a bridge near the Kremlin in 2015, for-



Ukrainian President Petro Poroshenko met with Russian journalist Arkady Babchenko, who turned up alive in Kiev on Wednesday.

mer intelligence agent Aleksandr Litvinenko, who succumbed to a radioactive isotope in London in 2006, and a former Russian lawmaker who was shot outside a luxury hotel in Kiev last year. The British government has said Russia was behind the attempted killing of a former Russian agent with a nerve agent in England this year.

Such attacks are supposed to act as a warning to Kremlin critics that they aren't safe anywhere, Western officials and some analysts say. Russia denies involvement in the incidents, saying they are an attempt to discredit Moscow. A Russian Foreign Ministry spokeswoman hit back at Ukraine on Wednesday, calling

the operation an attempt to score propaganda points.

Some media-rights organizations criticized Ukrainian authorities for spreading false information, but officials defended their efforts as necessary to catch the chain of people who arranged the attempted hit, which they said led to Russia.

Mr. Babchenko was contrite after emerging at the press conference. "First of all, I'd like to apologize for what you had to live through...because I know the sickening feeling when you have to bury colleagues," Mr. Babchenko told reporters.

Mr. Babchenko said the Security Service of Ukraine, or SBU, had approached him a month ago with information about a threat against his life

and that he had agreed to take part in an operation designed to catch the plotters.

Ukrainian security officials said Russian security services had been behind the plot to kill Mr. Babchenko, a critic of the Kremlin's wars in Ukraine and Syria who fled Russia last year amid threats against him. Russia denied the accusation.

Vasyl Hrytsak, the head of the SBU, said he had evidence that Russian security services had recruited a Ukrainian citizen to organize the attempt on Mr. Babchenko's life, and that the journalist was the first of as many as 30 planned targets. Mr. Hrytsak said the man offered \$30,000 to an acquaintance who had fought for Ukrainian government forces in

eastern Ukraine in return for the killing, and played a video he said showed the handover of half the cash. The alleged organizer of the plot was detained three hours before the press conference, Mr. Hrytsak said.

Anton Herashchenko, an adviser to Ukraine's interior minister, said authorities had faked Mr. Babchenko's death to convince those who had organized it that it had happened and enable law-enforcement officials to uncover the alleged plot.

Late Tuesday, Mr. Herashchenko had written that Mr. Babchenko had been shot in the back by an assailant and had died in an ambulance.

"There was no other way," Mr. Herashchenko wrote on his Facebook page.

## WORLD WATCH

## INDIA

## U.S. Pacific Command Gets a Name Change

In a symbolic nod toward India, the U.S. military changed the name of the military headquarters covering Asia and the Pacific Ocean from Pacific Command to Indo-Pacific Command.

Adm. Philip Davidson took over the newly named command at a ceremony in Pearl Harbor attended by Defense Secretary Jim Mattis and Marine Gen. Joe Dunford, the chairman of the Joint Chiefs of Staff.

Adm. Davidson's predecessor, Adm. Harry Harris, has been nominated to become the next U.S. ambassador to South Korea.

The change in name doesn't mean an immediate movement of U.S. ships or fleet command postings, defense officials said. Rather, it is an attempt to improve the U.S.-India alliance. India has historically relied on Russia for its weapons and increasingly is cooperating economically with China.

However, the name change also reflects the Pentagon's National Defense Strategy, which was released earlier this year and called for a U.S. military pivot toward threats from nation states, especially Russia and China.

—Nancy A. Youssef

## GAZA STRIP

## Hamas Declares A Truce With Israel

Gaza's ruler Hamas declared a unilateral cease-fire with Israel, after a day of shelling from the Palestinian territory and retaliatory strikes raised concerns of a wider conflict.

Israel denied agreeing to a cease-fire, but officials indicated they would only strike in response to attacks.

The pause on Wednesday came a day after Israeli jets hit dozens of targets belonging to Hamas and another militant group, Palestinian Islamic Jihad, responding to firing by militants in Gaza that Israel said was the most intense since a 50-day war in 2014.

Hazem Qasem, a Hamas spokesman, said the truce followed mediation from Egypt and other countries. He said Egypt communicated to Israel that Hamas seeks a recommitment to the 2014 cease-fire. A spokesman for Egypt's Foreign Ministry declined to comment.

"We want to maintain the old rules of engagement and not to have new ones," he said. "They (Egyptians) took our message to the Israelis then things calmed down," he said.

—Felicia Schwartz and Dov Lieber

# Italy's President Tries to Make a Deal

BY GIOVANNI LEGORANO

ROME—A political impasse in Italy that rattled global markets and unsettled the country's European partners continued through a fourth day, as Italian President Sergio Mattarella searched for a way to foster the creation of a new government and stave off fresh elections.

Mr. Mattarella was considering Wednesday the possibility of reviving a coalition government supported by Italy's two large antiestablishment parties—the 5 Star Movement and the League—that had seemed poised to take power last weekend. However, with tensions running high and some political leaders pushing for quick elections, events in Italy remained fluid.

Over the weekend, Mr. Mattarella rejected a euroskeptic figure the 5 Star and the League had chosen as economy minister for a coalition government that appeared close to taking power.

That veto caused the coalition to collapse, pitching Italy into political chaos and raising the possibility of a fresh ballot less than three months after parliamentary elections.

But late Wednesday, Luigi Di Maio, the leader of the 5 Star Movement, sought a way to re-

suscitate the coalition government with the League.

After meeting informally with the president in the afternoon, he proposed to the League the formation of a government supported by both parties with a different economy minister. Paolo Savona, the 81-year-old economist originally put forward for the economic post, could still be a member of their government but could occupy a different ministerial position, Mr. Di Maio said.

The alternative, he said, would be having the country

hold fresh elections.

The League's leader, Matteo Salvini, told his supporters at a rally he would think about Mr. Di Maio's proposal.

According to an official at the president's office, Mr. Mattarella is assessing this new option "with great attention."

The 5 Star Movement, an antiestablishment party that has ridden a wave of anger at Italy's political establishment and the European Union, emerged from the March 4 election as the single largest party.

The League, a hard-right nativist party, also surged, as

millions of Italians welcomed its fierce criticism of Brussels and a virulently anti-immigration message. The two populist parties banded together this month to try to form a coalition government.

In the wake of the collapse of the 5 Star-League proposal to govern, Mr. Mattarella on Monday asked Carlo Cottarelli, an economist and former International Monetary Fund official, to attempt to form a new caretaker government that would likely have lasted only a few months—long enough to pilot the country to fresh elections.

However, none of the major parties supported such a solution, forcing Mr. Mattarella to search for another way out of the impasse.

Political leaders met through the night to discuss possible solutions, ranging from a new 5 Star-League government to fresh national elections as soon as July.

On Wednesday, Mr. Cottarelli met with the president twice to discuss how to move forward. The president decided to give 5 Star and the League more time to strike a new agreement to form a government together.

◆ European lenders face new shock..... B10

## FROM PAGE ONE

# BONDS

Continued from Page One erratically rising, interest rates and strong demand for income-generating investments.

"Even for unconstrained bond funds, it's rare for such a sharp decline," said Todd Rosenbluth, director of ETF & mutual fund research at CFRA.

Mr. Gross gained a global following in part for making bold predictions on the markets—and placing outsize bets on those convictions. In 2011, as manager of the world's largest bond fund at Pimco, he famously sold all of his U.S. Treasury holdings and used derivatives to place wagers against government-related bonds. Those trades, among others, left Mr. Gross's funds far more susceptible to wrong-way bets than his peers, former colleagues have said.

Slumping performance, client defections and a feud with some of his colleagues greased his exit from Pimco, a firm he co-founded decades earlier. He

jumped in 2014 to the smaller Janus Capital Group Inc., where the Unconstrained Bond Fund manages \$2.08 billion. That is down from its peak this year of \$2.23 billion.

Mr. Rosenbluth said Mr. Gross may have been caught flat-footed during Tuesday's selloff of Italian bonds. He had argued that the yields on ultra-safe German bonds would rise, reflecting improving economic prospects throughout Europe and an increased willingness among investors to take on risk.

Instead, the spread between yields on Italian and German 10-year bonds hit 2.83 points on Tuesday, widening from 2.05 on Friday and 1.57 in early 2018.

The spread between Italian and German bonds was unchanged at 2.828 points on Wednesday, Thomson Reuters said. Stock benchmarks in Europe and the U.S. edged higher.

Calls to a spokeswoman at Janus Henderson Group PLC, formed through the 2017 merger between Janus and the U.K.'s Henderson Group,



Bill Gross, once the 'Bond King,' had a rocky day Tuesday.

were not returned. Reached through a spokesman, Mr. Gross declined to comment.

Italian President Sergio Mattarella's move on Sunday to block the formation of a euroskeptic coalition government has reignited fears that the continent's third-largest economy would exit the currency union, a concern that rattled markets because any move to drop the euro or de-

## Falling Kingdom?

Asset growth at Bill Gross's Unconstrained Bond Fund

\$2.5 billion



Source: Morningstar

fault on existing bonds could fuel significant losses among European lenders and impair economic growth.

Mr. Gross's Global Unconstrained Bond wasn't the only mutual fund caught up in the selloff. Managed-futures funds, which bet that market trends will continue, also fell sharply as one of those themes—rising U.S. interest rates—reversed course.

AQR Capital Management's \$10 billion Managed Future Strategy, the biggest of the group, dropped 2.1% on Tuesday on losses from its shorts, or bearish bets, on U.S. government-bond futures.

The LoCorr Market Trend Fund, another managed-futures fund, declined 2.2%, while the Equinox Campbell Strategy Fund fell 2.51%.

Many traditional bond funds fared better.

The \$2.1 billion Pimco Active Bond ETF, an exchange-traded fund once run by Mr. Gross, rose 0.6% on Tuesday. The \$3.2 billion SPDR Double-Line Total Return Tactical ETF, run by DoubleLine Capital LP's Jeff Gundlach, also gained 0.6%.

Morningstar's director of fixed-income manager research, Miriam Sjöblom, noted that the Pimco and DoubleLine ETFs are two of a breed of actively managed funds that rarely make the sort of esoteric bets that likely hurt Mr. Gross's performance. But even some ETFs with sizable allocations to Italian debt outper-

formed Mr. Gross.

Italian bonds account for 20% of the iShares International High Yield Bond ETF, which fell 1.7% on Tuesday. The \$11.8 billion Vanguard Total International Bond ETF, which has 8.3% of its portfolio in Italian debt, slid just 0.22%.

"In a diversified bond portfolio, where you had some Italy exposure, you generally held up OK," Ms. Sjöblom said.

In his first-quarter letter, Mr. Gross said European investors had "piled into the region's safe havens, namely German Bunds," earlier this year after stocks declined sharply, Mr. Gross wrote. German bond yields, which had been on the rise as the nation's economic picture improved, also plummeted, he said.

"Given these conditions, it is difficult to find the rationale for [10-year] Bunds to be yielding just 0.50% and yields on German government debt up to six years in maturity to be negative," he wrote.

—Asbjørn Loder contributed to this article.

## IN DEPTH

# HOLE

*Continued from Page One*

Potholes across the U.S. are flourishing, with aging roads pummeled by harsh weather and larger-than-average temperature swings. Repair crews seem to exit each winter deeper in the hole. New York City last year had more than triple the number of reported potholes compared with the mid-1990s.

Activists are trying different ways to fill the gap. YouTube prankster Coby Persin said he popped a tire on his Maserati in Midtown Manhattan before hitting on an idea. Figuring it would take a New York City crew months to fix the pothole, he filled it with a potted plant.

"Had I seen a plant inside the pothole, I would have drove around," said Mr.

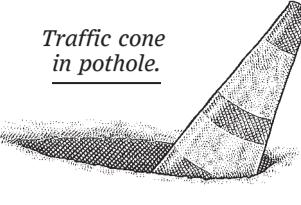
Persin, 24, who has 4.3 million YouTube subscribers. He temporarily filled a pothole with white orchids for a video that drew 949,000 views. It showed an SUV swerve away.

While popular online, such stunts endanger drivers. New York City spokeswoman Alana Morales said: "We encourage the public to report road defects to 311."

New York City Mayor Bill de Blasio said this month that after years of neglect, the city's \$1.6 billion "Pave, Baby, Pave" resurfacing program has reduced the number of city potholes to 236,000 from a peak of 421,000 in 2014.

Elsewhere in the U.S., pothole activists have posted Instagram photos of toy boats and rubber ducks bobbing in water-filled potholes, hoping to draw government attention and repair crews.

In Chicago, artist Jim Bachor has covered nearly 50



potholes with colored tile mosaics, sunk in concrete. The finished repairs show designs of flowers, ice cream bars and popsicles. One is marked: "This is not a pothole."

Mr. Bachor plans to release a self-published book of his work this summer, as well as lead bike tours of the repairs. He was inspired by a visit to Pompeii, Italy, where he saw surviving mosaics of glass and marble.

When a pothole opened up on his street a few years ago, he thought any material that survived a volcano could withstand snow, heat and traffic.

For his first repair, Mr. Bachor borrowed his sons' soccer cones to block the street and began work after midnight. He liked it—and went on to repair another and another. He started working days, dressed in a reflective vest.

"People really don't care," he said. "I just look like a guy working too long fixing one pothole."

City officials in Chicago didn't respond to requests for comment.

Mr. Bachor recalled the time he thought authorities would put a lid on his work: "I sense a big car pulling up to me, and I try to avoid eye contact, and sure enough it's a cop. He said, 'Are you that pothole guy?'"

After giving a compliment, the officer moved on, said Mr. Bachor. He raised \$13,000 for a trip to New York City, where he plans to fill five potholes

this summer. "Everyone can relate to them," he said.

In California, the Santa Cruz Vigilante Pothole Brigade wear hard hats and use walkie-talkies while they fill holes on rough roads. The group of stay-at-home parents and remote workers, led by a retired tech executive, hit a bump when they asked for official permission.

After some coaching on traffic control by members of the local volunteer fire department, they asked Santa Cruz County officials if they could start volunteer public works department.

"Their heart is in the right place, but safety wise, it's just not something the county can sanction," county spokesman Jason Hoppin said. "To do so is to encourage people to run out in the middle of the road with heavy equipment."

Some cities enlist volunteers by asking residents to

take photos of potholes and tweet them at public-works departments. The cities of Raleigh, N.C., and Eden Prairie, Minn., ask residents to mark potholes on a map using the SeeClickFix mobile app.

In New Orleans, a city spokeswoman said pothole repairs were best left to city workers. "While we appreciate their 'can do' spirit, we ask people to recognize and follow the system that is in place," she said, by reporting potholes to the city's 311 line.

Ms. Cool and the rest of the Marigny Muckrakers told the city that they planned to fix the pothole after their requests for help over the past year went unanswered.

The city said neighbors needed a \$250 permit to temporarily close the street.

"We were like, 'We're not paying you so we can get this job done,'" Ms. Cool said.

# MEXICO

*Continued from Page One*

rador who as Mexico City mayor proved to be a pragmatic manager, joining with telecom magnate Carlos Slim to restore down-at-the-heels neighborhoods.

Mr. López Obrador and an aide didn't respond to multiple requests for an interview.

The stakes are almost as high for the U.S. as for Mexico. In the past quarter-century, Mexico has gone from being a distant and standoffish neighbor with periodic economic crises to a close political ally and key economic partner. The relationship has endured even during recent disagreements over immigration and the North American Free Trade Agreement prompted by the combative stance of the Trump administration.

All that may change if Mr. López Obrador becomes president.

"López Obrador will be focused on Mexico first," said Andrew Selee, president of the Washington-based Migration Policy Institute, and author of "Vanishing Frontiers," a book about the Mexican-U.S. relationship. "Unlike recent Mexican governments, who saw the U.S. as a big force in Mexico's economic future, he doesn't see a major role for the U.S. in Mexico's economy."

## Shared traits

On the campaign, Mr. López Obrador has said he would treat President Donald Trump with "caution and respect." The two men share more than a few traits: Both are highly gifted marketers and economic nationalists with an instinct for overturning political convention. Mr. López Obrador has found common ground with the U.S. president, agreeing that the new Nafta should lift Mexican workers' wages.

Mr. López Obrador has also promised to respond in kind if Mr. Trump persists in belittling Mexico—even vowing to engage in Twitter warfare with the U.S. president. In his strongest comments about Mr. Trump during a speech last year in Los Angeles, Mr. López Obrador said Mr. Trump's anti-immigrant rhetoric was racist, xenophobic and "neofascist."

A senior administration official said the White House wouldn't comment on individual candidates. "We look forward to having a cordial and productive relationship with whomever the Mexican people choose as their next president, and we will continue to seek ways to strengthen our relationship with Mexico—one of our most important partners," the official said.

Polls show Mr. López Obrador with an average 15-point lead over Ricardo Anaya, the former president of the center-right National Action Party, or PAN. Some analysts say Mr. Anaya, 39, still has an outside chance if he wins the backing of moderate voters frightened by Mr. López Obrador.

Running a distant third is José Antonio Meade, a straight-laced former finance minister who is the candidate of the ruling Institutional Revolutionary Party, or PRI.

The July 1 vote could be Mr. López Obrador's last best shot to win the presidency after suffering defeats in 2006 and 2012. His anticorruption message, the heart of his campaign, is more popular than ever because President Enrique Peña Nieto's government has

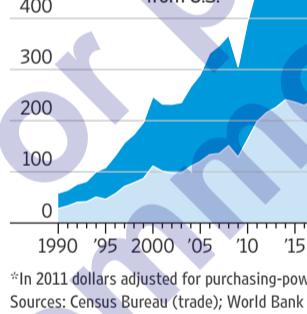


Andrés Manuel López Obrador, seen at a recent campaign rally in Mexico City, says he will end the 'long dark night of neoliberalism.'

## Diverging Trends

Mexico's growing commerce with the U.S. has helped drive down poverty rates, but violent crime is soaring.

### Total trade with U.S.



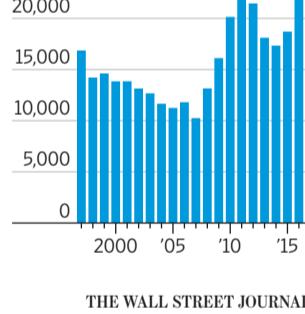
\*In 2011 dollars adjusted for purchasing-power-parity

Sources: Census Bureau (trade); World Bank (poverty); Mexico's interior ministry (murder)

### Percentage of Mexicans living in poverty\*



### Murders



THE WALL STREET JOURNAL.

## 'Dark night'

Now, he promises a "Fourth Transformation" for Mexico, which will, he says, end the "long dark night of neoliberalism"—a reference to the decades since Mexico privatized most state companies. He sees his coming to power as the culmination of Mexico's epic history of struggle against powerful elites which have kept tens of millions of people in misery.

"We live in a fake republic," he often says at rallies across the country.

Mr. López Obrador pledges to "eradicate" Mexico's endemic corruption, using money

saved to pay for a major public works program, as well as pensions for old people and monthly wages for a country-wide apprenticeship program for two million unemployed young people.

His government, he says, will be marked by austerity. He plans to move out of the presidential mansion, Los Pinos, and rent a house. He has said he doesn't have a credit card or checking account.

Despite this apparent personal austerity, many fear Mr. López Obrador wants to return Mexico to the state-directed economy favored during the long rule of the ruling PRI party during the 20th century, when the government gave powerful interest groups control over key sectors of the economy. He has pledged to cancel Mexico's recent education overhaul, which tried to bring the powerful teacher union to heel by establishing merit-based exams.

Foreign investors are nervous about Mr. López Obrador's plans to reassess Mexico's opening to private investment

in the country's oil industry, which is expected to bring \$150 billion to the energy sector.

Such talk reminds many Mexicans of President Luis Echeverría, who governed Mexico in the 1970s. Mr. Echeverría combined import-substitution policies, sharply increased government spending and socialist rhetoric. The story ended badly: Inflation skyrocketed and the government devalued the peso for the first time in 22 years.

*Some see an echo of the populist tactics of the late Venezuelan ruler Hugo Chávez.*

In what some see as an echo of the populist tactics of the late Venezuelan ruler Hugo Chávez, Mr. López Obrador says he plans to have Mexicans vote on key policies by means of popular referendums, including a vote in the midterm elec-



The ruling PRI party's José Antonio Meade, left, and the PAN's Ricardo Anaya try to close the gap.

tion on whether to throw him out of his job. He also wants a new "constitution of morals" alongside Mexico's current constitution, drafted by "philosophers, anthropologists, psychologists, specialists, writers, poets, activists, Native Americans, and leaders of different religions."

The Tabasco politician has often cast himself in religious terms, lacing speeches with biblical metaphors. He twice called his 1990 marches an "Exodus," and has named his youngest son Jesús Ernesto—for the Christian savior and the Argentine revolutionary Ernesto "Che" Guevara.

"It's an immense joy to form part of this movement to build, here on earth, the kingdom of justice and brotherhood," said Mr. López Obrador in a 2016 speech. His own party is the Movement of National Regeneration, whose acronym, Morena, is a reference to Mexico's dark-skinned national patron, the Virgin of Guadalupe.

The former Mexico City mayor often sees persecution against him, and he doesn't shy away from publicly naming alleged conspirators. In May, he accused, without providing any evidence, a number of Mexico's top businessmen of plotting to rig the election.

"We are worried that he could harbor authoritarian instincts," said Alejandro Ramírez, the chairman of Mexico's largest chain of movie theaters and one of the businessmen accused by Mr. López Obrador. "Many people fear saying anything because of possible reprisals."

Mexican historian Enrique Krauze, who in an essay once called Mr. López Obrador a "Tropical Messiah," said in an interview: "I don't know if Congress, the Supreme Court, and Mexico's independent institutions like the central bank and

the bank

# GREATER NEW YORK

## Mayor Lobbies for Action

Urges lawmakers to renew and expand use of speed cameras in city school zones

By MELANIE GRAYCE WEST

New York City Mayor Bill de Blasio urged lawmakers in Albany to act quickly to ensure that a current law allowing speed cameras in school zones won't expire in July, while unveiling a new street design for a busy and dangerous Brooklyn road.

Mr. de Blasio spoke Wednesday at the site of a deadly collision in March that killed two children and injured two mothers—including one who was pregnant and whose unborn daughter died later.

The Democratic mayor said the city will do everything in its power to protect New Yorkers, but "it's time that leaders in Albany did the same thing."

"There is more to be done and it must be done quickly," said Mr. de Blasio.

At issue is a soon-to-expire state law that allows for the city to place speed cameras in 140 school zones, or about 7% of all school zones. City officials, along with hundreds of other groups representing hospitals, schools and parents,



A memorial in Brooklyn where two children died in a car accident.

are pushing for the current law to be extended to 2022 and expanded by another 150 school zones.

The city also is asking to place cameras, not just on streets leading into a school, but on other streets or major thoroughfares near schools where children commonly cross.

According to a city report, speeding during school hours drops more than 63% when speed cameras are added.

City officials and traffic-safety advocates say the \$50 ticket for speeding in a school zone and being caught on camera is designed to deter repeated bad behavior. Such a

ticket is only tied to a license plate, not a driver, whereas the same speeding infraction caught by a police officer would result in more serious penalties.

Meanwhile, traffic fatalities this year are particularly high for children, with six deaths so far, compared with nine children for all of last year. The city is on pace to lose nearly as many children to traffic fatalities in 2018 as in the past two years combined, according to Tom DeVito, senior director of advocacy at the nonprofit Transportation Alternatives.

Yet, total traffic fatalities last year fell 7%, with pedestrian deaths dropping from 148

to 101, according to a city report released in March.

Brooklyn has lost 19 children in fatal crashes since 2013, the most of any borough during that period. In 2014, Mr. de Blasio launched the "Vision Zero" program, which aims to get the city down to zero traffic deaths.

As part of that program, the city released its redesign for a busy one-mile stretch of the Ninth Street corridor in the Park Slope section of Brooklyn. The new design will move dedicated bike lanes close to the sidewalk, allowing for shortened pedestrian street crossings.

In addition, the city is proposing modified loading regulations to reduce double parking along the stretch. Department of Transportation Commissioner Polly Trottenberg said the city might also experiment with new intersection designs along the route, which would slow cars and allow for greater visibility as they turn.

If the proposals receive local community board approval the redesign would begin this summer, according to a spokesman for the Department of Transportation.

"We are going to be putting in the kinds of designs here that we have seen have made streets safer all over the city," Ms. Trottenberg said.

## Financial Adviser Faces Fraud Charges

By CORINNE RAMEY

had included nurses, homemakers, shopkeepers and municipal workers. "They had low-risk tolerances, small net worths and simply wanted a little bit of growth to stretch out their retirement savings," she said.

Mr. Mustaphalli faces up to 20 years in prison, the attorney general's office said. He is being held on New York City's jail barge in the Bronx because he hadn't paid a \$2 million bail, records show.

Mr. Gottlieb called the bail "outrageous," saying his client has been involved in similar pending civil allegations and had shown no signs of fleeing.

Ms. Underwood said Mr. Mustaphalli built relationships with clients while working at a bank in Queens and took these clients with him when he started his own firm. He then invested their money in his hedge fund, Mustaphalli Capital Partners Fund L.P., without their knowledge, prosecutors said. In some cases, they said, he forged his clients' initials on investor documents.

Within about a year, that fund lost 92% of its value, the attorney general's office said. The investors have received about 20% of their money back, Ms. Underwood said. "The funds have mostly been depleted."



The New York Philharmonic will be taking its cues from violinist Frank Huang, below center, during a conductor-less program. Conductor Alan Gilbert, inset, departed at the end of the 2016-2017 season.

## Philharmonic Plans Concerts Without a Conductor

By CHARLES PASSY

Over the course of its 176-year history, the New York Philharmonic has been led by a virtual who's who of conducting greats, from Arturo Toscanini to Leonard Bernstein.

But for its set of subscription concerts that begins Thursday, the orchestra won't be tapping a big-name talent to wield the baton. In fact, it won't be featuring anyone at the podium at all.

The program, which features works by Mozart and Tchaikovsky, marks one of the few times the ensemble has played an entire program without a conductor, say Philharmonic officials.

The orchestra wasn't trying to save on a conductor's fee, but embrace a different methodology, Philharmonic officials say. The Philharmonic has been between music directors this season but has used guest conductors, and a music director typically doesn't conduct all series.

Frank Huang, the orchestra's concertmaster, will take on something of a guiding role from his seated position playing violin at the front of the orchestra. Mr. Huang encour-

aged the Philharmonic to do the program, based on his experience with similar conductor-less concerts when he was at the Houston Symphony before coming to New York in 2015.

His belief is that the process of working without a maestro forces the musicians to pay closer attention to one another—and the lessons from that apply even when the orchestra works with a conductor.

"In a way, it's a good vitamin for us," said Patrick Gee, a cellist.

Not that there aren't challenges aplenty. While Mr. Huang may provide guidance for the orchestra through his body language, that is not necessarily as exacting as what a conductor is able to communicate with a baton. Moreover, not all the musicians can easily see Mr. Huang from where they are seated.

"When we have a conductor, there's a very clear reference point for cues," Mr. Huang said.



Plus, the musicians learn to take cues from each other, said Mr. Huang.

The process, he said, is "more like playing in a giant string quartet" than an orchestra.

While the Philharmonic's conductor-less program might seem novel to the orchestra's regular attendees, it isn't exactly new in the classical world.

Until the 19th century, conductors weren't typically required to lead orchestras or other large musical ensembles, say classical experts. Instead, a member of the group would simply help keep time, not unlike what Mr. Huang is doing.

And more recently, conductor-less orchestras have become something of a sensation, with new ones forming throughout the country. Credit is often given to Orpheus, the New York-based conductor-less ensemble that was established in 1972, with jump-starting the trend.

The Philharmonic will be welcoming its next music director, Jaap van Zweden, at the start of the 2018-19 season. He succeeds Alan Gilbert who departed at the end of the 2016-2017 season.

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## GREATER NEW YORK

METRO MONEY | By Anne Kadet

# No Humans Allowed in This Social Network



It was bound to happen sooner than later, and now it is here—a social networking app for pets. Yes, on Petzbe, a virtual community that launched in March, user profiles feature selfies and comments from the pet's perspective. The tagline: "No humans allowed."

So what are pets doing on Petzbe?

They are taking naps and begging for treats. They are swanning around in crowns, pinafores and leather jackets. They are getting their heads stuck in potato chip bags. They are quoting Francis Bacon.

The more ambitious are befriending horses and eating their own beds. They are surprisingly honest. "I am not the smartest dog," declares a pooch named Diesel.

Here is what pets aren't doing on Petzbe: Arguing about Trump. Worrying about global warming. Complaining about taxes.

Petzbe Founder and President Andrea Nerep recently hosted a pet party at a bar in Manhattan's East Village. As she greeted guests, the company's chief executive officer, an eerily self-possessed Brussels Griffon named Angus, sat on her lap looking imperious.

**M**s. Nerep, who lives in Manhattan's Soho neighborhood, says she was inspired to create the community in 2016 after adopting Angus about four years ago. She was snapping up to 20 photos of her dog every day, and often found herself narrating his thoughts. "Talking to other dog owners, I realized I was not the only one who did that," she says.

The pet-obsessed, it seems, need an outlet. But there's a limit to how much you can post about your dog on Facebook. "With Petzbe,"



INGO FAST

says Ms. Nerep, "There is no oversharing."

Julia Barber, who posts daily on Petzbe on behalf of Lola, her miniature poodle, is a typical user of the free app. She takes her dog shopping, to festivals and out to the Hamptons on Long Island. She feeds her bison burgers and fresh berries to help her stomach condition.

"She's like a little person," says Ms. Barber, a marketing executive who lives with her husband on Manhattan's Upper East Side.

On her Petzbe profile, Lola complains about the weather, dreams about hamburgers and gushes about her wonderful "mommy."

"The good thing about Petzbe is you don't seem

crazy if you post too many pictures of your dog, because that's what it's for," Ms. Barber says.

Petzbe users skew on the young side, 18-44 years old, and suburban; 87% are female, Ms. Nerep notes. But that's hard to tell from the app. "If you post a selfie of yourself, it will be reported as human content, and it will be removed," she warns.

The community's most popular members are a Birman cat named Mia, a Siamese named Nala and a Yorkie called Stinky, all of whom have roughly 2,000 "sniffers"—the Petzbe equivalent of followers. They tend to be outgoing pets who comment a lot on other pet's posts, Ms. Nerep says.

Lowell Kaufman, co-organizer of the NYC Pet Tech Meetup, a networking group for entrepreneurs, says others have launched pet-focused social networks, but Petzbe is the first to take the animals' perspective.

He also thinks Petzbe has good timing, given the recent controversies surrounding Facebook. "Petzbe is clean," says Mr. Kaufman, who also is the founder and chief executive officer of Well Informed Pet, a platform for managing pet information. "It's really about the fun aspect of socializing."

Petzbe's backing comes from Julian Aleksov, co-founder and executive chairman of Oasmia Pharmaceutical, a Swedish company that

develops cancer treatments for pets.

Mr. Aleksov says he and his partners have invested more than \$1 million in seed capital in Petzbe, and are committed to providing an undisclosed additional amount.

**I**t's not just the 85 million U.S. pet owners who treat their animals like people, the trend is big in Europe, Japan and Australia, he says. An Android version of the Petzbe app will be released this summer, and will soon be available in several languages including Japanese, Russian and Spanish.

Meanwhile, Mr. Aleksov is creating a Petzbe profile for Hans, his 20-year-old turtle.

"It's a very supportive community, and Hans will be supportive as well," he says.

Plans are for Petzbe to partner with service providers and sell Petzbe-branded merchandise. Ads would have to address pets directly, Ms. Nerep says. "And you have to have a business pet representing your company."

Petzbe users acknowledge it might look ridiculous to lavish so much attention on a dog or cat. But Megan Williams, a Queens teacher who created profiles for her two Yorkshire Terriers, says the cynics don't know what they're missing. "They just don't get it," she says. "They should get a pet."

[anne.kadet@wsj.com](mailto:anne.kadet@wsj.com)

## GREATER NEW YORK WATCH

## CONNECTICUT

**State Will Appeal Skakel Dismissal**

Connecticut prosecutors plan to appeal the dismissal of Kennedy cousin Michael Skakel's murder conviction in a 1975 bludgeoning death to the U.S. Supreme Court.

State prosecutor James Kilkenney notified the Connecticut Supreme Court of the planned appeal Tuesday. He said the court was wrong

earlier this month when it reversed its own 2016 decision and vacated Mr. Skakel's conviction on the ground that his trial lawyer failed to call an alibi witness to the stand.

Mr. Skakel is a nephew of Robert F. Kennedy's widow, Ethel Kennedy. A jury convicted him in 2002 of killing Martha Moxley in a wealthy Greenwich enclave when they were teenagers. He was sentenced to 20 years to life in prison.

Mr. Skakel had served 11 years

when a lower court judge overturned his conviction in 2013, citing mistakes by trial lawyer Michael Sherman, who has defended his work.

The state Supreme Court reinstated the conviction in December 2016. Mr. Skakel's new lawyers then asked the court to reconsider, resulting in this month's reversal.

Mr. Skakel's lawyer, Hubert Santos, didn't immediately return a message Wednesday.

—Associated Press

## NEW JERSEY

**School Bus Driver in Fatal Crash Released**

A judge ordered a school bus driver facing two counts of vehicular homicide stemming from a crash this month released from jail Wednesday, pending trial over the objections of prosecutors.

Hudy Muldrow, 77 years old, had been held in the Morris County jail since his arrest last week. Morris County Assistant Prosecutor Matthew Troiano argued Mr. Muldrow had incentive to flee because a conviction could doom him to die in prison.

A criminal complaint alleges Mr. Muldrow tried to make an illegal U-turn on May 17 on Interstate 80 in Mount Olive with a bus load of fifth-graders. The bus collided with a dump truck, killing a student and a teacher. Mr. Muldrow's attorney on Wednesday argued there is no evidence his client was attempting to make a left turn onto the median in an area restricted for emergency vehicles.

—Associated Press

## LONG ISLAND

**Pilot Is Killed When Small Plane Crashes**

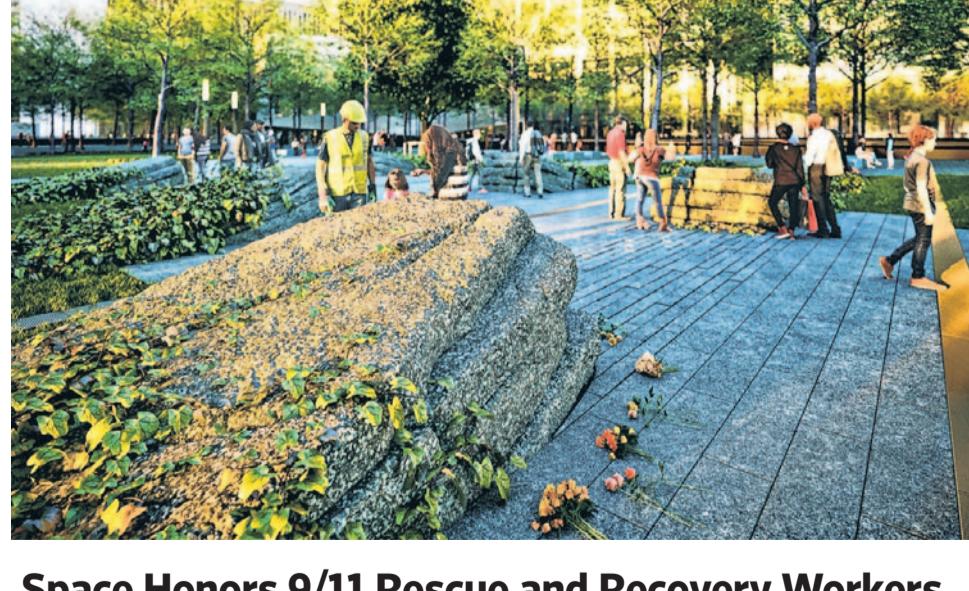
A small vintage airplane that was part of a GEICO stunt team crashed in a wooded residential area on Long Island, killing its pilot, Suffolk County police said on Wednesday.

A spokeswoman for GEICO Skytypers Air Show Team confirmed that Ken Johansen was killed in the crash of the World War II-era plane in Melville.

—Associated Press



FROM TOP: ASTRID STAWIARZ/GETTY IMAGES; MOSO STUDIOS/9/11 MEMORIAL &amp; MUSEUM

**Space Honors 9/11 Rescue and Recovery Workers**

A pathway flanked by six stones meant to symbolize strength and determination will be added to the Sept. 11 memorial site in lower Manhattan to honor the rescue and recovery workers who toiled for months at ground zero, officials said Wednesday in unveiling the design concept.

The new dedicated area will

serve as a way to honor those who became sick or died from exposure to the toxins in the environment after the Twin Towers fell.

The announcement came on

the day of the National Sept. 11 Memorial & Museum's annual commemoration of the rescue and recovery effort, which officially ended on May 30, 2002.

—Associated Press

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# LIFE & ARTS

## FASHION

# Streetwear, 'Drops' and Tattoos

To catch on with millennials, department stores take cues from specialty retailers, mixing up labels and hosting pop-up shops

BY RAY A. SMITH

**WHAT KIND OF CLOTHING** sale has DJs and performance artists as the stars? Or pairs designer fashions with hoodies and sneakers? Or offers piercings along with \$4,850 Givenchy orange leather pants? Call it the millennial mashup.

Old-line department stores and fashion brands are rejiggering sales floors and websites to court millennials in their twenties and thirties and the even younger members of Generation Z. To woo this elusive demographic, department stores like Barneys New

York and Nordstrom are concocting entertainment-filled Instagrammable shopping experiences with exclusive "drops" of limited-quantity products. They are hosting brief pop-up sales, merchandising high-end brands alongside casual ones and loading up on items that can be personalized and customized. Among their exemplars are Dover Street Market, Ssense, Maxfield and other specialty stores that have figured out what makes millennials tick—and shop.

Here's how veteran retailers are taking a page from their cooler counterparts to captivate the next generation of shoppers:

### IN-STORE EVENTS



Barneys New York hosted a sales event last fall that featured entertainment and limited-edition merchandise.

Specialty retailers are attracting young people by mounting temporary "pop-up" spaces and in-store events involving creative types such as artists, indie musicians and tattoo designers.

In recent years, Maxfield has run pop-ups that are both an art installation and a boutique for edgy or streetwear-inspired brands, including Off-White, READYMADE, Maison Margiela and Vetements. The pop-ups at the Los Angeles store often feature limited-edition exclusive products—in retail parlance, a "drop." The events are popular with millennials, said Sarah Stewart, the buying director for Maxfield.

"Millennials are the 'experience generation,'" said Melanie Shreffler, senior director, insights, at research firm Cassandra. "They judge a good experience on its shareability. For example, will they get some great photos for their Instagram?"

Last fall, Barneys New York joined with fashion blog Highsnobiety to host a weekend-long event aimed at millennials and Generation Z shoppers. Called "thedrop@barneys," it featured exclusive, limited-edition merchandise and appearances by designers of streetwear and other brands such as Fear of God and Palm Angels. Shoppers could get custom sneakers, tattoos and piercings. There were exclusive launches by Gucci and Alexander Wang, as well as by fashion-insider labels Ambush and Unravel Project. In its first day, the "drop" led to a 25% sales increase, with 20% of the customers new to Barneys. This weekend, the retailer will host a "drop" at its Beverly Hills store. Jeff Carvalho, managing director of Highsnobiety, said that to attract younger shoppers, traditional department stores "are all pulling cues from those 'indicator' retailers"—meaning smaller, hip counterparts. Daniella Vitale, Barneys' chief executive and president, said the concept came from a "company-wide effort for innovation" and acknowledged other influences. Dover Street Market periodically hosts a sprawling Open House that includes book signings, art installations, live music and sales of exclusive merchandise.



Comme des Garçons clothes at Dover Street Market, a pioneer of displaying streetwear brands alongside high-fashion labels.

**M**illennials defy uniforms but one fixture of their wardrobes is streetwear—hoodies, tees, sneakers and baseball caps often emblazoned with bold graphics, colors or logos. "Basically, streetwear is fashion today," said Robert Burke, of luxury-goods consultancy Robert Burke Associates. Prices range widely, such as \$155 for Nike Air Force high-top sneakers and \$575 for a logo hoodie by the label Off-White.

But streetwear alone won't draw younger consumers. Stores have to mix up the selection, offering high-fashion options, too. Traditional retailers' practice of compartmentalizing brands and categories "is not appealing today" to millennials and Generation Z, Mr. Burke said.

Dover Street Market, the avant-garde store created by the heads of label Comme des Garçons, was a pioneer in displaying streetwear labels alongside designer offerings. In its New York shop, which opened in 2013, streetwear brand Supreme was next to Prada. The approach reflects how younger consumers

dress and made high-end designer fashion seem less intimidating to them.

Nordstrom took note. The Nordstrom Men's store that opened in New York in April carries more streetwear and edgier fashion brands, said Paige Thomas, Nordstrom's executive vice president and general merchandise manager for men's apparel. To draw younger shoppers, she said, the store mixes brands at different prices and styles more than usual, "from Vans to Valentino and Nike to Balenciaga."

To sustain its mix-it-up appeal, Dover Street Market departed from another retail tradition. "When we open a new store," said general manager James Gilchrist, "we do our very best not to tell the brands who they're next to so that they design the space they're in without the knowledge of what's going next to them." Dover Street Market, which has stores in Tokyo, London, Singapore and Beijing, plans to open a Los Angeles outpost this year.

### UNCONVENTIONAL WEBSITES

**S**sense, a 15-year-old online retailer, scarcely promotes clothes on its site the way most mainstream retailers do. Instead, Ssense (pronounced essence) offers profiles of top musicians, artists, and recently, a chef. The site's editor-in-chief founded the Berlin-based culture magazine 032c.

"Millennials don't see distinctions between fashion, music, content and commerce," said Krishna Nikhil, Ssense's chief merchandising officer. The Montreal-based retailer, which opened its first bricks-and-mortar outpost there early in May, sells streetwear-leaning brands like A-COLD-WALL\* alongside luxury labels like Givenchy. When a customer clicks on an item, it usually appears with merchandise from other brands, a departure from the retail playbook of showing a head-to-toe ensemble from one label. "That's something young consumers in particular have connected with very strongly," Mr. Nikhil said. About 80% of Ssense's customers are between 18 and 34 years old, he said.

Bloomingdale's has refreshed its web site to emphasize storytelling, adding curated content on trends and buzzy designer labels rather than merely filling the home page with merchandise.

Matthew Godin, a 22-year-old personal styl-

ist in Toronto said Ssense is "the first place I check for anything." He occasionally shops at Barneys but finds other department stores like Nordstrom and Saks staid. "Ssense has a really great mix of high-end, contemporary and emerging designers," Mr. Godin said.



The Montreal outpost of Ssense, a retailer with a carefully curated website.

## THE QUEST TO RECOVER A LOST WRIGHT

### ARCHITECTURE



A rendering of the Banff National Park Pavilion, located in Canada's Alberta province, one of only two buildings in the country designed by Frank Lloyd Wright.

BY VIPAL MONGA

**A BASEBALL DIAMOND** in the Canadian town of Banff may be hiding the answer to an architectural mystery.

If a team of professors is right, buried beneath the baseball field on the edge of Canada's Rocky Mountains is the foundation of the Banff National Park Pavilion, one of only two buildings in the country designed by Frank Lloyd Wright.

The structure was demolished just before World War II, and nobody today seems to know exactly where it stood. Finding its foundation could be one of the keys to an effort by architects from Toronto's Ryerson University, who are trying to rebuild the pavilion as faithfully to the original as possible.

The trouble is, they aren't sure exactly how Wright designed it in the first place.

"We're following all the breadcrumbs," said Yew-Thong Leong, associate professor of architecture at Ryerson. He is leading seven professors hired by Michael Miner, a

filmmaker who has made four feature-length documentaries about Wright, to restore the structure and in the process recover one of Canada's lost architectural gems.

Mr. Leong and the scholars have been asked to create new construction plans for the building and help the town estimate the cost and time required for the rebuild. Mr. Miner hopes to break ground next spring.

Wright designed the Banff Pavilion, intended to be a picnic house and rest station for tourists, in 1911. It came at the tail end of what is known as his "prairie style" era, during which he built long, low-rise buildings that reflected the expanse of his native Midwestern landscape.

The man who designed the Solomon R. Guggenheim Museum in New York and Fallingwater in Pennsylvania worked with architect Francis Conroy Sullivan to build the 200-foot-long wood and stone building as part of a commission from the Canadian government.

Affording views of the mountain ranges

Please see WRIGHT page A13

## LIFE &amp; ARTS

THE MIDDLE SEAT | By Scott McCartney

# New Steps to Secure Your Business Trip

**Companies are placing more emphasis on tracking employees on the road as a safety measure, in a practice called duty of care**



BRIAN STAUFFER

center—someone to check in with, alert you to nearby incidents or help arrange emergency travel—can pay off. Some security firms, like International SOS and Global Rescue, now offer individual and family memberships. And many employers now extend travel security benefits to vacationing employees.

Typically innovation comes in personal travel and migrates into business travel: online booking, home- and ride-sharing. This may go the other way.

Even a basic security briefing about local areas can help leisure travelers—State Department travel advisories and the department's Smart Traveler Enrollment Program, which offers free information and alerts from embassies, are good resources.

Surveys show travelers' biggest fear often is terrorism—45% of business travelers in a recent Global Business Travel Association survey called terrorism their greatest safety risk.

Street crime was the biggest fear of only 15%, illness only

13%. Yet street crime and illness are far more likely than terrorism.

The "bleisure" trend—mixing business and leisure by adding a few days of fun to a business trip—raises a duty-of-care question for companies. Are they responsible for the weekend in Tokyo after the business trip ends? A GBTA survey last year found only 33% of companies had a travel risk-management policy that addressed personal trip extension.

"Companies are going to increasingly take on more and more of that

responsibility. Work and personal time blends," says Mike McCormick, GBTA executive director.

Experts say duty of care is entering a new phase where privacy may become an issue for road warriors and expats working overseas. How closely do you want your company tracking your whereabouts through GPS on your company cellphone, company credit-card swipes, ground transportation receipts and even hotel card or digital keys?

Most companies may have access to a lot of that information, but perhaps not in real-time and not in a coordinated tracking system. "There's all these disparate systems that know something about me. Can they be pieced together? That's the future I'm hearing," ACTE's Mr. Koch says.

International SOS surveyed 100 advanced duty-of-care programs and 36 companies said they knew where employees were on the ground at all times and could immediately locate them. Among International SOS's 10 best practices: track traveling employees at all times.

Another question ahead: Will enhanced privacy regulations, such as the European Union's General Data Protection Regulation protecting personal information, ultimately conflict with requirements to monitor and protect employees?

For now, most companies take a

**Privacy laws in Europe could conflict with companies' increased safety measures.**

broad approach. If there's an attack in Paris, every employee in Paris, or even all of France, gets a call or text asking if they are safe, instead of trying to identify people closest to the event.

Walgreens is judicious in how often it reaches out, says Barrie Burren Stetzinger, the company's manager of asset protection solutions. Some services send advisories that storm season is approaching. Walgreens waits until a storm actually approaches. With protests, the company tries to assess the disruption and potential for violence before sending an alert.

"We don't want to be the people who cried wolf and inundated them with information that isn't pertinent, because then they may not read it," Ms. Burren Stetzinger says.

When events do happen, the company tries to provide information or quick fixes: advice on whether to take an ambulance in a certain country or get to a specific, higher-quality medical facility, for example. "Even the people who think they are the best-seasoned travelers, when something serious happens, they usually are very grateful to hear from you," she says.

Some inexperienced travelers like to schedule daily well-being checks. Others don't want any contact unless something big happens. Walgreens has chosen not to take advanced measures for tracking.

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## LIFE &amp; ARTS



ART REVIEW

## A Visual Equivalent Of Jazz

BY KAREN WILKIN

New York

**IN THE MID-1980S,** William S. Arnett, a writer, curator, entrepreneur, Georgia native, and collector of African art, turned his attention closer to home—the efforts of self-taught African-American artists of the rural South. Mr. Arnett became a passionate collector and advocate of this work, characterizing it as the visual counterpart of jazz, a uniquely American, improvisational art form forged from African roots and the troubled history of American black experience: slavery, the Civil War, emancipation, reconstruction, Jim Crow segregation, lynchings, the civil-rights movement. In 2010, Mr. Arnett created

the Souls Grown Deep Foundation—the name comes from a Langston Hughes poem—which, among other things, has supported artists in the collection, organized exhibitions, and published handsome volumes. Recently, the foundation has made donations to museums across the U.S., including, in 2014, 57 works to the Metropolitan Museum of Art.

"History Refused to Die," a sharply focused, elegantly installed selection of 29 stellar works, celebrates this important gift. Organized by Randall R. Griffey, curator in the Department of Modern and Contemporary Art, and textile expert Amelia Peck, curator of American Decorative Arts, the show was originated by the former Met curator Marla Prather. The title comes

from Thornton Dial's spectacular, tall, freestanding 2004 assemblage, a layered, ambiguous accumulation, at once seductive and disquieting, of unlikely found materials (okra stalks and roots, tin, wire, Masonite, steel chain, clothing, collaged drawings, enamel, and spray paint) modulated by rich, unexpected, broken color that creates counter-rhythms to the irregular surface.

Dial (1928-2016), a powerful and deservedly celebrated artist whose work resists categorization and needs no qualifying labels, is the star of the show, represented by six major collage-paintings and three large drawings, spanning 1998 to 2013. He has competition from a fierce 1995 sculpture by Joe Minter (born 1943), in which rusted shov-

els are transformed by placement and the artist's will into confrontational, accusatory figures. Three works by the musician, artist and theorist Lonnie Holley (born 1950), made between 1982 and 2003, demonstrate his range, from a tall, linear assembly of found materials to a blocky seated couple carved in discarded casting material from a foundry. And there's a gritty, geometric assemblage by Ronald Lockett (1965-1998), who was inspired and mentored by Dial, his cousin.

While most of the works first read as abstractions, they are, in fact, commemorative, symbolic, or triggered by specific events, and often animated by coded references. Witness Dial's haunting "The End of November: The Birds That Didn't Learn How to Fly" (2007), a flickering expanse of dull ochre and gray on a puckered fabric ground with a row of dead black birds suspended against it. The "birds" prove to be clusters of tattered fabric and work gloves. Dial, typically, presents us with a complex, purely visual metaphor with his cryptic imagery and scavenged materials, here one that provokes associations with the brutality of poverty and hard labor, as well as the horror of lynching.

Despite their playful energy, the crisp, brilliantly colored paintings of Nellie Mae Rowe (1900-1982), with their stylized figures, ambiguous creatures, and mutable scale, have been triggered by sometimes uncomfortable allusions, from horrific child murders to her own impending death. Other obsessions are embodied by a visionary 1972 image by Purvis Young (1943-2010), a vernacular icon, with rows of figures and angels against a lush red ground, and two enormous white horses, symbols,

for Young, of power and freedom.

Ten stunning quilts made between 1935 and 1976 by women from Gee's Bend (now Boykin, Ala.) may be the best known inclusions, thanks to an earlier traveling exhibition seen at the Whitney and other museums across the U.S. They range from intensely colored demonstrations of wonky geometry to subtly orchestrated, severe arrangements of blocks and bars of faded denim—worn-out work clothes, repurposed, out of necessity, as bedcovers and sometimes as intimate memorials to the people who wore them. Like Dial's reverberant works, the quilts are first-rate works of art, testimony to their makers' creativity and inventiveness, but they are also poignant reminders of the demands of poverty and domesticity. Far from being modernist abstract paintings manqués, they are utilitarian objects de-

signed by gifted women with exacting eyes. An excellent catalog essay by Ms. Peck rehearses the vexed history of the quilts, their reception and reputation.

At one entrance, "History Refused to Die" is announced by a radiant, engagingly asymmetrical quilt made around 1960 by Loretta Pettway (born 1942). Beside the opposite entrance, there's a terrific, angry Dial, installed near paintings by Clyfford Still, Jackson Pollock and Robert Motherwell, among others. Dial looks right at home, as good as any of his fellow artists and better than most.

### History Refused to Die: Highlights From the Souls Grown Deep Foundation Gift

The Met Fifth Avenue, through Sept. 23

*Ms. Wilkin is an independent curator and critic.*

## WRIGHT

*Continued from page A11*

west of Banff, in the province of Alberta, the pavilion was located on a plain next to the Bow River, which runs through the town. Wright didn't account for the river's periodic flooding, and the waters often submerged the building. It succumbed to the elements and was demolished in 1938.

"It's a historical tragedy," said Mr. Miner, who heads the Frank Lloyd Wright Revival Initiative, a non-profit dedicated to restoring Wright buildings.

Evie Eshpeter, a Calgary-based consultant who is working with Mr. Miner, said the team got the town of Banff interested by pointing out the increased tourism the area could see by restoring the building. Randall McKay, director of planning for the town, was initially among the skeptics.

"The fact is, it's been long erased from the collective memory of the community," he said. But after learning more about the building and its architectural significance, he added, "I've certainly come around to the value of this and the potential it would have."

This is the Wright initiative's first project, because according to Mr. Miner, the pavilion is a relatively simple structure, and completing it could build momentum for more ambitious efforts. But once the Ryerson team got the pavilion's original drawings, made on



Frank Lloyd Wright, left, worked on the Banff building as part of a government commission. One of his drawings of the pavilion, above, and an archival photo of its interior, right, including light fixtures and other elements that didn't appear in his original sketches.

linens stored in Canada's national archives in Ottawa, the scholars found it may not be as easy as they thought.

Lines that appear straight on the linens were crooked when scanned into a computer. Though the building was asymmetrical, only one side of the plans had dimensions noted. The schematics lacked specifics about such critical details as the dimensions of the windows, a kitchen area and supporting pillars.

Some directions were left up to workmen to interpret. Instructions for the roof, for example, simply read "lathe and plaster."



Lacking basic information, the crew has had to deduce Wright's intentions. They've tried to apply mathematical principles he was known to favor, such as the Golden Ratio, which designers use to mirror nature and create pleasing proportions, and harmonic series, where proportions are based on musical frequencies.

To ensure that the workmanship is accurate, the Ryerson researchers turned to 1900s building manuals to relearn some of that era's building techniques.

Another key: The Banff pavilion is similar to Wright's River Forest Tennis Club, an Illinois construc-

tion from the same era.

Though the tennis club is longer than the pavilion, the Ryerson group has tried to apply dimensional theory, based on the proportions of tennis courts, to the Banff project. Team members, aware of Wright's interest in Japanese aesthetics, also tested proportions based on the dimensions of a traditional tatami mat to fill in the gaps in the Banff drawing.

The team has been struggling with mistakes that Wright made, such as the pavilion's flood-prone design. "He may never have been to Banff," said Mr. Leong. "Things got missed."

The architects ran a 100-year analysis of the flooding from the Bow River and discovered that at times the building could be submerged in as much as 3½ feet of water. To deal with the problem, they have considered building automated stilts that would lift the building when the Bow overflows, surrounding it with an inflatable pontoon to keep it afloat, or damming the river to redirect the flow of water.

The project is giving them insight into the thinking of one of the last century's most celebrated architects. "The project takes on this sacredness, because he's such an iconic master," said Kendra Schank Smith, a professor of architectural science at Ryerson.

Some question the premise.

"You can't let it masquerade as a Wright," said Jennifer Gray, curator of drawings and archives of the Avery Architectural and Fine Arts Library at Columbia University. She said the modifications that will be unavoidable to bring the building up to code and account for new building techniques make its authenticity doubtful.

Mr. Leong counters that other noteworthy restorations have been completed without undermining their pedigree. The Barcelona Pavilion by German architect Ludwig Mies van der Rohe, for example, was torn down in 1930 but reconstructed in the 1980s using new marble. It is still considered part of that architect's work.

In the coming weeks, Mr. Leong's team will be renting scanners from the nearby city of Calgary to search for clues to the pavilion foundation's location as they try to pin down exactly how it was oriented.

"It's like 'Raiders of the Lost Ark,'" Mr. Leong said.

# SPORTS

## FRENCH OPEN

### ZVEREV FINDS GAME IN TIME

BY TOM PERROTTA

**PARIS**—Alexander Zverev is a little-known star in men's tennis, despite being the No. 2 seed here at Roland Garros. Why? The 21-year-old from Germany has struggled in all the major tournaments, having never advanced past the fourth round in 11 tries.

Zverev escaped another early defeat at the French Open on Wednesday, when he recovered from being down two sets to one against Serbia's Dušan Lajović, who is ranked No. 60 in the world. Zverev was so frustrated at one point in the match that he smashed his racket. But once his game returned, he dominated. The final score was 2-6, 7-5, 4-6, 6-1, 6-2.

"I didn't play my best the first three sets," Zverev said. "Once I found my range and rhythm, I felt good out there."

Zverev nearly beat Rafael Nadal in the Rome final this month (he led 3-1 in the third set) and looked fabulous in his first-round match earlier in the week.

Today, though, Lajović played exceptional offense and essentially hit Zverev off the court in the first half of the match.

"Obviously Dušan, at the moment and during the clay court season, he's playing unbelievable," Zverev said. "I knew it was not going to be an easy match."

It wasn't, and winning should help Zverev's confidence going forward. He has won two clay court tournaments this year, including the Masters 1000 in Madrid. Zverev said the best method is to not worry about winning majors, as Roger Federer recently told him.

"He said some encouraging things," Zverev said. "I still have a little bit of time. Hearing that from the greatest player of all time is, you know, comforting, because you always think, 'Oh, if I'm not going to win this one, I'm never going to win one.'"

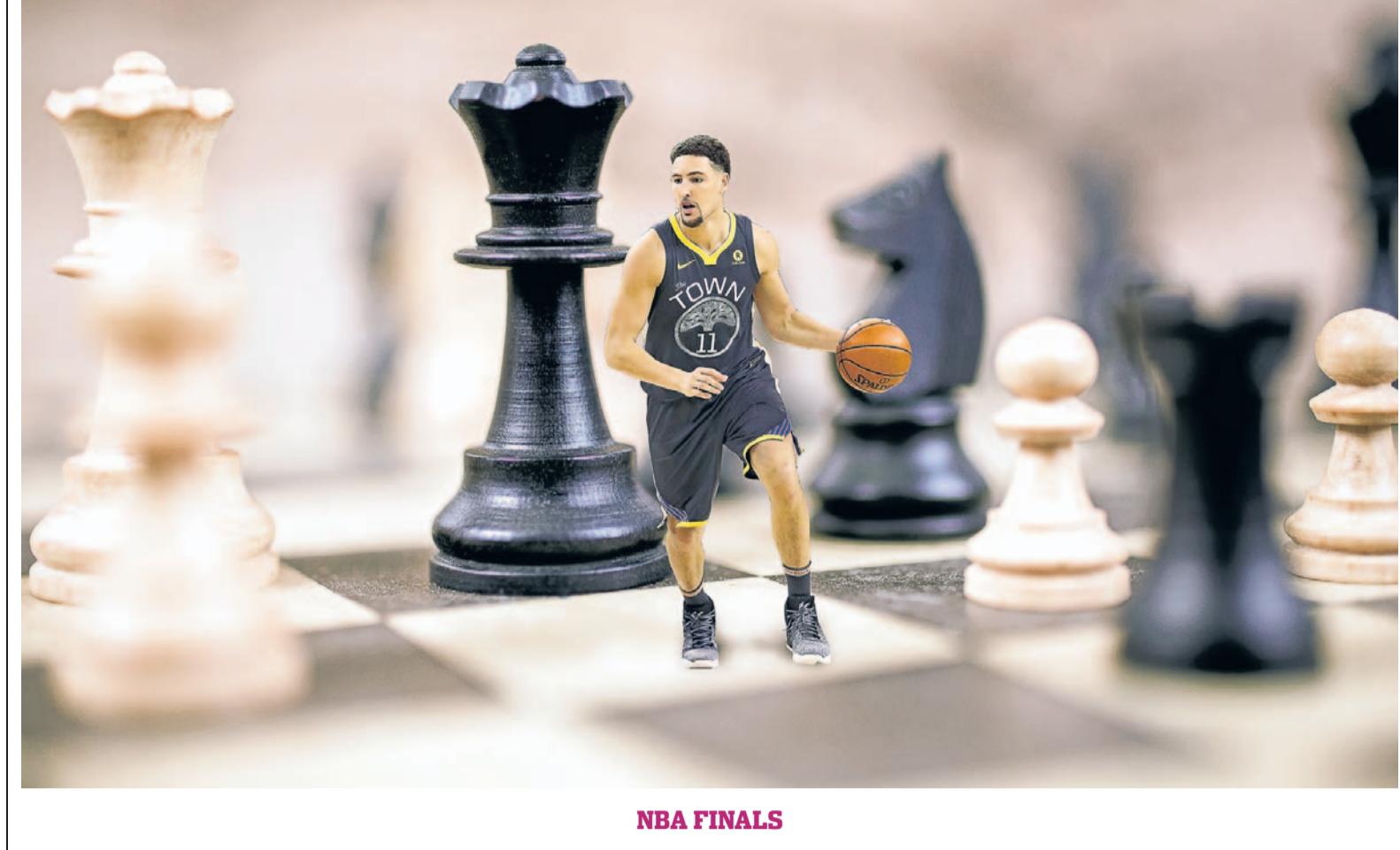


ILLUSTRATION BY TIM JONES/THE WALL STREET JOURNAL (PHOTOS: ISTOCK/EZRA SHAW/GETTY IMAGES)

## NBA FINALS

### The Warriors' Chess Grandmaster

Klay Thompson plays chess about as often as he plays basketball

BY BEN COHEN

**Oakland, Calif.** **AFTER A RECENT** Golden State Warriors game, Klay Thompson opened the Chess with Friends app on his phone. He wanted to show a match he was playing against teammate Andre Iguodala to someone he'd never met waiting for him outside the locker room. Thompson thought Magnus Carlsen might be able to offer some assistance.

Magnus Carlsen is the best chess player in the world, according to the official rankings of the sport's governing body. Klay Thompson introduced himself to Carlsen as the best chess player on the Warriors, according to the official rankings of Klay Thompson.

"Based on loose facts," he said, "but whatever."

Thompson plays chess as often as he plays basketball: almost every day. "It's a great game," he said. He owns multiple chess boards at home. He carries a magnetic chess set on road trips. And he juggles several chess games on his phone, which is a problem for Thompson: He's not good at chess on his phone.

"In person, I'm real nice," he said. "On the phone, I'll make a couple moves, put my phone down for a couple of days, forget my strategy and think: Why the hell did I do that?"

He added: "You can learn a lot about someone playing chess."

His childhood friend Seth Tarver, who now works for Thompson's foundation, knows his chess habits better than anyone and offered this scouting report about Thompson's game: "One thing about Klay is that he's at his best when you back him into a corner. He'll be playing loose, but once I show I'm a threat, he can really lock in."

Which means Thompson plays basketball the way he plays chess.

The Warriors were down 3-2 in Game 6 of the 2016 conference finals when he scored 41 points to rescue their season. It was a once-in-a-lifetime game. Until it happened again. The Warriors were down 3-2 in Game 6 of the conference final last week when Thompson scored 35 points and sparked another epic comeback. Golden State wouldn't be in the Finals against the Cleveland Cavaliers for the fourth consecutive season without him.

Thompson is their rook. He's the quietly crucial piece of this potential Warriors dynasty.

He doesn't seem to mind that he's an understated All-Star who will never get the glory of Stephen Curry or Kevin Durant. He prefers it that way. Golden State coach Steve Kerr calls Thompson "the most low-maintenance guy on earth."

Everyone on the Warriors understands his value to their bid for a third championship in four years. His talents fit this team. They don't need another ballhandler, and he scores the most points in the league off screens. They do need a ball-stopper, and he de-

fends the other team's best guard. The Warriors are perfect for Thompson, and he is perfect for the Warriors.

The roots of his fascination with chess were also unexpected. It started in seventh-grade in Portland, Oregon. Riverdale Grade School's chess teacher, Carl Haessler, a local securities broker who is also a United States Chess Federation Life Master and five-time Oregon state champion, taught his students to be cerebral. "I'm big on the Socratic method," he said.

He wanted them to know how to think rather than what to think. "How to look down at this thing of all these pieces going every which way," he said, "and cut out the white noise, look at what's relevant, assess the position, come to a conclusion, make a plan based upon that conclusion and then make specific moves that fit the plan."

This is not what Thompson was expecting from chess class.

"I took it as an elective just to waste time," he said.

The other thing he was not expecting was that he would become obsessed with chess.

"And then I realized, wow, this is actually really fun," Thompson said. "Just for an hour, to be with your friends, hang out and play chess. It was probably the best class I've ever had."

What he appreciates most about chess are the moments when he can feel the advantage tipping. That sense is familiar to anyone who has watched the Warriors use a sliver of an opening to destroy other teams over the last four

years. "I just love how there can be so many swings," Thompson said, "and it can take one move to mess up the whole flow."

Thompson is still with his friends, hanging out and playing chess. They abide by the rules of pickup basketball. There is no clock, and the winner of one match getting the advantage of playing white in the next match is their equivalent of make it, take it.

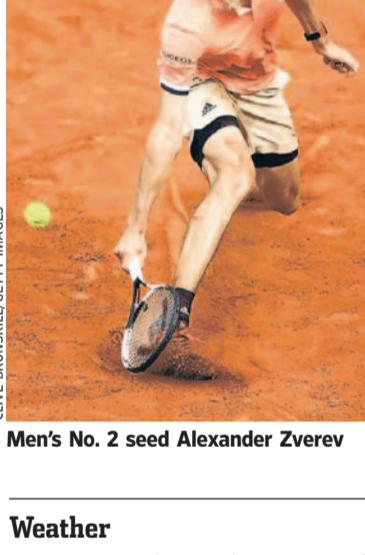
Tarver used to lose so often that he spent time studying why he was losing. "He knows some good tactics," Tarver said. "I had to learn on the fly. I learned through him beating me."

At one Warriors dinner this season, enough players and coaches were discussing chess that Golden State decided to invite Carlsen to meet with the team. As it turned out, the reigning world champion is a maniacal NBA fan. He flew to Houston for the conference finals, and the Warriors arranged for Carlsen to have tickets.

Thompson was impressed by Carlsen. "That guy's smart," he said. "Understatement that he's smart. He's a genius." And he took advantage of the opportunity to request advice on his openings. "He said he'd sit down and teach me some things one day," Thompson said.

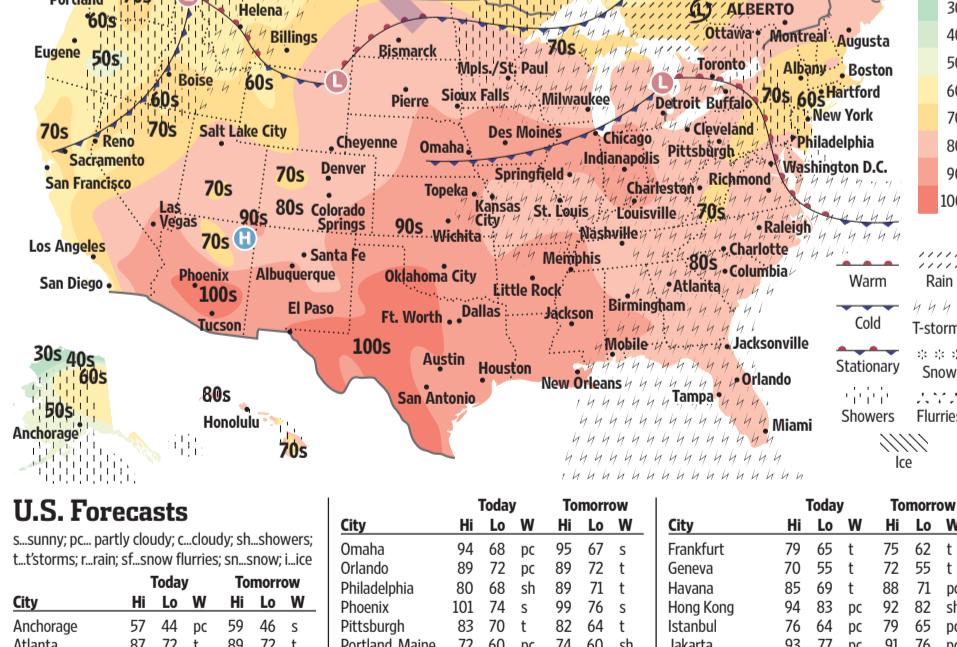
Thompson, who once compared Ping-Pong games with Roger Federer, thought better of challenging maybe the greatest chess player of all time.

"He'd play blindfolded and backward," Thompson said, "and still beat me."



Men's No. 2 seed Alexander Zverev

## Weather



## U.S. Forecasts

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

**Today** Hi Lo W **Tomorrow** Hi Lo W

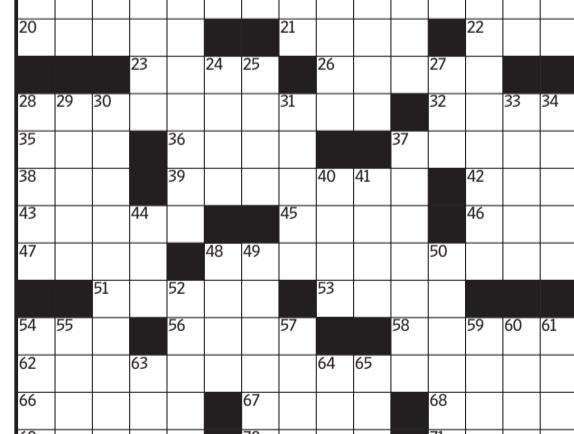
City	Hi	Lo	W	Hi	Lo	W
Anchorage	57	44	pc	59	46	s
Atlanta	87	72	t	89	72	s
Austin	96	74	s	97	74	s
Baltimore	82	70	t	89	70	t
Boise	72	48	sh	72	50	s
Boston	75	61	pc	77	60	c
Burlington	84	69	c	83	60	c
Charlotte	85	71	t	91	71	t
Chicago	91	66	pc	74	56	pc
Cleveland	86	68	t	83	61	t
Dallas	96	74	s	98	76	s
Denver	88	55	s	91	52	s
Detroit	87	67	t	80	57	t
Honolulu	85	72	pc	85	73	sh
Houston	95	76	pc	96	75	s
Indianapolis	92	70	t	88	64	t
Kansas City	89	65	pc	93	72	s
Las Vegas	93	67	s	92	73	s
Little Rock	93	74	s	94	74	s
Los Angeles	70	56	sh	73	58	pc
Miami	84	74	pc	86	71	pc
Milwaukee	87	60	t	64	56	pc
Minneapolis	84	63	s	81	62	pc
Nashville	89	72	t	87	70	t
New Orleans	92	74	pc	92	76	pc
New York City	68	63	sh	80	68	t
Oklahoma City	93	73	s	95	76	s

## International

**Today** Hi Lo W **Tomorrow** Hi Lo W

City	Hi	Lo	W	Hi	Lo	W
Amsterdam	79	61	t	83	58	r
Athens	104	78	s	106	78	s
Baghdad	89	77	c	90	78	t
Bangkok	70	60	t	72	57	t
Beijing	95	64	s	98	69	s
Berlin	87	66	t	88	66	t
Brussels	77	60	t	72	57	t
Buenos Aires	57	42	c	54	40	r
Dubai	102	88	s	102	88	s
Dublin	70	53	t	68	54	t
Edinburgh	67	53	pc	69	54	t
Zurich	77	56	t	73	54	t

## The WSJ Daily Crossword | Edited by Mike Shenk



### BUSINESS INSIDERS | By Paolo Pasco

#### Across

- 1 Game wardens?
- 5 Circulation boosters
- 9 Consumed
- 14 Cloverleaf part
- 15 Language with many borrowings from Sanskrit
- 16 Detached
- 17 Cook's absolutely horrible cutting job?
- 20 Goldenrod kin
- 21 Group of pages
- 22 Bear voiced by Seth MacFarlane
- 23 Appetizer of Andalusia
- 26 Preparer of apps
- 28 Placebo meal for a goat?
- 32 President Miguel Diaz-Canel's nation
- 35 Bass output
- 36 James played by Beyoncé in "Cadillac Records"
- 37 Foundling found by the Nile
- 38 Capital of Zambia?
- 39 Challenges, in slang
- 40 Goldenrod kin
- 41 Group of pages
- 42 Bear voiced by Seth MacFarlane
- 43 Hemingway, notably
- 44 Coin with twelve stars on each side
- 45 Target of Bart's prank calls
- 47 Politician's platform
- 48 Carrier with a "Fly the Starry Night Skies" slogan?
- 51 Protective protuberance
- 53 Body of an organism
- 54 It might cause a draft
- 55 House output
- 56 Turn out to be
- 62 Offer to some royal suitors?
- 66 "Hotline Bling" artist
- 67 Drops from the sky
- 68 "The Sound of Music" backdrop

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

- 33 Back, at the track
- 34 Strong point
- 37 Hercules fought them in a 1964 B movie

#### Down

- 1 Modernize, perhaps
- 2 Major suit
- 3 Rays, e.g.
- 4 Rays' home, casually
- 5 Ad-overseeing org.
- 6 "Now it's clear!"
- 7 Collars
- 8 Opal, e.g.
- 9 Prominent
- 10 Yale student
- 11 "Be patient!"
- 12 As soon as
- 13 Not just want
- 18 Most furious
- 19 King's Scholars' school
- 24 Oscar nominee for "12 Monkeys"
- 25 Payment before a deal is finalized
- 27 "Numero Zero" author
- 28 Shaken
- 29 Echo voice
- 30 Slangy send-off
- 31 Bank job
- 32 President Miguel Diaz-Canel's nation
- 33 Bass output
- 34 James played by Beyoncé in "Cadillac Records"
- 35 Protective protuberance
- 36 Body of an organism
- 37 Foundling found by the Nile
- 38 Capital of Zambia?
- 39 Challenges, in slang

## OPINION

## The Year Politics Collapsed

WONDER LAND  
By Daniel Henninger

The modern era of American politics—defined by polarization and nonstop intensity—began with the cataclysmic events of 1968, now celebrating, if that's the right word, its 50th anniversary.

Everyone says the pace of events in the Trump presidency is overwhelming. Compared with 1968, the past year has been a walk in the park.

Nineteen sixty-eight was one of the greatest anni horribiles ever to happen inside the U.S., producing war, assassinations and riots.

**The class of 1968 included Bill Clinton, George W. Bush and Donald J. Trump.**

During the 2008 Democratic primaries, Sen. Barack Obama, who turned 7 in 1968, took a generational shot at Sen. Hillary Clinton, who turned 21 at Wellesley: "Senator Clinton and others, they have been fighting some of the same fights since the '60s."

Well yes, it's the fight that will never end.

It is impossible to understand the relevance of that year without a timeline.

Jan. 23: The USS Pueblo and its 82 survivors are captured and taken hostage by North Korea. On Jan. 30, North Vietnam launches the notorious Tet Offensive, including an invasion of the U.S. Embassy in

Saigon. March 12, Minnesota's Democratic Sen. Eugene McCarthy comes within a few hundred votes in the New Hampshire primary of upsetting President Lyndon B. Johnson. Within three weeks, Johnson announces he will not seek his party's presidential nomination.

Four days later, Martin Luther King Jr. is assassinated in Memphis. Urban riots break out across the U.S. April 23: Students occupy offices at Columbia University until police storm the building a week later. June 3: Andy Warhol is shot in New York by Valerie Solanas, author of the SCUM Manifesto, or "Society for Cutting Up Men."

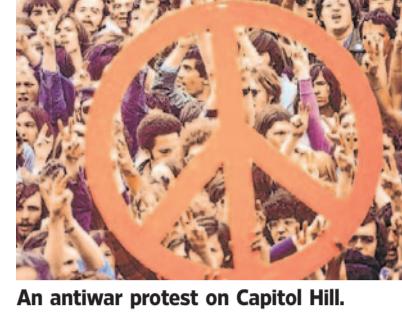
Then, on June 5, while running for the Democratic presidential nomination, Robert F. Kennedy is assassinated at a Los Angeles hotel.

Aug. 8, Republicans nominate Richard Nixon. Two weeks later, the Soviet Union invades Czechoslovakia.

In late summer during the Democratic Convention in Chicago, police fight a pitched battle with antiwar protesters in Grant Park. In October, at the Summer Olympics in Mexico City, Americans Tommie Smith and John Carlos raise gloved fists as a black-power salute during a medal ceremony.

On Nov. 5, Nixon defeats Hubert Humphrey and a third-party populist, former and future Alabama Gov. George Wallace, who in the spirit of the times told a group of antiwar protesters: "I was killing fascists when you punks were in diapers."

Also there is this: The graduations of 1968 included Bill



An antiwar protest on Capitol Hill.

Clinton (Georgetown), George W. Bush (Yale) and Donald J. Trump (Penn).

Historians have tried to decipher this one year's volcanic eruptions. For some, it was the emerging political power of televised images; Vietnam was called "the living-room war." There was also pot, and the pill.

Generally underemphasized by historians is that 1968's politics had one other fuel source: rock 'n' roll music.

The songs ran constantly in the background, producing a manic energy. But the sounds also smoothed and softened the reality of these events. A 1968 would not have happened if driven by the music of 1948, 1958 or 1978.

The Rolling Stones recorded "Jumpin' Jack Flash," James Brown released, "Say It Loud—I'm Black and I'm Proud," and Steppenwolf raved through "Born to Be Wild."

It wasn't all a rush. People could bliss out on musical pillows like "Hey Jude" by the Beatles, Otis Redding's "(Sittin' on) the Dock of the Bay," Janis Joplin's "Piece of My Heart" or Simon and Garfunkel's dreamy "Scarborough Fair."

The music, mayhem and merriment were inseparable. It was a year in which the idea of inhibition died. It hasn't re-

turned and likely never will.

Nineteen sixty-eight marked the start of political polarization. Contrary to current myth, the civil-rights legislation of a few years before was bipartisan. With the Vietnam War, unity began to unravel.

The late 1960s saw the beginning of left-liberal moral triumphalism. The opposition was no longer just wrong. It was morally suspect. For a new generation of Democrats, which increasingly included the theretofore politically neutral press, the Vietnam War was opposed as, simply, "a bright shining lie."

A kind of political religiosity infused matters of sex, race and even foreign policy, and pushed the parties apart. The 1968 Kerner Commission Report on the urban riots in 1965-67 announced that America was "moving toward two societies."

Some 10 years later, inevitably, the religious right emerged. And here we are today, fractured by politics and technology into myriad cultural subsets of separations that began in 1968. The Trump divide was a long time coming.

Nearly every chronicle of 1968 omits the last thing that happened that year. On Dec. 21, Apollo 8 lifted off. On Christmas Day, as it orbited the moon, its commander, Col. Frank Borman, read from the Book of Genesis and said: "From the crew of Apollo 8, we close with good night, good luck and merry Christmas, and God bless all of you—all of you on the good Earth."

It was, until it ended, a more innocent time.

Write [henninger@wsj.com](mailto:henninger@wsj.com).

BOOKSHELF | By Sam Kean

## Getting Smarter All the Time

AIQ

By Nick Polson and James Scott  
(St. Martin's, 262 pages, \$26.99)

Just a few years ago, the New York City government was getting 20,000 tips annually about landlords illegally converting building spaces into apartments—far too many to investigate. So the housing department turned to an unlikely source to help zero in on probable violations: artificial intelligence. After churning through millions of data points, a computer program suggested that inspectors look for two signs: spikes in utility bills and sanitation problems. Sure enough, inspectors who heeded these clues started catching five times more violators than before.

Anecdotes like this are Rorschach blots for our feelings about AI. Some people find them thrilling—pointing to a clever new tool for catching scofflaws. Others find them unnerving—should we blindly obey what the computers tell us to do, even if we don't understand why they're telling us to do it? As data scientists Nick Polson and James Scott reveal in "AIQ: How People and Machines Are Smarter Together," both sides are right.

Their book has two goals. First, to document the reach of AI in everyday life: It's now used to predict corn yields, track gender bias in films, map disease outbreaks and sort vegetables, among hundreds of other applications. But "AIQ" also aims to demystify AI. Each chapter focuses on an algorithm in a different industry, tracing the roots of each back to an innovator from before the computer era. One chapter goes back to Isaac Newton's

stint at the Royal Mint, another to Florence Nightingale's medical reforms in Crimea, and so on. Each historical figure had a problem to solve and developed a novel solution. And luckily for later generations, the solution proved useful in fields far beyond the original.

The authors discuss, for instance, one of the problems that bedeviled Newton at the Mint: "anomaly detection"—the extreme variation in the weight and amount of silver used in each coin. For quality control, rather than weigh coins individually, the Mint would set aside a few thousand at random and weigh them all together—a process called the Trial of the Pyx. Unfortunately, Newton didn't quite understand the mathematics of interpreting these results (a rare mistake for him), and it fell to later mathematicians to make the Trial accurate. But once they did, it opened a bonanza for later researchers: The authors write that "averaging lots of measurements together is the most important idea in the history of data science," and can be used for everything from detecting credit-card fraud to hunting for radioactive bombs at ports.

Grounding AI in tried-and-true methods makes it seem less alien: Computers are simply faster ways to solve familiar problems. Hence the book's title, a portmanteau of AI and IQ—the point being that we need both.

Still, Messrs. Polson and Scott recognize that this can be an uneasy blend. How does Netflix "know," more accurately than my friends, what movies I'll enjoy? How does Facebook "recognize" my mug in photos? Such connections can seem all the more spooky because, in many cases, the programmers who designed the systems don't know the answer. As the authors note, "the role of the programmer [in AI] isn't to tell the algorithm what to do. It's to tell the algorithm how to train itself what to do." It's AI alchemy—the program gets the right answer, but no one can say why.

**Artificial intelligence is a pervasive part of modern life—used to predict corn yields and map disease outbreaks, among other applications.**

In response to this concern, the European Union recently implemented a regulation requiring all algorithms to be "explainable" by human engineers. This sounds reasonable, even necessary sometimes: In Florida's Broward County court system, AI sentencing programs can lead to longer terms for those flagged as likely to commit future offenses, based on demographic data. But because the algorithm judging them is secret, the accused can't really challenge its recommendations. The authors denounce this practice of "treat[ing] a sentencing algorithm in the same way you would treat a microwave oven, by just punching in some numbers and walking away."

Such algorithms cry out for explanation. In other cases, however, the EU policy could harm people. AI programs can already outperform dermatologists at scrutinizing pictures of moles and other blemishes and picking out skin cancer. We have only the faintest idea how they work. But if they're saving lives, who cares? Medicine needs an infusion of AI more than any other field, Messrs. Polson and Scott argue. The human body is extraordinarily complicated, and we're probably missing tons of genuine connections between diseases and seemingly unrelated symptoms. Doctors also spend up to one-third of their time manually keying patient records into computers—a colossal waste of their skills.

In response, the authors propose "Dr. Alexa." This smart speaker would listen in on consultations, update patient files in real time and help sort through possible diagnoses. Back-end AI would then pool this data with those of other patients and tease out connections that no human would ever spot.

It sounds straightforward, and the technology to build this system exists today. But Dr. Alexa needs data to train herself, and the authors claim hospitals are "paranoid" about letting AI loose on patient records. Whatever the reason for this attitude, few AI scientists work in health care, a situation the authors call "a moral embarrassment. We live in an age . . . when your propensity to click on an ad for dog food is analyzed on supercomputers. . . . [Yet] we still rely on numbers that Florence Nightingale could have crunched with pen and paper to quantify the risk that your kidneys will fail."

This passage highlights the moral core of "AIQ": "When it comes to the important decisions in life, we can and should combine artificial intelligence with human insight and human values." If ceding some decisions to artificial brains still seems scary—well, modern life is scary. Politicians and CEOs make terrible decisions all the time, sometimes willfully. AI will make mistakes, but is the status quo superior? After all, "biased and ill-informed decision-making algorithms," the authors note, "are no less pernicious just because they run on little grey cells rather than little silicon chips." Uncanny or not, AI is more intelligent than IQ sometimes.

Mr. Kean is the author, most recently, of "Caesar's Last Breath: Decoding the Secrets of the Air Around Us."

By Michael Taube

**M**ost children's stories are about girls and boys—and that's problematic, according to some Australians. The city councils of Melbourne and Manningham, both in the populous state of Victoria, are reportedly "auditing" children's books (as well as toys) in kindergartens, schools and libraries for "gender stereotyping."

This idea came from a study published in March by the Australian National University. The authors suggested teachers and institutions should attempt to "minimize the extent to which gender is labelled."

Media organizations and the right-leaning Liberal Party erupted. So did parents like Marie Hardwick. "For goodness sake, this is social engi-

neering gone crazy," she wrote on a parliamentarian's social-media page, as reported on the website news.com.au. "Leave kids alone to be kids. Stop trying to destroy kids' childhoods."

**An Australian 'audit' of children's books for 'gender stereotyping.'**

Not to worry, replied Australia's social-justice warriors. It was only one line in a 40-page literature review, and there were no plans to remove Winnie the Pooh and Thomas the Tank Engine books from library shelves "under new gender guidelines informed by our research," as Tania King, one of the paper's authors, wrote

on the University of Melbourne website.

I read the literature review, "Building Children's Resilience through Respectful and Gender Equitable Relationships Pilot Project," and there's more than one line about gender stereotyping. There are specific pages and chapters devoted to this subject. This includes how boys and girls determine toys to be masculine or feminine, and how girls who play with feminine toys think about career choices, social justice and parenting styles.

Among the recommendations: "Avoid distinction on the basis of gender," "avoid hyperfeminized toys such as Barbie and Bratz dolls," and "use story time to introduce themes of gender equity." The authors also recommended "a range of interesting and desirable alter-

natives to princess costumes" in schools and said toys should "be examined to ensure that they are not cueing gender associations in either subtle or overt ways, in their colour, shape or decoration."

This story should serve as a cautionary tale for North American politicians, schools and educators. The U.S. and Canada have dealt, and are dealing, with controversies involving gender issues and stereotypes, but never quite to this extreme. Let's make sure it never happens here, so that North American boys and girls will live happily ever after.

Mr. Taube, a Troy Media syndicated columnist and political commentator, was a speechwriter for former Canadian Prime Minister Stephen Harper.

## OPINION

## REVIEW &amp; OUTLOOK

## Big Labor's Back Door Into Boeing

**B**eing workers in North Charleston, S.C., are united—against union representation. So should a small subset of employees be allowed to organize anyway, even if it potentially harms the rest? That's the question before the National Labor Relations Board this week. And what happens will have national significance, especially as technology makes manufacturing work more specialized.

The drama began last week when NLRB Regional Director John Doyle Jr. gave the approval for 178 production and maintenance workers on the flight line to vote on forming a so-called union micro unit. Those workers will cast their ballots Thursday, and if the International Association of Machinists gets the support of more than half, it will establish a presence in the North Charleston plant.

But there's good reason for bad blood between most workers in North Charleston and the union. Acting at the behest of the same machinists' union, the NLRB filed a complaint in 2011 seeking to block Boeing from opening operations in right-to-work South Carolina. The Democrat-controlled NLRB dropped the case only after the union had wrung costly concessions from the airplane company in Washington State.

South Carolina workers didn't take kindly to labor leaders using their jobs as a bargaining chip, and last year 74% of Boeing's 3,000 North Charleston employees voted against joining the machinists' union. A micro unit would give organized labor a foothold anyway.

Such situations illustrate why micro units remain controversial, but Democratic appointees to the NLRB in the Barack Obama years made their approval the default. The NLRB shifted the burden of proof to employers with its 2011 *Specialty Healthcare* decision.

To successfully challenge an attempt to form a micro unit, they ruled, employers had to demonstrate that other workers within the company also shared an "overwhelming community of interest" with those seeking to join a union. That's a steep standard, so in practice the ruling allowed unions to gerrymander a fa-

vorable vote in workplaces where they face broad opposition.

The now Republican-controlled NLRB took a good first step toward restoring the rights of all workers when it overturned *Specialty Healthcare* last December. Its *PCC Structural* decision put the burden of proof back on the unions, returning to the earlier NLRB precedent when micro units

could be formed only by a group of workers whose job is truly distinct and separate within the company.

The problem now: As new technology makes manufacturing more efficient, more workers will hold specialized jobs. That strengthens the case for forming a micro unit. At the same time, these specialists often hold critical roles in manufacturing operations, so their decision to organize may well affect their colleagues elsewhere. Practically, this looks a lot like *Specialty Healthcare*.

This dilemma is at the heart of the Boeing case. In his ruling last week, NLRB Regional Director Doyle made special note of *PCC Structural*. But he allowed the vote to go forward because the flight-readiness technicians and technician inspectors' skills, training, salary and supervision substantially differ from other employees. But in North Charleston, a disruption from these workers' micro unit could snarl work across the entire Boeing plant.

Boeing has appealed the regional director's decision to the full NLRB. And in its petition to stay Thursday's election, Boeing argues that the NLRB regional director's decision would "accommodate nearly any micro-unit in an integrated manufacturing system, essentially spelling the death knell for manufacturing facilities like Boeing South Carolina." That can't be the result most Boeing workers want.

An eleventh-hour stay on the vote itself is unlikely, but the NLRB could decide to impound the ballots until it issues a ruling. And even if the votes are counted, the outcome is still up for NLRB appeal. As the NLRB decides whether to intervene, it should consider the spirit of the law. A minority faction shouldn't be able to overrule everyone else in the workforce.

## Russia Murder Inc.

**H**ow dangerous is life in exile for a Russian critic of Vladimir Putin? Dangerous enough that Arkady Babchenko was willing to fake his own murder to help Ukrainian security officials foil an assassination attempt.

On Wednesday Ukrainian authorities announced that Mr. Babchenko was alive a day after they said he had been shot and killed as he opened his apartment door in Kiev. Ukrainian officials didn't release details of what they said was a plot hatched in Russia to kill Mr. Babchenko, though they have made one arrest.

The 41-year-old Mr. Babchenko made a name for himself as a war correspondent and has become one of the boldest critics of Mr. Putin's rule and his invasion of Ukraine and adventurism in Syria. After numerous death threats, he left Russia in 2017 and eventually settled in Ukraine. He spoke about the Kremlin's propaganda machine in March at Garry Kasparov's PutinCon conference in Manhattan.

Kiev has become a killing field for Kremlin critics. Belarusian journalist Pavel Sheremet was killed by a car bomb in July 2016. In March 2017, former Russian Member of Parliament Denis Voronenkov, who claimed to have intimate knowledge of high-level Russian corruption

schemes, was murdered outside a hotel.

Meanwhile, on Wednesday investor Bill Browder was briefly detained in Madrid on a trumped-up Russian Interpol arrest warrant for "fraud." Mr. Browder is the driving force behind the so-called Magnitsky laws, which have been adopted by the U.S., Canada, Britain and Baltic countries to sanction Russian human-rights abusers. Interpol quickly denied the existence of a warrant, and Spanish authorities released Mr. Browder, but he is clearly at or near the top of Mr. Putin's enemies list.

The message of this extraterritorial murder and intimidation spree is that nowhere is safe for Kremlin critics, and it's good to see that Western countries are finally responding. After the Russian nerve-agent attack in March on former spy Sergei Skripal and his daughter in Salisbury, Britain expelled Russian spies and is considering more measures. The Trump Administration has sanctioned Mr. Putin's inner circle and lobbied countries like Latvia to stop laundering Russian money.

More needs to be done to expose and stop Russian Murder Inc., and let's hope Ukraine tells the world more about this latest plot to kill Mr. Babchenko.

## Auto Tariffs Mean Lost Jobs

**P**resident Trump tweeted "big news coming soon for our great American Autoworkers" ahead of his Administration's announcement last week that it will seek new tariffs on imported autos and auto parts. If he had more Twitter characters, perhaps Mr. Trump would have added, "Tough luck for the rest of you."

Just kidding, but that would have been accurate. Mr. Trump is boasting of potential gains for one narrow constituency from his latest protectionist threat. But he's ignoring the forgotten Americans who will lose their jobs when U.S. competitiveness and economic growth suffer. According to a new study from the Washington-based Trade Partnership Worldwide released Tuesday, the pain could be significant.

The Commerce Department is using Section 232 of the Trade Expansion Act of 1962 to investigate if imported vehicles and parts are a threat to national security. If a threat is found, or in this case concocted, Commerce can recommend duties and quotas to curb imports.

The Trade Partnership's policy brief, "An Accident Waiting to Happen?", estimates the net impact on U.S. jobs over one to three years from a 25% tariff "on U.S. imports from all countries of automobiles, SUVs, light trucks, other vehicles and parts." It finds that U.S. auto and auto-parts workers would gain as many as 92,400 jobs as firms adjust to the new rules. Complementary industries that add jobs due to the tariffs could take the total number of new employment opportunities to 135,120.

## Plenty of Trump voters will suffer with a 25% tax on imports.

That sounds swell until you learn that far more jobs—292,411—would be lost as the effect of the duties ripples across the economy. That

means a net job loss of some 157,000, "including 45,450 manufacturing jobs in non-automotive sectors."

The report concludes that "about three jobs would be lost elsewhere in the economy for every U.S. motor vehicle job gained" and "GDP would decline by 0.1 percent as higher costs, net job losses, and declines in producer and consumer spending work their ways through the economy."

The study also finds that export competitiveness would decline, dragging down the total value of U.S. exports by 2% when the President's goal is to increase exports. History shows that industries sheltered from the need to innovate get soft and less competitive—the opposite of what the U.S. industry did when it was exposed to Japanese competition in the last half of the 20th century. Remember "just in time" manufacturing adopted from Japan?

This is also without accounting for the retaliatory tariffs that U.S. trading partners are likely to impose on American exports. None of this is news to American car makers, which oppose the new tariffs.

Mr. Trump may think that sounding tough on imports will help Republicans in November. But sooner or later he's going to have to climb down from this destructive policy that is certain to harm one of America's most competitive industries along with tens of thousands of the men and women who voted for him.

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to [wsj.ltrs@wsj.com](mailto:wsj.ltrs@wsj.com). Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

## NLRB Acting Like It Has Something to Hide

Regarding your editorial "Funny Business at the Labor Board" (May 17): The National Labor Relations Board Inspector General Office has responded to the Competitive Enterprise Institute and National Right to Work Legal Defense Foundation's Freedom of Information Act requests, which were submitted independently and separately. Both sought communications between the NLRB IG office and members of Congress or their staff in regard to the ethics investigation into NLRB board member William Emanuel's participation in the *Hy-Brand* case that overruled the Obama NLRB's controversial "joint employer" standard.

The NLRB provided only a portion of the 242 pages of records responsive to the CEI's request, and even fewer records responsive to the foundation's request. This limited disclosure shows that NLRB IG David Berry provided Senate Health, Education, Labor & Pensions Committee staff with information about the pending investigation via email, telephone and at least one Skype conference with Democratic staff, while congres-

sional staffers pinged Mr. Berry for the timing of the investigation's release. One email message also shows that Mr. Berry was concerned "that the ethics officers were reading the [ethics] pledge too narrowly," i.e., that they didn't agree with Mr. Berry, and that Mr. Emanuel needed to recuse himself in the *Hy-Brand* case.

So, while the NLRB IG office refuses to make available under FOIA all responsive documents, Mr. Berry seemed comfortable leaking information to Hill staffers. Is it possible that some of the documents he's withheld from public disclosure contain information that shows Mr. Berry pressuring the NLRB ethics officer to change her legal opinion?

The aptly headlined Journal editorial is right that there is certainly some funny business going on at the NLRB. That's why it is time for Congress to exercise its oversight authority and determine whether Mr. Berry's investigation was conducted above board.

**RAYMOND J. LAJEUNESSE JR.**  
National Right to Work  
Legal Defense Foundation

**TREY KOVACS**  
Competitive Enterprise Institute  
Washington

## The Civilized Do the Right Thing Without Compulsion

The logical extension of Sen. Joe Lieberman's point ("A Holiday for the Rule of Law," Houses of Worship, May 18) is that by choosing to adhere to the tenets of faith, a society needs fewer secular laws. The measure of a civilized society is how many times and ways people do the right thing without there being a (secular) law that makes them do it.

**JIM LE MUNYON**  
Oak Hill, Va.

## Myrmidons Are Loyal Civil Servants, but to Whom?

Holman Jenkins has provided the perfect one-word description for bureaucrats—myrmidons ("Why the AT&T Case Suddenly Matters," Business World, May 12). The problem with our myrmidons, in this case, is whether they know to whom they are supposed to be loyal. Their loyalty should be to the taxpayer, but I fear it is to the Democrats to whom they overwhelmingly pledge their alms. Here is hoping some people beside the choir are reading Mr. Jenkins.

**MICHAEL P. CARTER**

Savannah, Ga.

## No Wonder Evergreen State Is Losing So Many Bodies

Regarding Jillian Kay Melchior's "Rough Social Justice at Evergreen State" (op-ed, May 23): The situation at Evergreen State and many other campuses reminds me of nothing so much as the Chinese Cultural Revolution of 50 years ago. Perhaps we should think of Evergreen as "the Cultural Revolution with American characteristics."

**KEVIN FOGARTY**  
Cincinnati

## Pepper ... And Salt

THE WALL STREET JOURNAL



"The good news is that I remember you from high school. Unfortunately, that's also the bad news."

## OPINION

# When Reagan Met Lenin

By Roger Kimball

**T**wenty eighteen has been full of backward glances. The most frequent subject has been that singular year 1968, fulcrum and focal point of everything we sum up in that dread phrase "the '60s."

A less depressing prospect is on view if we travel back not 50 but 30 years, to May 31, 1988, when Ronald Reagan, in the last year of his presidency, delivered one of his most magnificent speeches. At the end of his first inaugural address, Lincoln famously spoke of the "mystic chords of memory" that, beckoning toward truths that transcend party differences, recall us to the "better angels of our nature." Reagan did something similar in his speech before a packed auditorium of students at Moscow State University.

**Three decades ago an American president issued a cry for freedom at Moscow State University.**

It was the last day of his fourth and final summit with Mikhail Gorbachev. They had first met on neutral ground, in Geneva, in 1985, and the next year in Reykjavik, Iceland. A Washington summit followed in 1987. Now Reagan had traveled to the Soviet capital. The ostensible purpose of all these meetings was to work out arms-control agreements, and the two had made significant progress. In Washington, they had signed a pact to eliminate a whole class of intermediate-range nuclear missiles. They had also laid the groundwork for the future reductions that would come with the 1991 Strategic Arms Reduction Treaty.

But Reagan never regarded his meetings with Mr. Gorbachev as pertaining solely to arms control. Arms control was merely the pretext for a more fundamental challenge. This is the deep point of Bret Baier's forceful new book, "Three Days in Moscow: Ronald Reagan and the Fall of the Soviet Empire." Mr. Baier traces

the arduous evolution of Reagan's diplomatic efforts with the Soviet Union, from before his famous "evil empire" speech in 1983 through that final summit in Moscow and beyond. If the theme is diplomacy, the underlying purpose is liberty.

In 1977, noting to a friend that "a lot of very complex things are very simple if you think them through," Reagan crisply summed up his theory of the Cold War: "We win, they lose." He never lost sight of that conviction. Nor did he waver in his understanding that weakness is an invitation to conflict. He did, however, understand that victory would belong in the end not to one nation over another, but to one political-moral idea over another. Freedom must triumph over totalitarianism. Reagan had always abominated communism. But when the reporter Sam Donaldson, a waspish critic of Reagan, asked him in Red Square, "Do you still think you are in an evil empire?" Reagan replied, "No, I was talking about another time, in another era." And for a few years, Moscow truly had changed.

Reagan's ultimate aim was to plant the seed of freedom in the newly receptive furrows of a cracking totalitarianism. "Mr. Gorbachev, tear down this wall," he cried at the Brandenburg Gate in 1987. "Isn't it strange," he mused to reporters, "that there's only one part of the world and one philosophy where they have to build walls to keep their people in."

Looking back on it, the fall of the Berlin Wall in November 1989 seems almost like "a spontaneous combustion," Mr. Baier observes. In fact, "it was an evolving scenario," the product of irresistible historical forces, perhaps, but also of patient, thoroughgoing diplomacy.

The media pilloried Reagan's anti-missile research program, the Strategic Defense Initiative. In their view, SDI was a "Star Wars" fantasy that



Reagan at Moscow State University, May 31, 1988.

only an out-of-touch B-movie actor could take seriously. But Reagan clung fast to it, against the ridicule of his countrymen and the strenuous objections of Mr. Gorbachev. In the end, SDI not only underlay the historic nuclear-arms reduction treaty between the two nations, but also dramatized the superior technological prowess of the U.S., fueled by the mighty economic engine of the free market. It was another vindication of Reagan's mantra, "peace through strength."

Reagan's approach didn't always work immediately. After a promising first meeting in Geneva, he and Mr. Gorbachev found themselves at loggerheads in Reykjavik. Reagan's refusal to budge on SDI was the key is-

sue. Still, despite their anger at the time, both men came to appreciate that their agreement on nuclear disarmament transcended their differences.

It is curious how many Reaganesque themes find a contemporary echo. In his first inaugural address, Reagan noted that "in this present crisis, government is not the solution to our problem; government is the problem. From time to time we've been tempted to believe that society has become too complex to be managed by self-rule, that government by an elite group is superior to government for, by, and of the people." Sound familiar?

Reagan delivered his Moscow speech standing before a gigantic scowling bust of Lenin and a mural of the Russian Revolution. He incorporated them as props in his address. "Standing here before a mural of your revolution," he said, "I want to talk about a very different revolution," a technological and "information revolution" that was transforming the world. How much progress had already been realized! But progress was not foreordained. "The key," Reagan said, "is freedom—freedom of thought, freedom of information, freedom of communication."

As we mark the 30th anniversary of that triumph of diplomacy—the Cold War was over a few years later—it is worth recalling both Reagan's celebration of freedom and his understanding of democracy. "Less a system of government," he said, than "a system to keep government limited, unintrusive: a system of constraints on power to keep politics and government secondary to the important things in life, the true sources of value found only in family and faith."

*Mr. Kimball is editor and publisher of the New Criterion and president and publisher of Encounter Books.*

# Entitlements Will Eat America's Economy

By John R. Kasich

**W**hen I was chairman of the House Budget Committee in 1997, Republicans and Democrats in Washington saw past our differences to balance the federal budget for the first time in decades. Working together, we managed to follow up that success with three more balanced budgets. Yet it's been 17 years since lawmakers and the White House approved a spending plan that didn't add to the national debt.

Rather than tackling their budget responsibilities head-on, each successive Congress and administration has passed temporary, stop-gap spending bills. In fact, Washington set a record for that policy of avoidance in 2017 by passing six short-term extensions in less than a year.

**As we did in the 1990s, lawmakers should put aside partisanship and get to work on reform.**

Then it got worse. The latest spending bill, approved in February, did more than continue to fund the federal government; it also set America on a course to add at least \$1 trillion a year to the national debt by 2020. That lawmakers could approve such a spending spree at a time when the national debt surged past \$21 trillion should set off alarm bells for families across the nation.

It took almost 200 years for the federal government to accumulate its first \$1 trillion in debt. The next \$20 trillion took less than four decades.

What can the country do to dig itself out of this massive fiscal hole? What can it learn from a time—only 20 years ago—when the nation and its leaders pulled together to balance the budget?

The answer is clear. Republicans and Democrats in Congress must put aside divisive (and pointless) sound-bite politics and at long last get serious about meaningful spending restraint and entitlement reforms. Those discussions should begin with proposals to deal with the costs of Medicaid, Medicare and Social Security, which are the greatest contributors to spending and debt. Congressional leaders from both parties must pledge to vote on a package of meaningful reforms.

Why is entitlement reform so important? Because government spending and increased borrowing—driven by entitlements—continue to gobble up America's gross domestic product, putting economic growth at risk. Without growth, the debt can't be paid down. While raising the debt ceiling will give the federal government temporary relief from the specter of default and unpaid bills, it is by no means an acceptable long-term solution. America simply can't allow this debt to grow—or even to remain at present levels—unless the goal is to strangle economic growth, push interest rates higher and put fiscal well-being and national security at risk.

Tackling the growing costs of entitlements doesn't mean Americans must turn their backs on those who have fallen on hard times and need help. As governor of Ohio, I oversaw an effort that reformed our Medicaid program dramatically. Without denying coverage to those who relied on it, we cut annual growth from a 9% yearly average in 2009-11 to an average of less than 2% since 2016. Success is possible.

For Congress, solutions demand throwing aside political gamesmanship and finding a willingness to act. That may be difficult in the current political climate, but it can be done. Remember the example of 1997, when a bipartisan coalition in Congress worked with a Democratic president to reform the welfare system, rein in military spending, and balance the federal budget. There were, of course, disagreements along the way, but they never overshadowed the shared goal of seeing that the nation found a way to live within its means.

Time is running short and America's time bomb of debt continues to tick. We've made progress before, so there is no reason we can't do it again. It is long past time for leaders on both sides of the aisle to learn from the past and commit to the future.

*Mr. Kasich is governor of Ohio.*

# It All Comes Out in the Greenroom

By John Brabender

**A**s a Republican media consultant, I'm routinely invited to represent the right-leaning view on left-leaning news outlets, including CNN, MSNBC and NPR. Usually I'm invited to appear alongside two liberal panelists, a liberal show host, and a viewing audience rooting for my competitors. I'm not expected to take a dive, but everything is arranged to make it hard for me to win the argument.

Truth be told, I enjoy the challenge. The real reward, however, is the time spent beforehand in the greenroom. Hours waiting to go on air have given me a unique opportunity to meet a bunch of liberal journalists, activists, progressive politicians and Hollywood celebrities. They have all been friendly.

What have I learned from observing the other side of the political universe up close? Liberals are united in the belief that the election of Donald Trump constituted a cataclysmic anomaly in the political cosmos. They believe in their hearts that this cataclysm was instigated by an outside agent using cyber chicanery. Equally clear is their newfound collective purpose in life—to rectify this horrific reality any way they can.

I've listened in on numerous conversations about how voter manipulation is the only plausible explanation for Mr. Trump's victory. One segment producer explained to me that despite the more than \$1 billion in total marketing dollars spent on the presidential race—and almost two years of daily news coverage of the campaigns—it was the approximately \$200,000 that might or

might not have been spent by the Russians on social media that tipped the race in Mr. Trump's favor. If so, those were the most effective ads in political history, despite the spelling mistakes.

The conversations I've heard regarding the president's mental state have been even more bizarre. I've heard it all—he is on medica-

If you think liberal talking heads are obsessed with Trump, you should hear what they say in private.

tion that causes erratic behavior, he has a mental illness, he has been brainwashed or blackmailed by the Russians.

Mind you, these aren't presented as far-fetched theories. They are treated like realistic explanations for every tweet, speech and political move the president makes.

I've also noticed a remarkable shift in the context of questions asked by talk-show hosts in the Trump era. Questions today are often loaded in an editorial manner. Assumptions and conjecture are spoken like accepted truths. During a recent appearance I was told in advance to expect discussion of the "fact" that Republican politicians who have committed crimes no longer need to worry about being chased from office. On another show the host asked, "Is President Trump guilty or crazy?"

The smartest, most connected, and most quoted person in all of Washington this year is somebody

called "Unnamed Source." This fellow's unmatched knowledge has regularly led CNN to deploy the "Breaking News" chyron, once reserved for truly developing stories like terrorist attacks and outbreaks of pandemic disease. What will the network do if it ever turns up a real smoking gun—say, a videotape in which President Trump is caught secretly confiding to the Russian president that he will have more flexibility to negotiate after he's re-elected?

It isn't only the hosts and the guests. Even the people who book these shows are often eager to promote an anti-Trump narrative. It was considered a major coup when CBS scored a "60 Minutes" exclusive interview with porn star Stormy Daniels. Not only did the interview produce no new information, but "60 Minutes," like most news organizations, somehow forgot to mention that Ms. Daniels was recruited in 2009, apparently by na-

tionals Democrats, to run as a Republican for U.S. Senate in Louisiana.

Bookers are especially on the lookout for Republican strategists willing to bash President Trump. Doing so not only gets you invited back, it can lead to becoming a paid contributor. You could even get your own show.

The most serious and unfair consequence of all this is that President Trump's successes have gone underreported. Historic unemployment numbers, the destruction of Islamic State in Syria and Iraq, and a potential breakthrough regarding nuclear negotiations with North Korea have all been pre-empted in favor of coverage of more important events—like James Comey's vaudevillian book tour. Welcome to the new normal.

*Mr. Brabender is a partner at BrabenderCox.*

# Dry the Friendly Skies

By Satish Jindal

**A** man was arrested after what one news report called "a screaming tirade involving spit and blood" on an American Airlines flight on May 23. An attendant had refused to serve the man another beer, concluding he was already intoxicated. To avoid such incidents, airlines should stop serving alcohol altogether.

As a frequent flier—Executive Platinum status with American—I often witness disruption caused by excessive drinking. On a recent flight from Pittsburgh to Miami, the passenger next to me in first class started drinking soon after departure—at 7:30 a.m. He consumed at least four small bottles before the flight attendant refused to serve him more. I had to tolerate his loud complaints for the rest of the flight.

For decades, airlines allowed smoking, despite complaints from nonsmoking passengers about the smoke wafting into their section. Airlines incurred only costs from these smokers: Passengers brought their own cigarettes, while airlines had to pay for cleaning the cabin and the air. When the U.S. banned smoking on most domestic flights in 1990, it was all financial upside for the airlines.

By contrast, security restrictions mean passengers can't bring alcohol into the cabin. Airlines thus have a monopoly on drink sales, which is a revenue center. But is it worth the cost of dealing with dis-

ruptive passengers? When I've asked flight attendants, they've overwhelmingly supported a ban on in-flight alcohol.

Drunken passengers might still occasionally appear at the gate—alcohol would still be available at airport restaurants and lounges. Then again, a ban would benefit those restaurants, which have been hurt since nonpassengers were banned from secured areas of the airports.

**Smoking is forbidden on flights. For safety's sake, alcohol should be banned as well.**

A ban on in-flight alcohol also would be good for passengers' health. Alcohol consumes oxygen, and any medical professional will confirm that at 30,000 feet in the air, the human body is already low in oxygen.

As smokers have adjusted to nonsmoking flights, drinkers would also adjust. If the airlines fail to act in the best interest of themselves and their passengers, Congress and the Federal Aviation Administration should do so—as they did with smoking.

*Mr. Jindal is founder of SJC Consulting Group, which works in the transportation and logistics industries.*

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## WORLD NEWS

# In Turkey, Lira's Fall Gives Rise to Doubts

A month before elections, some voters question Erdogan's ability to lift economy

BY YELIZ CANDEMIR

ISTANBUL—There were few customers at a clothing shop in Turkey's megalopolis late last week, but Esra Yildirim was still in a rush.

She was racing to keep up with a rapid drop in the Turkish lira. Although the pajamas she sells are sewed locally, they are made with imported materials, and her supplier is raising prices by the day.

"I'm busy updating price tags," the 30-year-old manager said. "Sometimes, I'm not yet finished with a pile that I have to start again."

One month ahead of national elections in which President Recep Tayyip Erdogan is seeking a new mandate, the fast-weakening lira has left some voters questioning a claim by the long-dominant Turkish leader that he knows the way to economic prosperity.

The lira, which has shed a fifth of its value against the dollar this year, has been hit by a wider storm sweeping through emerging markets caused by a sharp rise in the dollar. But Mr. Erdogan, some analysts say, bears some responsibility for the bruised lira and double-digit inflation because he has publicly expressed opposition to interest-rate increases, a traditional tool to support an ailing currency.

Turkish households have been on the front row of the lira's slide. Their eroding spending power is on display



Supporters of Turkish President Recep Tayyip Erdogan, shown in poster at right, attended a campaign rally in Istanbul on Tuesday.

at gas stations, in particular, because Turkey imports most of its fossil fuel.

"I'm filling only half of my tank," said 40-year-old Funda Sevinc, as she parked at a service station in Istanbul on Tuesday. "And we are going out less on the weekends."

Many economists say Turkey must signal it is committed to prodding the lira, or risk being hit by an exodus of foreign investors. But the president, who survived a military coup attempt in 2016 and has a strong

base of support among small businessmen and middle-income workers, says he is opposed to high interest rates because they slow down investment. Instead, Mr. Erdogan has urged Turkish people "who have euros and dollars under their pillows" to support the national currency by buying lira.

Turkey's central bank did take emergency steps last week, increasing one of its interest rates by three points, and government officials have also held meetings with foreign inves-

tors. That has brought some respite for the lira, which was up more than 1% on Wednesday, trading at 4.49 to the dollar.

"The critical question at this juncture is whether the recent Turkish lira rout has damaged President Erdogan's polling numbers," said Phoenix Kalen, a strategist at Société Générale in London.

Some recent election polls have pointed to a victory of Mr. Erdogan in the first round of the presidential ballot, on June 24, but political opponents

have questioned their reliability as authorities, which imposed emergency rule in the wake of the 2016 failed coup, are cracking down on independent media, the military and judiciary.

Turkey appears extremely polarized, with 47.8% of respondents to a May 18 survey by polling agency MetroPoll saying they disapprove of Mr. Erdogan's policies, compared with 46.3% who approve of them—the first time disapproval has surpassed approval since June 2016. Other opinion

## Rapid Drop

How many Turkish lira one U.S. dollar buys

3.6 lira

3.8

4.0

4.2

4.4

4.6

Scale inverted to show declining lira

4.8

J F M A M

Source: WSJ Market Data Group

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polls suggest Turks have grown more pessimistic about the economic outlook, and the confidence of consumers, a major driver of the Turkish economy, has dropped to a five-month low in May.

Rivals to Mr. Erdogan in the presidential race have homed in on the lira's weakness to criticize the president's economic record. The drop "will come back to us in the form of higher inflation and even higher interest rates," Muharrem Ince, candidate for the secular Republican People's Party, or CHP, the main opposition force in Parliament, said at a rally last week.

Yet, some business owners said Mr. Erdogan was the safest bet for financial stability.

"Yes, inflation is eating into my budget. But if this government loses, it will be chaos," said Hasan Binkat, who runs a textile company. "I will vote for Mr. Erdogan because I don't want my business to be ruined."

# Displaced Syrians Struggle to Leave War Behind

Fleeing the Assad regime's advances in Homs, Damascus and elsewhere, few find work in one of rebels' last strongholds

BY RAJA ABDULRAHIM

AZAZ, Syria—Rabea al-Khateeb planned to sell his rifle when he arrived here, believing his days as a rebel fighter were over after he left Damascus's war-torn suburbs with his eight-month pregnant wife.

But after weeks of fruitlessly looking for work, Mr. Khateeb joined another armed group. He doesn't know its name, or whom he might end up fighting, but the job pays about \$40 a month.

Mr. Khateeb is among tens of thousands of Syrians who have fled the Assad regime's advances in Homs, Damascus and elsewhere in recent months, only to find economic desperation in one of Syria's last opposition strongholds. The extreme financial hardship in the rebel-held northwest highlights a challenge in ending the violence afflicting the country, as aid groups struggle to deliver sustainable help and young men with few prospects join armed

factions for a salary.

Over the course of Syria's seven-year war, more than 1.5 million people have been displaced to the region—a swath that now stretches through parts of northern Aleppo province and much of Idlib province along the Turkish border. The numbers have picked up in recent months as Mr. Assad captures other pockets of rebel control through sieges and bombardments with the backing of Russia and Iran.

Few of the new arrivals here have found work in the cities or tent encampments popping up across this agricultural region known for its olive groves. In and around the town of Azaz alone, about 30 miles north of the city of Aleppo, there are an estimated 30,000 families living in tent camps, some run by aid groups or local authorities, some of them informal. Many people are unable to leave because of lack of work, said Waleed Alito, a local manager of the charity Ihsan.

More than 50% of Syrians

are currently unemployed, according to the United Nations, and aid workers say the figure is at least as high in the rebel-held northwest. Part of the area is under the protection of Turkey, but in other parts regime and Russian airstrikes still occasionally terrorize towns and cities.

The area is controlled by a wide mix of rebel factions, some of whom receive backing from outside powers such as Turkey, Gulf Arab states and even the U.S. Others fund themselves through checkpoints and taxing commerce. Occasional battles between the factions further undermine stability.

Aid groups are trying innovative forms of help, like livestock. One woman received a dairy cow. widowed 43-year-old mother of four, said food aid from the local council had dried up. Her economic hopes are now pinned on a single dairy cow she received from Ihsan, a farm animal that saves her and her children from working for \$2 a day in the area's pistachio fields and olive groves. The assistance means "I won't have to pull my daughter and son out of school," she said.

In Azaz, Mr. Khateeb had trouble finding even low-paying temporary work and had to live with his extended family in an empty storefront with no bathroom. A neighbor pointed him toward a local rebel faction, one of several Turkish-backed groups, that was hiring.

"I didn't want to join, but I have my first child on the way, what else can I do?" said Mr. Khateeb, who spent years fighting the Assad regime in his hometown in the Ghouta suburb outside Damascus.

"I go into a shop to look for work and I find four workers already there."



Aid groups are trying innovative forms of help, like livestock. One woman received a dairy cow.

# Zimbabwe Sets First Vote Since Mugabe's Ouster

BY GABRIELE STEINHAUSER

Zimbabwe President Emmerson Mnangagwa said the country's first national elections since Robert Mugabe's ouster will be held on July 30, posing a major test of its efforts to re-engage with the international community.

Mr. Mnangagwa, hoisted into office by Zimbabwe's armed forces in November, has struggled to revive the country's crisis-hit economy and assert himself as the clear leader of his ZANU-PF party.

The July election adds to pressure on the 75-year-old, nicknamed the Crocodile, to deliver a strong result for his ruling party, while also proving his democratic credentials. Previous polls in the southern African country were criticized by civil-rights groups and opposition parties over what they said were inaccurate electoral rolls and representation of rivals.

In contrast to the 2013 elections, in which Mr. Mugabe and ZANU-PF received nearly two-thirds of the votes, the government has invited observers from the European Union. The



An election commission official checked a prospective voter's registration in Harare on Tuesday.

Commonwealth, which Zimbabwe applied to rejoin this month, is also expected to send election monitors.

A statement in the official government gazette said the election for a president and Parliament would be on July 30, with a potential runoff vote scheduled for Sept. 8.

The EU and other governments have said free and fair

elections are a precondition for a closer engagement with Zimbabwe, which in the final years of Mr. Mugabe's 37-year rule was isolated by sanctions and unpaid debts.

Zimbabwe urgently needs financial aid to ease an escalating shortage of dollars—the country's dominant currency since 2009—that is suffocating its economy. There are few

formal jobs in the private sector and the government has struggled to pay public-sector wages.

The largest opposition party, the Movement of Democratic Change, and its 40-year-old leader, Nelson Chamisa, have seized on the economic crisis to score points against Mr. Mnangagwa and ZANU-PF. But the MDC is also weakened

# U.S. Targets Tehran Jail, Officials in Sanctions

BY IAN TALLEY

WASHINGTON—The U.S. imposed sanctions on several Iranian groups and officials it accused of human-rights abuses, in another round of punitive actions aimed at isolating Iran and forcing a change in its military posture.

The Treasury Department's targets included Ansar-e Hezbollah, a conservative organization linked to the government, and Evin Prison, where Tehran detains political prisoners. It also acted against the Hanista Program Group, accusing the company of creating technology to enable human-rights abuses by the government; two senior government officials; and the director of Islamic Republic of Iran Broadcasting.

The U.S. this month backed out of the 2015 nuclear deal with Iran and five other world powers and began reconstituting a sanctions program aimed at crippling Iran's economy.

# BUSINESS & FINANCE

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## Tariffs Threaten Toyota's Run

Car maker's imports to U.S. from Japan up 22%; duties would weigh on the popular RAV4

BY SEAN MC LAIN

**TOKYO—**Toyota Motor Corp. said Wednesday that its shipments from Japan to the U.S. rose 22% in April, highlighting the problem it faces if the Trump administration makes good on threats to impose higher tariffs on imports.

The problem is crystallized in one model: the RAV4 sport-utility vehicle. It is the most popular Toyota among American consumers—and none are made in the U.S. More than half are imported from Japan, while the rest are made in Canada and imported tariff-

free under the North American Free Trade Agreement.

Earlier this month, the Trump administration said it was considering a plan that would increase tariffs on cars and car parts, citing national security concerns, with possible duties on automobile imports of up to 25%.

Toyota stands to lose the most among major auto makers because of its size and exposure to the U.S. market.

In April, Toyota exported 66,000 cars from Japan to the U.S., a 22% increase from the same month a year earlier. Many of them were RAV4s, Toyota's best-selling entry in the increasingly popular category of crossover SUVs that combine the space of an SUV with fuel efficiency rivaling sedans.

The additional space comes

at only a small premium. The RAV4 starts at \$24,500 in the U.S., compared with \$23,500 for the Camry sedan.

Toyota has faced pressure from U.S. politicians for decades over its exports from

0

How many RAV4 sport-utility vehicles Toyota makes in the U.S.

Japan, and has responded by investing billions of dollars in U.S. factories.

So why isn't it building its most popular vehicle at one of those factories? Poor timing is partly to blame.

The company is in the mid-

dle of a \$10 billion U.S. investment plan that is heavily weighted toward boosting sedan production. The effort includes a \$1.3 billion upgrade to its Kentucky factory to produce the latest version of the Camry and an \$800 million plan for a new factory in Alabama that will produce around 150,000 Corollas a year starting in 2021.

Toyota made the plan when the U.S. market was split 50-50 between cars and light trucks, including SUVs. Today, pickups and SUVs make up closer to two-thirds of the market.

Toyota sold 407,594 RAV4s in the U.S. in 2017, according to Autodata Corp. That put it behind only the flagship pickups from the three Detroit auto makers.

The Japanese company is planning to make more RAV4s

close to the American market next year. But that plan could be problematic too, if Mr. Trump is serious about his threats to raise tariffs. The current import duty on vehicles from Japan is 2.5%.

Toyota is spending nearly \$1 billion to upgrade its plants in Canada to double RAV4 production to around 400,000 a year. By the early 2020s, that means the U.S. hunger for RAVs could be met almost entirely within North America—but only if the Nafta deal allowing tariff-free imports from Canada survives the Trump administration.

"Our production strategy has been based on Nafta, and that's how we have planned the production structure, including deciding which models to produce at which plants," a Toyota

Please see TOYOTA page B2

## Star Power Blows Up For ABC, 'Roseanne'

BY BEN FRITZ

With "Roseanne," Walt Disney Co.'s ABC took a risk by reviving not just a 20-year-old show, but a business model it had largely abandoned, in which a television or film series is inextricably linked to a single celebrity.

On Tuesday, that business model blew up.

Roseanne Barr's racist tweet resulted in her show being canceled almost immediately by ABC. Hundreds of cast and crew have now lost their jobs and the network is without a big hit, one that could have been a centerpiece of its schedule, ad sales and public identity for years to come.

Two months ago when "Roseanne" returned after 11 years off the air to sensational ratings, ABC executives boasted that the show was part of a new strategy to reach working-class people who felt underrepresented in popular culture.

But ABC didn't develop a show about a struggling family in Illinois and happen to cast Ms. Barr. It brought back "Roseanne," putting its star's name in the title and the words "based upon a character created by Roseanne Barr" in the credits.

When "Roseanne" aired from 1988 through 1997, sitcoms built around comics were commonplace. There was no "Home Improvement" without Tim Allen and no "Everybody Loves Raymond" without Ray Romano.

It was also, not coincidentally, the era of "star vehicles" at the box office, when the participation of Tom Cruise, Julia Roberts or Eddie Murphy was frequently the reason a movie got made and the reason millions of people bought a ticket.

But star power has been on the wane in Hollywood for years, in no small part because of Disney.

Under Chief Executive Robert Iger, the media conglomerate is no longer home to the biggest stars. Instead, it has become home to the biggest brands, some of which it bought (Marvel, Pixar, Lucasfilm), and some of which were homegrown (ESPN and even Disney itself, the brand name behind "Beauty and the Beast" and "Frozen").

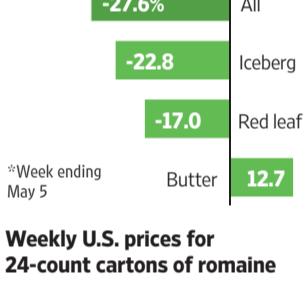
These major franchises have far more consumer appeal than any particular person who helps to make them. The Avengers and Toy Story will surely live on and profit

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## Wilting Sales

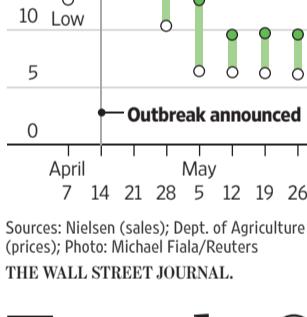
Romaine, the most popular lettuce, has seen a decline that has affected overall lettuce sales.

Lettuce's change in retail sales from the previous year\*



\*Week ending May 5

Weekly U.S. prices for 24-count cartons of romaine



Sources: Nielsen (sales); Dept. of Agriculture (prices); Photo: Michael Fiala/Reuters

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A crew harvests romaine lettuce in California. An E. coli outbreak has been tied to romaine grown in the region of Yuma, Ariz. Federal officials say tainted romaine is now gone from the marketplace, but restaurants, wholesalers and grocers have suffered losses.

## E. coli Outbreak Bruises Growers, Retailers

BY JESSE NEWMAN  
AND HEATHER HADDON

A deadly E. coli outbreak tied to romaine lettuce has shaken consumers' faith in the nation's favorite salad green, resulting in millions of dollars in losses for growers, retailers and restaurants.

Federal health officials now say tainted romaine is gone from the marketplace. But for weeks it urged consumers to throw away any romaine lettuce left in their homes and to avoid eating or buying it unless they were certain it

wasn't grown in the desert region of Yuma, Ariz.

Officials have traced the problem to Yuma, but they haven't been able to pinpoint the exact source of much of the lettuce that has been tied to 172 illnesses and one death. The U.S. Food and Drug Administration says the last shipments of romaine from Yuma were harvested on April 16, and the harvest season there is over—making it unlikely that romaine from Yuma is still available in stores, restaur-

ants or people's homes.

"It's [cost] thousands and thousands of dollars; it could even run into the millions," said Howard Popoola, Kroger Co.'s vice president of corporate food technology and regulatory compliance, referring to costs at the largest U.S. supermarket chain.

Growers and sellers of romaine lettuce fear it could take months or longer for sales to recover. Earlier this month, sales had dropped nearly 45% from the year-ago period, according

to Nielsen figures. The outbreak has hurt other leafy greens, with overall lettuce sales earlier this month down more than 27%.

U.S. lettuce production was valued at \$3.6 billion in 2017, making it the leading vegetable crop by value. Prices for whole romaine heads have tumbled as much as 60% since early April, according to U.S. Department of Agriculture data.

FDA Commissioner Scott Gottlieb said technical advances are helping regulators

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## Buffett Sought \$3 Billion Investment in Uber

BY GREG BENSINGER  
AND NICOLE FRIEDMAN

Warren Buffett earlier this year offered to invest \$3 billion in Uber Technologies Inc., but the two sides couldn't agree on the terms, according to a person familiar with the matter.

The talks between Mr. Buffett's Berkshire Hathaway and Uber, reported earlier by Bloomberg News, followed a multibillion-dollar investment in the ride-hailing firm by SoftBank Group Inc.

In January, the Japanese firm invested \$1.25 billion directly in Uber at around a \$70 billion valuation and bought an additional \$6.5 billion worth of employee and investor shares at a \$48 billion valuation.

Dara Khosrowshahi, who became Uber's chief executive last summer, is trying to prepare the company for a planned initial public offering in 2019.

The IPO, if it happens, is expected to be one of the largest

in recent memory. But Mr. Khosrowshahi is working to pare costs after the company reported a loss of \$4.5 billion for last year, while repairing Uber's relationship with drivers and riders following a year of scandal.

Uber's revenue is growing quickly—up 70% in the first quarter to \$2.59 billion—and the company has a strong cash position thanks to previous funding. As of March 31, it held \$6.3 billion in cash, according to the company's recent financial statements reviewed by The Wall Street Journal.

Berkshire has a history of investing in troubled companies in exchange for favorable terms. During the financial crisis, Berkshire threw lifelines to companies including Goldman Sachs Group Inc. and General Electric Co. He earned billions on those investments.

More recently, Mr. Buffett has struggled to find sizable attractive buys. His company has piled up more than \$100 billion in cash.

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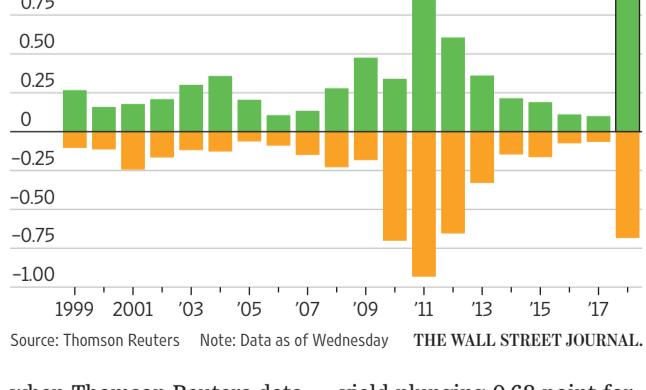
### STREETWISE | By James Mackintosh

## Assessing Italy's Panic, Rescue

### Here We Go Again

Italy's two-year bond yield on Tuesday had its biggest one-day rise in decades.

### Largest positive and negative one-day moves, by year



Source: Thomson Reuters Note: Data as of Wednesday

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when Thomson Reuters data started. The yield leapt more than 1.5 percentage points to 2.4% at the close of European hours, with more selling later. Wednesday saw a startling rebound, with the two-year

yield plunging 0.68 point for the bonds' best day since European Central Bank President Mario Draghi pledged to do "whatever it takes" to save the euro in 2012.

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## TOYOTA

Continued from the prior page spokesman said.

Nafta is being renegotiated by the U.S. and the other two members, Canada and Mexico, and automotive trade figures prominently in the discussions. Mr. Trump has said he is ready to end the agreement if it isn't revised to his satisfaction.

Toyota technically could produce at least some RAV4s in Kentucky, since the Camry and RAV4 share a common architecture. It isn't likely to do that, however, because it would create waste, something that is anathema to Toyota's production engineers. Upgrading the Kentucky plant would result in unneeded RAV4 capacity once the Canadian expansion is finished.

"These guys, Toyota pro-

duction system people, they are the most powerful and influential people in Toyota. They are focusing on cutting waste and increasing efficiency," said Takaki Nakanishi, an auto analyst who runs Nakanishi Research Institute in Tokyo.

Toyota used to produce the majority of RAV4s in North America, but production growth has slowed while the plants awaited upgrades. Plans to replace Corolla production with RAV4s in Canada will save costs in part by simplifying the supplier base.

Toyota has previously moved to appease Mr. Trump after facing criticism for investments outside the U.S. The company originally planned to build a new Corolla factory in Mexico, then switched to Alabama after Mr. Trump tweeted "NO WAY!" The Mexico factory will make trucks instead.

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rather than leasing the talent. Disney didn't respond to a request for comment.

The "Roseanne" debacle illustrates another good reason for that approach: social media. Celebrities have been saying outrageous things since the dawn of newspapers and radio, but there was always some buffer between them and the general public. If Ms. Barr woke up 20 years ago with something offensive to say, it would have taken some time and effort to broadcast her thoughts to the world, during which she might have reconsidered or a network publicist

might have been able to stop her.

Now a major media company like Disney has no way to control or spin what Ms. Barr says on her Twitter feed. It can only react amid the fallout from a trending #BoycottABC hashtag to President Donald Trump complaining that Mr. Iger apologized to Valerie Jarrett but not to him for "the HORRIBLE statements made and said about me on ABC."

If Ms. Barr were merely the lead actress on her program, "Roseanne" might go on, as "House of Cards" has done without Kevin Spacey. And it

is possible the production studio behind the show could try to launch a spinoff in the future. But there is no "Roseanne" without Roseanne Barr, which means that, for now, there is no more "Roseanne."

ABC is now in a tricky spot. It can't fill nearly 20 hours a week of prime-time programming with branded sequels and spinoffs, as Disney's studio does for the dozen or so movies it releases each year. But whatever ABC puts on the air this fall to replace "Roseanne," the show probably won't have a star's name in the title.

Continued from the prior page even when Robert Downey Jr. and Tom Hanks are long gone from them.

As evidenced by Disney's fat bottom line, that approach makes sense in a high-stakes, global entertainment market where media companies spend hundreds of millions making movies, producing television series or building theme-park rides. With so much at stake, better to build your business by owning the characters

rather than leasing the talent. Disney didn't respond to a request for comment.

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## BUSINESS NEWS

# Pact Ends Brief Strike At Canadian Pacific

BY JACQUIE McNISH  
AND PAUL VIEIRA

TORONTO—A strike that temporarily shut down **Canadian Pacific Railway** Ltd. operations is over, as the company and the union representing conductors and locomotive engineers reached a tentative four-year deal.

Details of the agreement weren't immediately available. Teamsters Canada, which represents over 3,000 workers, said operations would resume at 6 a.m. local time Thursday across the country. Teamsters members walked off the job at 10 p.m. EDT on Tuesday after months of talks failed to produce a deal.

Canadian Pacific Chief Executive Keith Creel hailed the tentative pact with the

would interfere with the operations of one of the most efficient railways in North America by operating ratio.

A prolonged strike threatened a major blow to grain, crude-oil, forest-product and mining producers, who experienced significant shipping delays over the winter months as Canadian Pacific and rival **Canadian National Railway** Co. struggled to keep up with an unexpected surge in demand for oil and other commodities.

Despite the potential threat to the economy, Canada's Liberal government said it wanted the company and union to negotiate a settlement and wouldn't immediately introduce legislation to compel railway workers to return to work.

Back-to-work legislation was a frequent tactic used by the former Conservative government under Prime Minister Stephen Harper whenever a labor dispute disrupted activities at federally regulated companies.

"This is further evidence that when employers, organized labor, and governments work together and respect the collective bargaining process, we get the best results for Canadians and for our economy," Patty Hajdu, Canada's labor minister, said following news of the Teamsters agreement.

Canadian Pacific is a leading shipper of grain in Western Canada and the U.S. Northern Plains, moving 432,000 grain carloads in 2017. The railroad is also a major shipper of crude oil and fracking sand in Western Canada and the Bakken region in North Dakota.

One of its largest customers is **Teck Resources** Ltd., which transports most of the metallurgical coal it mines in Canada on the railroad. "Any stoppage of rail service would be negative for the economy as a whole, including our business," a company spokesman said.

# Dick's Shares Rise by 26%

Retailer's new policy on gun purchases hurts hunting sales, but profit increases

BY SARA GERMANO  
AND ALLISON PRANG

**Dick's Sporting Goods** Inc. posted higher quarterly profit and sales, allaying investor concerns about the chain's controversial decision to tighten gun policies.

The retailer said Wednesday that its hunting business suffered during its fiscal first quarter, but it reported better demand for other items, which helped profit margins.

Dick's shares rose 26% to \$38.35 Wednesday, marking their biggest daily gain based on available data going back to 2002.

Chief Executive Edward Stack noted in March that the new gun restrictions had hurt traffic and sales, as customers unhappy with the moves said they would shop elsewhere. Same-store sales for the quarter, which ended May 5, declined 2.5% from a year earlier; analysts polled by Consensus Metrix were expecting a 1.4% decline.

Dick's finance chief Lee Beilitsky said in reference to hunting sales that the chain's gun policy prompted "an accelerated decline in an already challenged category."

Profit rose 3.2% from the year-earlier quarter to \$60.1 million, or 59 cents a share, topping Wall Street expectations and leading the company to raise its full-year outlook. Dick's said it relied on fewer promotions to move merchandise and was able to reduce its inventories.

Total sales rose 4.6% to \$1.91 billion, helped by the addition of new stores and converted outlets of Sports Authority, which filed for bankruptcy. Dick's operates more than 800 stores, including Golf Galaxy and Field & Stream locations.

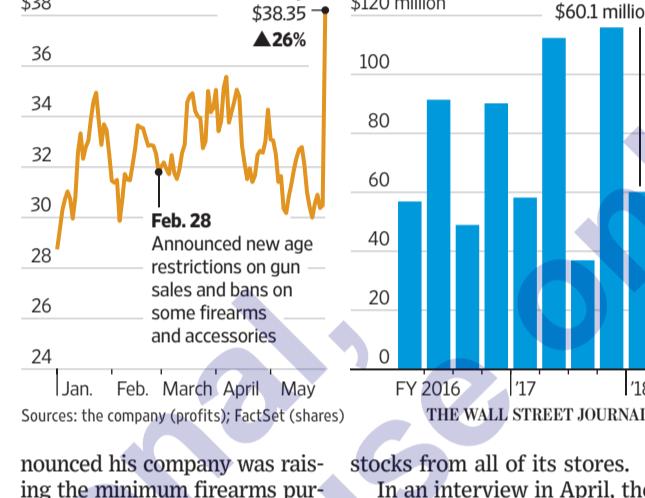
In February, Mr. Stack an-



The sporting-goods chain raised its minimum firearms purchase age to 21 in February.

## Rising Above Controversy

Shares in Dick's Sporting Goods jumped Wednesday as profit rose in the quarter following the change in its gun-sales policy.



Sources: the company (profits); FactSet (shares)

control advocacy group.

Earlier this month, Dick's was expelled from membership in the National Shooting Sports Foundation due to "conduct detrimental to the best interests" of the firearms trade association.

Mr. Stack said Wednesday that the organization's primary activity is running "The Shot Show," a trade show for weapons and firearms. "We don't go to the Shot Show now. It's really not that big of a deal," Mr. Stack said.

He added that Dick's doesn't "have the best relationship with the firearms manufacturers right now" and expects its hunt and firearms category to be challenged for the rest of the year.

On Tuesday, analysts at Canaccord Genuity lowered their sales and earnings estimates for Dick's, citing weakness in the hunting category as well as slowing demand for athletic apparel and certain sports categories. Fall is typically the busiest season for the hunting business.

*A prolonged walkout would have threatened producers of oil and other commodities.*

roughly 12,000 employees of the Calgary, Alberta-based railroad. "This is a significant step toward a renewed positive relationship growing forward together serving our customers and the Canadian economy," he said.

Teamsters Canada President Doug Finnson said what the parties agreed to is a fair contract that our members can feel good about ratifying."

Late Tuesday, the railroad reached a tentative three-year contract with another union representing nearly 400 electrical workers.

Before Tuesday's walkout, Canadian Pacific had been winding down its railcar deliveries in recent days to prepare for the strike.

Mr. Creel said in April the railway wouldn't be "taken hostage" by demands that

# Allergan Aims to Sell Two Units

BY JONATHAN D. ROCKOFF

Allergan PLC is exploring the sale of two relatively small businesses, in a bid to jolt sagging shares and ease the minds of worried investors.

Allergan Chief Executive Brent Saunders told investors Wednesday that the company has begun a process to sell its women's-health and infectious-disease businesses.

"The key for us strategically is to really focus on the four" therapeutic areas of medical-aesthetic products such as Bo-

tox, eye care, gastrointestinal medicines and drugs for central-nervous-system disorders, Mr. Saunders said at an Alliance Bernstein event in New York City.

The women's-health business, which sells birth-control and other pills, contributed about \$1 billion of the Dublin-based company's \$15.9 billion in sales last year, while the company's anti-infective drugs rang up sales of \$257 million.

Allergan's board of directors launched a review of company strategy earlier this year

amid Wall Street concerns about the direction of the company. Investors have asked about Allergan's plans for dealing with potential new rivals to its top-selling product Botox, and the looming generic competition for its No. 2-selling drug Restasis.

Shares in Allergan have lost more than half their value since peaking in July 2015 and have fallen about 13% this year. They edged up 49 cents to \$151.52 on Wednesday.

The stock performance has drawn notice from activist investor David Tepper, whose Appaloosa Management raised its stake in Allergan in 2016.

The move to divest from women's health and infectious disease, reported earlier by CNBC, might mollify investors who have been calling for the company to improve stock performance, while stopping short of heeding their calls to break up the company.

Divestiture signals more disruption ahead, after Allergan laid off more than 1,000 employees and eliminated another 400 open positions to cut costs this year.

Mr. Saunders said Allergan will use proceeds from any sales to reduce debt and buy back shares, though he cautioned that the company wouldn't agree to sales unless they command good values. "There is no fire sale at Allergan," he said.

*The company, which makes Botox, is reacting to investor concerns.*

# Fox Sets July Date for Vote on Asset Sale

BY AUSTEN HUFFORD

**21st Century Fox** Inc. shareholders will vote July 10 on the company's proposed asset sale to **Walt Disney** Co., potentially giving **Comcast** Corp. six weeks to submit its own bid for the film studios, cable networks and other entertainment businesses.

Disney has also called a special meeting July 10 for shareholders to approve issuing equity in connection with the \$52.4 billion all-stock purchase.

Comcast said last week that it was in advanced stages of preparing a cash offer that

would top Disney's deal for Fox's entertainment businesses.

On Wednesday, Fox said it could postpone the meeting if Comcast submits a bid or if other events require the company to send shareholders information they need additional time to review.

The Fox assets for sale range from international pay-television distribution to cable networks and a stake in streaming company Hulu. They are some of the most-prized entertainment properties likely to come on the market for some time, and the Murdoch family's willingness to sell the assets came as a

surprise to many in the media industry.

The rare acquisition opportunity, combined with the need to significantly expand overseas and acquire new distribution and content, is adding some urgency for both Comcast and Disney.

The original deal between Fox and Disney was announced in December. In that deal Fox would retain its broadcast, sports and news assets, including the Fox TV network and Fox News.

21st Century Fox and News Corp., The Wall Street Journal's parent company, share common ownership.

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*The company, which makes Botox, is reacting to investor concerns.*

## TECHNOLOGY

WSJ.com/Tech

# New Math: Firms Repair CEO Pay Flubs

By THEO FRANCIS

**When Laboratory Corp. of America** disclosed pay for its chief executive in March, the company said he made \$1.5 million in 2016. A week later, the diagnostic-lab chain filed a new document listing his pay at \$10.9 million.

Chief Executive David King didn't get a retroactive raise. His employer just proofread its work.

Such a big discrepancy is unusual, but LabCorp isn't the only big company to make significant adjustments to past pay disclosures. At least 16 companies in the S&P 500 have changed 2016 pay figures by more than 10% for one or more executives, while 17 did so for 2015 pay, a Wall Street

Journal analysis of data from MyLogIQ LLC shows.

Many changes, like LabCorp's, are errors caught after companies send proxies to shareholders and the Securities and Exchange Commission. Others can reflect changes in how the company decides to present the perks it has provided. In at least one case, a revised figure was the result of a retroactive pay cut.

A spokeswoman for LabCorp said pay totals for other of its executives were mistakenly listed as prior-year figures for Mr. King, but that each component of Mr. King's pay was disclosed correctly and the accurate total had been shown the prior year.

Chip maker **Advanced Micro Devices** Inc. blamed a con-

sultant when it had to say in last year's proxy that CEO Lisa Su had received stock awards valued at \$4.4 million in 2015, not the \$3.6 million originally disclosed.

"Due to an inadvertent error, our outside professional valuation consultant undervalued the accounting values" of the performance-based restricted stock units awarded during fiscal 2015, the company said in the proxy it filed in March 2017.

AMD declined to elaborate beyond the company's securities disclosures.

On occasion, revised disclosures reflect actual, retroactive pay alterations. **WestRock** Co., a paper and packaging company based in Atlanta, originally reported paying CEO

Steven Voorhees \$5.6 million in stock awards in 2015.

WestRock's December 2017 proxy, however, showed he received just \$2.8 million in stock

*Many changes are errors caught after shareholders and the SEC received proxies.*

than 20,000 shares, gave up more than 50,000 unvested shares and repaid nearly \$25,000 in dividends.

A spokesman said the company had concluded the overall value of Mr. Voorhees's original pay had been appropriate. In February WestRock's board granted Mr. Voorhees a further 96,092 shares, today valued at \$5.8 million, "to fulfill its original intentions."

Then there is **Berkshire Hathaway** Inc. The holding company said this year CEO Warren Buffett made \$100,000 in each of 2016 and 2015, not \$487,881 and \$470,244 as originally reported.

The company said it had reclassified the cost of "personal and home security services" for Mr. Buffett as a business

expense, rather than as pay. Berkshire described the \$375,000 it spent on protecting Mr. Buffett this year as a business expense because he often works at home. The end result: Berkshire this year said Mr. Buffett made \$100,000 in each of the past three years.

Other large companies do count CEO-security costs as compensation.

Berkshire Hathaway and Mr. Buffett didn't respond to requests for comment.

In its March 16 proxy, Berkshire Hathaway wrote that the company's board believes that because "Mr. Buffett spends a significant amount of his time while at home on Berkshire business matters that such costs represent bona fide business expenses."

## Tesla Brakes Better With Wireless Fix

By TIM HIGGINS

**Tesla** Inc. was able to improve the braking distance of Model 3 cars by as much as 20 feet by wirelessly transmitting a software update to the vehicles—a significant achievement in the auto industry that shows how the company can boost performance without costly dealership repairs.

The improvement persuaded Consumer Reports on Wednesday to recommend the Model 3 vehicle, reversing last week's decision to withhold its influential endorsement partly because it deemed the car took too long to stop. The Consumer Reports seal of approval is sought after by the auto industry.

The Silicon Valley electric-car maker's ability to change basic functions of the car through software updates via Wi-Fi or cellular signals puts it at the cutting edge of car development. Tesla has previously sent wireless updates to improve the driver-assistance system called Autopilot or to

give a car greater acceleration. This latest change comes at the same time Tesla is battling criticism of its newest vehicle.

"I've been at [Consumer Reports] for 19 years and tested more than 1,000 cars and I've never seen a car that could improve its track performance with an over-the-air update," Jake Fisher, director of auto testing, said in Wednesday's review.

The automotive industry has spent generations and fortunes requiring owners to bring vehicles to their service centers to make fixes. Last week, Fiat Chrysler Automobiles NV recalled over five million vehicles in the U.S. and Canada to fix a software glitch that could prevent drivers from canceling cruise control.

"Tesla has broken through a massive barrier that has haunted the auto industry since 1978" when the first microprocessor was introduced in cars, said Dave Sullivan, an analyst for AutoPacific. "The ability to program modules over the air, such as the [an-



A Tesla Model 3 on display in Beijing in April. The company deployed a wireless update to improve the electric cars' braking distance.

tilock-braking] module, represents a huge leap in keeping customers safe and reducing the number of unprepared vehicles on the road."

Other auto makers, including General Motors Co., are rushing to develop similar over-the-air technology.

The lack of a recommendation from Consumer Reports would have threatened Tesla

Chief Executive Elon Musk's effort to bring electric cars to more mainstream customers. Tesla is struggling to ramp up production of the Model 3 while also facing questions about the safety of Autopilot after a few recent crashes involved the driver-assistance system. Tesla says Autopilot makes its vehicles safer than those without it.

Consumer Reports' original review on May 21 raised new safety questions. The non-profit organization said at the time that the Model 3 it purchased had a stopping distance of 152 feet from 60 miles an hour, "far worse than any contemporary car" and further than a full-size pickup.

In response, Mr. Musk promised last week on Twitter

to make improvements to the brakes. On Saturday, he said, the software update had begun rolling out, saying it should improve braking distance by about 20 feet during repeated heavy braking events. The software update changed the calibration of the antilock-braking algorithm across variations in usage and environmental conditions, Tesla said.

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CR-2017-009373

## IN THE MATTER OF AIG EUROPE LIMITED AND AMERICAN INTERNATIONAL GROUP UK LIMITED

## AIG EUROPE SA AND

## IN THE MATTER OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 NOTICE

NOTICE IS HEREBY GIVEN that, on 5 March 2018, AIG Europe Limited (the "Transferor") and American International Group UK Limited (the "UK Transferee") and AIG Europe SA (the "European Transferee") made an application (the "Application") to the High Court of Justice, Business and Property Courts of England and Wales, Companies Court in London (the "Court") pursuant to section 107(1) of the Financial Services and Markets Act 2000 (as amended) ("FSMA") for an Order:

1. under section 111 of FSMA sanctioning an insurance business transfer scheme (the "Scheme") for the transfer of:

(a) certain insurance business carried on by the Transferor to the UK Transferee without any further act or instrument; and

(b) shortly after the transfer of the Transferring UK Business, all remaining insurance business carried on by the Transferor to the European Transferee (the "Transferring EEA Business") under the planned cross-border merger by absorption of the Transferor by the European Transferee pursuant to the Companies (Cross-Border Mergers) Regulations 2007 (SI 2007/2974) (the "Merger") and in accordance with the terms of the Order; and

2. making ancillary provision in connection with the Scheme pursuant to section 112 and 112A of FSMA.

The following documents are available free of charge and can be downloaded via [www.aig.com/brexit](http://www.aig.com/brexit):

• A copy of a report on the terms of the Scheme prepared in accordance with section 109 of FSMA, by an Independent Expert, Steve Mathews of Willis Towers Watson, whose appointment has been approved by the Prudential Regulation Authority, (the "Scheme Report");

• the full Scheme document;

• the Scheme Booklet (which contains a summary of the terms of the Scheme, and a summary of the Scheme Report); and

• a question and answer document about the Scheme.

Supporting documents and any further news about the Scheme will be posted on this website so you may wish to check for updates. You can also request free copies of any of these documents by writing to or telephoning the Transferor using the contact details below.

The Application is due to be heard on 18 October 2018 by a Judge of the Chancery Division of the High Court at The Rolls Building, Fetter Lane, London, EC4A 1NL, United Kingdom. A similar application in relation to the Merger is due to be heard at the same time. If approved by the Court, it is proposed that the Scheme and the Merger will take effect on 1 December 2018.

Any person who claims that he or she may be adversely affected by the carrying out of the Scheme has a right to attend the hearing and express their views either in person or by a legal representative.

Any person who claims that they may be adversely affected by the Scheme but does not intend to attend the hearing may make representations about the Scheme by telephone or in writing to the solicitors named below or the Transferor using the contact details set out below.

Any person who intends to appear at the hearing or make representations by telephone or in writing is requested (but is not obliged) to notify his or her objections as soon as possible and preferably at least five days before the hearing of the Application on 18 October 2018 to the solicitors named below or to the Transferor using the contact details set out below.

If the Scheme is sanctioned by the Court, it will rest in the transfer of:

1. all the contracts, property, assets and liabilities relating to the Transferring UK Business to the UK Transferee in accordance with the terms of the Order; and

2. all the contracts, property, assets and liabilities relating to the Transferring EEA Business to the European Transferee under the Merger and in accordance with the terms of the Order, in each case notwithstanding that a person would otherwise be entitled to terminate, modify, or decline to accept an interest or right or to treat an interest or right as terminated or modified or modified to reflect thereof. Any such right will only be enforceable to the extent of the Order of the Court makes provision to that effect.

31 May 2018

Transferor contact address:

The AIG Building, 58 Fenchurch Street, London EC3M 4AB, United Kingdom

Transferor contact information:

Telephone numbers: United States - 8336454339 (Toll Free Telephone Number). Our phone lines are open from 9:00am to 5:00pm Monday to Friday (excluding bank holidays and public holidays). For telephone numbers in other countries, please visit [www.aig.com/brexit](http://www.aig.com/brexit).

Postal address: AIG Brexit Team, The AIG Building, 58 Fenchurch Street, London EC3M 4AB, United Kingdom

Email: [aigbrexit@aig.com](mailto:aigbrexit@aig.com)

Freshfields Bruckhaus Deringer LLP

65 Fleet Street, London, EC4Y 1HS, United Kingdom Ref: 153385.0064 (GHFS)

Solicitors for the Transferor

THE WALL STREET JOURNAL.

## THE MARKETPLACE

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## MANAGEMENT

# Rosy Promises About Jobs Often Fall Short

Shattered expectations in a new gig can be an issue for executives who must decide whether to adapt or leave

By JOANN S. LUBLIN

A new job—even with a posh title and lavish pay—can sometimes fall short of expectations.

It is a persistent problem for job-hopping executives, aggravated by today's hot job market. Companies sometimes woo stars with pledges of powerful management assignments that don't match reality.

**YOUR EXECUTIVE CAREER** "I see employers trying to win people over by exaggerating a job's importance or not disclosing its challenges," says Dan Smith, chief operating officer of Raines International Inc., an executive-recruitment firm.

Should such fresh hires adapt or flee? It all depends. Consider John Casesa, a longtime investment banker and auto analyst recruited by **Ford Motor Co.** in 2015 to steer its investments into new products and technologies.

Mr. Casesa soon discovered he had less freedom than he anticipated to carry out his mandate, based on his belated perception that then-Chief Executive Mark Fields didn't have the full buy-in of the auto maker's board, according to a person familiar with the matter.

As new global strategy chief, Mr. Casesa hoped things would improve. But in May 2017, Ford directors forced out Mr. Fields, and Mr. Casesa ultimately concluded he "couldn't make the contribution [he] was capable of making," the person says. He quit a few months later.

"This type of experience happens more often nowadays because business is changing so fast," says George Bradt, a co-founder of PrimeGenesis LLC, a consulting firm that specializes in integrating new hires.



The female executive feels bamboozled and remains anxious in her job because her assignment offers less visibility, prestige and professional growth than she was expecting, Ms. Smith says. She intends to keep pursuing a role with the division she originally interviewed for.

New jobs can also fail to meet expectations when an employer's true financial state doesn't become clear until a new hire gets in the door.

**S**uch developments occasionally transform an executive's career—and not always to the detriment. Dan Park relocated in September from Seattle, where he had been an Amazon.com Inc. general manager, to Vancouver, British Columbia, in order to handle operations for BuildDirect, a Canadian startup. He became the first chief operating officer at the online marketplace for home-improvement products.

Mr. Park says he knew "the company had ups and downs operationally." But he was soon surprised to discover BuildDirect had failed to close its latest financing round and owed creditors several million dollars.

Directors replaced their chief executive with Mr. Park six weeks following the debut of the novice COO. The next day, board members sought to recapitalize BuildDirect under a Canadian law that allows struggling businesses to restructure their finances.

"I immediately felt like I was standing at the top of a black-diamond ski run, looking at how are we going to get down," Mr. Park says.

The firm exited from the law's protection in March. Now, "BuildDirect is in the best financial shape in its history," Mr. Park says. "This has been a pivotal experience for my career."

"Choosing to stay without adjusting is an almost surefire way to ensure you're among the 40% of executives who fail in their first 18 months in a new role," he says, citing research from recruiters **Heidrick & Struggles International Inc.**

Executives disappointed by a previous gig have often failed to probe deeply about their new employer, leadership coaches say. Their expectations get dashed in a number of ways, including their scope of authority, staffing levels, the business's financial health or even the size of their office.

Technology industry veteran Puneet Goel says he

wishes he had done greater due diligence a few years ago before taking charge of product management at a midsize tech company. He never reached out to his immediate predecessor, who no longer worked there.

**H**e says the firm's CEO and founder asked Mr. Goel to draw up a road map for a more competitive version of its software—and promised him autonomy to devise product strategy. But once Mr. Goel joined, the company chief promised potential customers product capabilities that didn't exist and weren't part of his new road map.

"He wanted to do what I thought was my job," Mr.

Goel explains. "I just couldn't be successful in that way."

According to Mr. Goel, the CEO defended his approach by telling him, "This is the way I have always done it and this is how we are going to do things here."

Concluding "there are no good options here," Mr. Goel resigned after seven months. He is now a product manager for Google, an **Alphabet Inc.** unit.

To avoid mismatched expectations, potential recruits should request a detailed job description specific to the role at the time, says Stefanie Smith, a management consultant and executive coach.

Ms. Smith also recommends candidates make sure their offer letter spells out

crucial details, including who their new supervisor will be.

Yet advanced planning isn't always enough. A senior manager with digital-marketing expertise who was an executive client of Ms. Smith's insisted on written commitments before she accepted a higher-paid post at a global consumer-products company in 2017.

The woman learned she would work for the influential head of an innovative division—a commitment her offer letter confirmed, according to Ms. Smith.

Weeks after she arrived, however, the new boss transferred her to a more traditional division led by a deputy. He didn't explain why.

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PODCASTS**

## THE FUTURE OF EVERYTHING

### GENETICALLY MODIFIED VEGGIES

Vegetables engineered with gene-editing technology are moving closer to supermarket shelves. Will these genetically altered foods carry labels to alert consumers or is this just a way to speed up evolution?

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## BUSINESS NEWS

# Walmart to Help Workers Pay Tuition

Subsidy for online college instruction is part of effort to keep staff in tight market

BY SARAH NASSAUER

**Walmart** Inc. will subsidize online college tuition at three schools for its U.S. workers as the country's largest private employer looks to attract and retain talent in a tight labor market.

The retail giant, which has more than 1.5 million employees in the U.S., said Wednesday it would cover the cost of college tuition and other fees for part-time and full-time workers, after factoring in other financial aid and a \$1 daily employee contribution. Walmart will initially offer to pay for degrees in supply-chain management and business, perhaps adding other degrees in the future.

"A lot of employers that have done this have seen an uptick in their application flow," Drew Holler, vice president of associate experience for Walmart, said at a company presentation Wednesday. "At the end of the day it's going to increase our associate base" and increase retention, he said.

Unemployment in the U.S. has fallen to some of the lowest levels since the end of World War II, forcing Walmart and other large employers to compete for talent in an industry with high turnover. The jobless rate fell to 3.9% in April, the lowest level since December 2000, the Labor Department reported.

Walmart said its workers will be able to enroll in online courses offered by the University of Florida, Brandman University and Bellevue University in partnership with Guild Education, a firm that partners with companies to offer education to workers.



The retailer has designated three schools for the program.

worked with the schools to lower acceptance requirements.

This is not the first time Walmart has offered a college tuition perk to its U.S. workers. In 2010, it reached a deal with American Public Education Inc. to provide discounted online classes at the for-profit American Public University. Walmart said Wednesday it would phase out that program over the next year.

The company has been raising wages and benefits in recent years as it competes for unskilled workers with restaurant chains like McDonald's Corp., as well as other big retailers. It has lifted its starting hourly wage to \$11—prompting others, including Target Corp. and **Costco Wholesale** Corp., to lift their minimum wages above that level—and increased parental-leave benefits for store workers.

Few big retail chains offer a similar education perk, though several restaurant companies offer tuition assistance.

In March, McDonald's said it would increase its tuition benefit, giving employees up to \$2,500 a year, with managers getting \$3,000 annually. The company also lowered the eligibility requirements to 90 days of employment and weekly shifts of at least 15 hours. McDonald's said its program would cost about \$150 million over five years.

In 2015, Starbucks said it would cover the full cost for employees that work an average of at least 20 hours a week to get a degree online through Arizona State University. At the time, the company said it expected to spend up to \$250 million to help at least 25,000 employees graduate from college by 2025.

## PAID ADVERTISEMENT

## How a Chicago Doctor Shook Up the Hearing Aid Industry with His Newest Invention

New nearly invisible digital hearing aid now costs over 80% less!

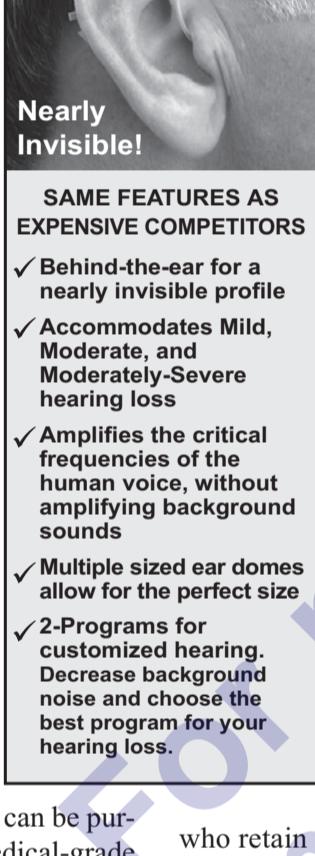
Chicago — A local board-certified physician has done it once again with his newest invention of a medical-grade, ALL-DIGITAL, affordable hearing aid.

This new digital hearing aid is packed with all the features of \$3,000 competitors at a mere fraction of the cost. Now most people with hearing loss are able to enjoy crystal clear, natural sound — in a crowd, on the phone, in the wind — without suffering through "whistling" and annoying background noise.

### Digital Hearing Aid Outperforms Expensive Competitors

This sleek, fully programmed, light-weight, hearing aid is the outgrowth of the digital revolution that is changing our world. While demand for "all things digital" caused most prices to plunge (consider DVD players and computers, which originally sold for thousands of dollars and today can be purchased for less), the cost of a digital medical-grade hearing aid remains out of reach.

The doctor knew that many of his patients would benefit but couldn't afford the expense for these new digital hearing aids. Generally they are not covered by Medicare and most private health insurance plans. The doctor evaluated the highpriced digital hearing aids on the market, broke them down to their base components, and then created his own affordable version — called the MDHearingAid®, which has a virtually invisible, lightweight appearance.



- SAME FEATURES AS EXPENSIVE COMPETITORS
- ✓ Behind-the-ear for a nearly invisible profile
- ✓ Accommodates Mild, Moderate, and Moderately-Severe hearing loss
- ✓ Amplifies the critical frequencies of the human voice, without amplifying background sounds
- ✓ Multiple sized ear domes allow for the perfect size
- ✓ 2-Programs for customized hearing. Decrease background noise and choose the best program for your hearing loss.

### Affordable Hearing Aid Technology

Using advanced technology, the MDHearingAid adjusts to your listening environment — prioritizing speech and de-emphasizing background noise. Experience all of the sounds you've been missing at a price you can afford. This doctor designed and approved hearing aid comes with a full year's supply of long-life batteries. It delivers crisp, clear sound all day long and the soft flexible ear domes are so comfortable you won't realize you're wearing them.

### Can a Hearing Aid Delay or Prevent Alzheimer's & Dementia?

A study by the National Institute on Aging suggests older individuals with hearing loss are significantly more likely to develop Alzheimer's and dementia over time than those who retain their hearing. They suggest that an intervention — such as a hearing aid — could delay or prevent this by improving hearing!

### Try It Yourself at Home 45-Day Risk-Free Trial

Of course, hearing is believing and we invite you to try it for yourself with our RISK-FREE 45-day home trial. If you are not completely satisfied, simply return it within that time period for a full refund of your purchase price.

### Compare MDHearingAid to High-Priced Store-Front Clinics

FEATURES	MDHearingAid®	Hearing Aid Clinic
FDA-Registered Hearing Aid	Yes	Yes
Feedback Cancellation	Yes	Yes
Speech Enhancement Noise Reduction	Yes	Yes
Appointments Needed	None	3-4
Phone Support and 24-7 Email Support	Yes	NO
45-Day Risk Free Trial	Yes	Rarely
100% Money Back Guarantee	Yes	Rarely
1-Year Supply of FREE Batteries	Yes	Rarely
Time to Receive Your Hearing Aids	Just 1-5 DAYS	3-5 WEEKS

### Buyers Agree, "MDHearingAid is the Best Digital Value!"

"I am hearing things I didn't know I was missing. Really amazing. I'm wearing them all the time."

— Linda L., Indiana

"Almost work too well. I am a teacher and hearing much better now." — Lillian B., California

"I would definitely recommend them to my patients with hearing loss."

— Amy S., Audiologist, Indiana

For the Lowest Price Plus FREE Shipping Call Today!

Call: 1-800-640-5184 or Visit: [www.TryMDHearingAid3.com](http://www.TryMDHearingAid3.com)

Use Offer Code HS46 to Get FREE Shipping and FREE Batteries for a Full Year!

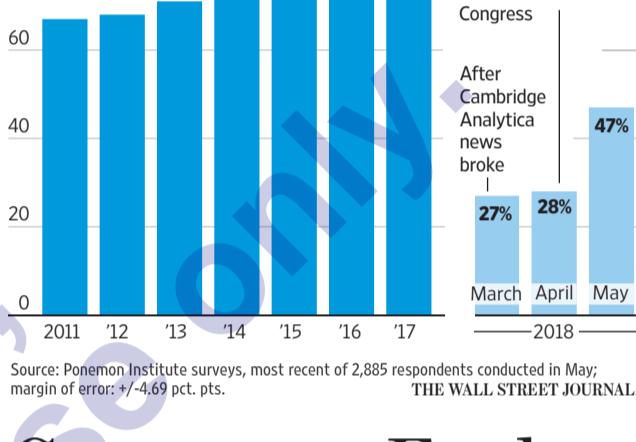
MDHearingAid®



### A Matter of Trust

Facebook's reputation has rebounded amid its recent ad campaign, although it remains below 2017 levels.

Percentage of people who agree that Facebook is committed to protecting personal data



during expensive programming like the NBA playoffs and "The Voice."

"We live in an age of rage, and companies are now compelled to engage and apologize," said Harlan Loeb, global chairman of crisis at Edelman, which advises Wells Fargo on corporate reputation.

Wells Fargo has spent \$21.5 million on its "Earn Back Your Trust" TV ad since it began airing May 5, according to estimates from ad research firm iSpot. "The cost of a crisis campaign can now be up to 20 times what it was in 2000," said Mr. Loeb.

Facebook's ad campaign, which started in April and is expected to run through the summer, includes print, digital, movie-theater, billboard and transit ads. As of May 29, the company had spent almost \$30 million on TV commercials that began airing April 25, iSpot estimates.

Uber, which has suffered a series of scandals, including accusations of sexual harassment, is airing a spot that avoids mentioning any of the ride-hailing company's problems. It features Uber's new CEO, Dara Khosrowshahi, promising that the company is moving in a new direction.

## Short Seller Intensifies Attack on Samsonite

By STEVEN RUSSOLILLO

HONG KONG—A U.S.-based short seller bolstered his calls for **Samsonite International** SA's chief executive to be fired for résumé fabrication, saying boardrooms "are littered with carcasses of executives who told far more minor lies on their résumés than this."

Speaking at a conference on Wednesday, Soren Aandahl, founder of a new activist investment fund called Blue Orca Capital LLC, lambasted Samsonite CEO Ramesh Tainwala for misrepresenting himself for years as holding a doctoral degree. "It doesn't get simpler than this: If you're not a doctor, you can't go around saying you're a doctor," Mr. Aandahl said on stage at the conference.

Mr. Aandahl's presentation followed a 48-page report he

published last week that also critiqued some of Samsonite's accounting practices and corporate governance.

The "Dr." designation appeared alongside Mr. Tainwala's name in at least two regulatory filings with the U.S. Securities and Exchange Commission more than a decade ago, as well as in some regulatory documents in India. It also was included in press reports. Mr. Aandahl said he found at least 73 biographical references that labeled Mr. Tainwala as a doctor.

Mr. Tainwala never earned a doctoral degree, a fact he later confirmed to The Wall Street Journal. Mr. Tainwala told the Journal last week after Blue Orca's report was published that he "never claimed" to hold such a degree. Samsonite didn't have an immediate comment on Mr. Aandahl's speech.

## MARKETS DIGEST

## EQUITIES

## Dow Jones Industrial Average

**24667.78** ▲ 306.33, or 1.26%  
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 24.26 20.44  
P/E estimate \* 16.31 17.85  
Dividend yield 2.19 2.38  
All-time high 26616.71, 01/26/18

## COMMODITIES

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## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract			Open		
	Open	High	Low	Settle	Chg	interest
Copper-High (CMX)-25,000 lbs.; \$ per lb.	Open	High	hi lo	Low	Settle	Chg interest
June 3.0440 3.0620 3.0000 3.0595 0.0075 3,380						
July 3.0550 3.0765 3.0100 3.0690 0.0065 133,081						

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## BANKING &amp; FINANCE

# European Lenders Face New Shock

Instability from Italy shows EU's banking system isn't fully fixed after the past crisis

European bank executives are facing the return of an all too familiar problem: political panic.

*By Max Colchester, Patricia Kowsmann and Giovanni Legorano*

After years of slowly healing from past crises, European banks have recently had the luxury of turning their focus to boosting profits and shedding bad loans. But the political turmoil in Italy—home to arguably Europe's most problematic banking sector—has rekindled fears that the euro's fragility, and authorities' failure to unify the region's disparate banking system, will continue to haunt the industry.

As the political temperature rises in Rome, and to a lesser extent in Madrid, European banks have taken the brunt of the pain.

The Euro Stoxx Banks index is down 5% this week following Italian President Sergio Mattarella's move to block the formation of an antiestablishment government. A coming vote in Spain that could depose its pro-market center-right party from power has also rattled investors.

"The whole banking sector was under attack," said Vincenzo Longo, a strategist at IG Markets.

If it continues, the uncertainty could delay widely anticipated interest-rate rises in Europe, a move that would crimp bank profits. It could also hamper a closely watched cleanup operation at Italian

lenders, analysts said.

Italian banks have been at the heart of the selloff. The country's chronically unprofitable lenders have been steadily wading through deep restructuring and shedding bad loans. Fragile investor confidence in the turnaround has been dented by the latest political upheaval.

The negative sentiment also hit French and Spanish banks, which have sizable exposures to Italian government debt. In Portugal—which like Italy has a huge government debt pile—shares of Banco Comercial Português SA, the country's largest traded bank, were down 12% this week.

European banks' share prices stabilized in early trading Wednesday but the hit to investor confidence in the sector was palpable.

This latest instability comes as the European banking sector continues to lick its wounds from the continent's last debt crisis. A huge balance sheet cleanup remains unfinished, with €813 billion (\$938.3 billion) of bad loans—a large chunk of which is in Italy—still sitting on bank balance sheets, according to the European Banking Authority. Meanwhile, overhauls aimed at decoupling the "doom loop"—in which banks laden with their local government's debt are sucked into a downward spiral as their home economy deteriorates—remain unfinished.

"Whatever is bad for the Italian economy is going to be bad for its banks," said Sony Kapoor, managing director of think tank Re-Define. "That aspect of the loop you simply cannot break."

But the political turmoil reminds investors that European banks aren't going to be making outsize profits soon.



Shares of European banks have been hit this week by political unrest in Italy. A protest against the president in Naples on Tuesday.

Up until the turn of the year, investors had predicted that the combination of an economic rebound, banking overhauls pushed through by the European Central Bank and rising interest rates would see European bank profits rise to €120 billion this year, says George Karamanos, an analyst at Keefe, Bruyette & Woods. "Are those expectations realistic now?" he asked, adding that it is unlikely.

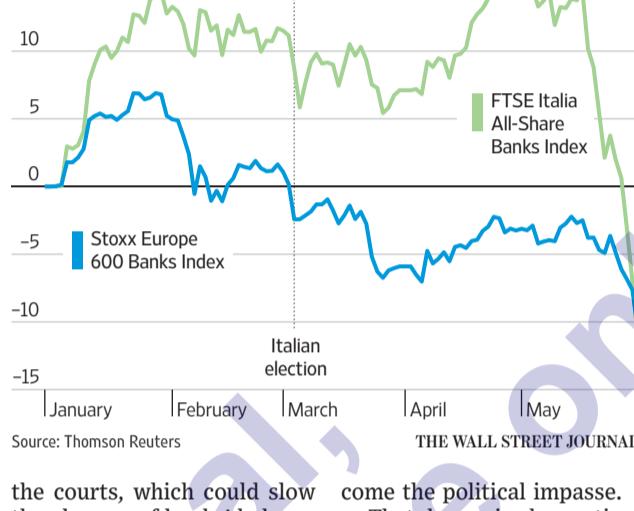
The optimism was particularly visible in Italy. Up until a few months ago, Italian banks were the best-performing bank stocks in Europe. Political risk was seen as low, and investors were cheering on a reduction in bad loans, which had shrunk to €285 billion from €350 billion in the space of a year. Politics has now damped that optimism.

In Italy, two antiestablishment parties, whose attempt to form a coalition government failed last Sunday, had struck an agreement on a joint government platform, which included a number of measures for the banking sector.

The two parties planned to scrap a rule allowing banks to recover debts from retail borrowers without going through

## Bank Woes

Investors desert Europe's lenders as political tensions rise.



Source: Thomson Reuters

the courts, which could slow the cleanup of banks' balance sheets. They also hinted at the possible full nationalization of

Banca Monte dei Paschi di Siena SpA, in which the government owns a majority stake after partially nationalizing it last year.

While their coalition attempt collapsed, they could come back stronger if new elections are called. Talks in Italy continue on how to over-

come the political impasse. for example, has been largely shunned by Germany. The German government and other member states whose banks weren't as hard-hit by the crisis, have also resisted the creation of an EU-wide deposit-insurance program, which would provide safety for depositors no matter their location.

During the last eurozone crisis, banks across Europe shed sovereign exposures to riskier periphery markets. However, domestic banks in those countries still have large exposure to their home sovereign debt, particularly as they are treated as safe assets under bank accounting rules. Currently 10 Italian banks have Italian sovereign-debt holdings greater than their capital buffers, according to a study by France's IESEG School of Management.

After Italian banks, French banks are the second most exposed to Italian government debt with €44.27 billion in bonds, followed by Spain with €28 billion of sovereign debt, according to calculations by the EBA. France's BNP Paribas SA, which has a large Italian bank, and Spain's Banco de Sabadell SA are among the most exposed to Italy, analysts say.

last minute, offering both fiscal and eventually monetary bailouts during the last crisis despite them having previously been deemed impossible and possibly illegal.

Still, it is hard to see how the euro could survive an Italian exit without other countries following it out the door. The country is the third-biggest borrower in the world, with €2 trillion (\$2.31 trillion) of bonds and bills outstanding. Much of its debt is domestically owned, but the size of Italy's debt pile means a default would be catastrophic for its own and Europe's banks. It would also create political fractures that could threaten the European Union.

Economic chaos in Italy after a devaluation would be all but guaranteed, and surely hurt growth in the rest of Europe—although such chaos might persuade reluctant euro members that the pain of staying is worthwhile.

Even worse from the point of view of markets would be if an Italian euro exit went well, encouraging anti-Europeans in other countries to

more convincing is the idea that Italy's bond market exaggerated the panic because it has become so hard to trade. The gap between the yield at which people were willing to buy and sell the two-year bond was exceptionally wide at 0.46 percentage point, according to Tradeweb, backing up the idea that liquidity had evaporated. As one hedge-fund manager shorting Italian bonds put it, there has been a "buyer's strike" because foreigners were unwilling to buy, while domestic investors were scaling back holdings.

Wednesday's big recovery supports the idea that Italian bond yields were only temporarily high.

The worry is that often in markets the first panicked move turns out to be right, after a period of consolidation. If the speculators are correct about the danger of the newly installed technocratic government rapidly being replaced by anti-EU populists, bond yields as high or higher than on Tuesday might well be justified. That will be the true test of contagion.



Luigi Di Maio, leader of 5 Star Movement, Italy's anti-establishment party, is seen on Tuesday.

bling: Perhaps investors are complacent about the dangers Italy poses, relying on the European elite to once again come up with a way to keep truculent crowd-pleasing politicians under control.

Italian bonds are cheaper (thus have a higher yield) because of the fear that the country will re-denominate its euro bonds into devalued lira.

The third is the most trou-

ble: Perhaps investors are complacent about the dangers Italy poses, relying on the European elite to once again come up with a way to keep truculent crowd-pleasing politicians under control.

It is true that Europe's weak countries—bar Italy—are not as weak as in the last crisis. Banks have been recapitalized or restructured, com-

petitiveness improved and current-account deficits turned into surpluses. Italy, meanwhile, has bumbled along; as Capital Economics Chairman Roger Bootle points out, every other country in the region except Italy has become more competitive against Germany since 2011.

Further, Europe has a habit of doing the impossible at the

Principal Financial Group Inc. will buy RobustWealth, beefing up its digital capabilities at a time retirement savers are increasingly opting for robo advisers and index funds.

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The money manager wrote in its annual regulatory filing that it "will shortly complete negotiations with both the U.S. Department of Justice and the [Securities and Exchange Commission] staff to resolve a Foreign Corrupt Practices Act investigation" into Permal Group's investment business with Libyan government entities in the years before the fall of Moammar Gadhafi's regime. Including the charge, net income totaled \$16.64 million, or 10 cents a share, in the first quarter. The firm previously reported an 86-cent-a-share profit.

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a report by the National Venture Capital Association and PitchBook.

The gap highlights how furiously banks are spending to keep themselves ahead of potential upstart competitors. Even large, established fintech firms can't rival what Citi-group is spending on tech: PayPal Holdings Inc.'s total expense base in 2017 was \$11 billion.

Part of banks' budgets go toward maintenance of existing systems. Still, a big portion is also spent on new technologies and projects.

JPMorgan Chase & Co. said it would spend \$10.8 billion on technology in 2018. In previous years, the bank has said that roughly one-third of its tech budget is spent on new investments. The bank overall

employs about 50,000 people in technology-related jobs.

The big figures also give a sense of how much banks are betting that new technology, ranging from robotic process automation to open-ledger blockchain systems, can help cut costs over the longer term.

"We're spending more this year than last year in an effort to spend less next year," Mr. Corbat said at the Bernstein Strategic Decisions Conference in New York.

Citigroup said it expects its expense ratio, a measure of costs as a percentage of revenue, to fall from 58% to 57% over the course of this year. Mr. Corbat said the bank anticipated that decline would accelerate to a 2-percentage-point drop in both 2019 and 2020.

## FINANCE WATCH

### PRINCIPAL FINANCIAL

#### Insurer Strikes Deal To Buy Fintech Firm

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### LEGG MASON

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## Big Banks Are Bulking Up On Spending for Technology

By TELIS DEMOS

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### ABRAAJ GROUP

#### Kuwait Pension Fund Seeks Liquidation

Kuwait's pension fund is trying to force private-equity firm Abraaj Group into bankruptcy proceedings over allegedly not repaying a \$100 million loan, according to a court document.

</

## MARKETS

# Treasurys Shift Into Reverse After Rally

By DANIEL KRUGER

Treasury prices fell Wednesday, retracing some of the gains from Tuesday's rally, after Italy's president considered a move that would avert new elections.

The yield on the 10-year Treasury note rose to 2.842%, from 2.772%

**CREDIT MARKETS** Tuesday, snapping four straight days of declines. The two-year Treasury yield climbed to 2.411% from 2.319% the day before. Yields rise as bond prices fall.

Yields rose after the Italian government auctioned five-year debt at the highest funding cost in more than four years, with the securities attracting strong demand. The debt sold with a yield of 2.32%. As recently as April 27, five-year bonds were auctioned with yields of 0.56%.

U.S. yields rose and tensions eased after Italian President Sergio Mattarella searched for a way Wednesday to foster the creation of a new government and stave off fresh elections. Mr. Mattarella was considering the possibility of reviving a coalition government supported by Italy's two large antiestablishment parties—the 5 Star Movement and the League—that had seemed poised to take power last weekend.

Italian two-year bond yields dropped to 1.763% Wednesday from 2.099% the day before, according to Tradeweb, erasing much of Tuesday's rapid ascent. The selling had driven the yield up by as much as 1.5 percentage points in a single trading session. Italy's 10-year bond yield declined to 3.019% from 3.043% on Tuesday.

"There was a stabilizing force that came into the market," said Thomas di Galoma, a managing director and head of Treasury trading at Seaport Global Holdings. "Looking out

## 2.842%

The 10-year Treasury yield's closing level on Wednesday

30 to 60 days, we're still going to be very vulnerable to headline risk."

The 10-year U.S. Treasury yield may be near the bottom of its new range, Mr. di Galoma said. "Interest rates will slowly back up to 3%," he said. The 10-year note reached 3.109% May 17, its highest since July 2011.

Treasury yields rose even as two pieces of data fell below economist expectations.

The Commerce Department said Wednesday that gross domestic product rose at a 2.2% seasonally adjusted annual rate in the first quarter. Economists surveyed by The Wall Street Journal had expected an unrevised 2.3% reading.

The ADP National Employment report showed the economy added 178,000 private-sector jobs, fewer than expected. Economists polled by the Journal had expected the addition of 187,000 jobs.

# Stocks Rebound as Italy Fears Ebb

Dow, S&P 500 each rise 1.3%, posting their best results in weeks; banks bounce back

By MIKE BIRD  
AND AMRITH RAMKUMAR

The Dow Jones Industrial Average and S&P 500 snapped a three-session losing streak as markets stabilized after a big selloff tied to Italy's political upheaval.

Italian President Sergio Mattarella blocked the formation of a euroskeptic governing coalition over the weekend, jolting investors who

worried that the resulting turmoil in Italian markets could spread. Mr. Mattarella on Wednesday searched for a solution to the political crisis, including the possibility of reviving a coalition government—an option that would stave off fresh elections.

Markets calmed as investors considered the likelihood that those elections could strengthen the hand of anti-euro forces and disrupt financial markets, said Thomas



HP shares rose 4% on a higher profit forecast for company.

Martin, senior portfolio manager at Atlanta-based Global Investments.

"There's a lot that has to happen for that scenario to play out," Mr. Martin said. Tuesday "didn't feel like a panic, it felt as though people wanted to make sure they weren't positioned incorrectly," he said.

The Dow industrials added 306.33 points, or 1.3%, to 24667.78, while the S&P 500 climbed 34.15 points, or 1.3%,

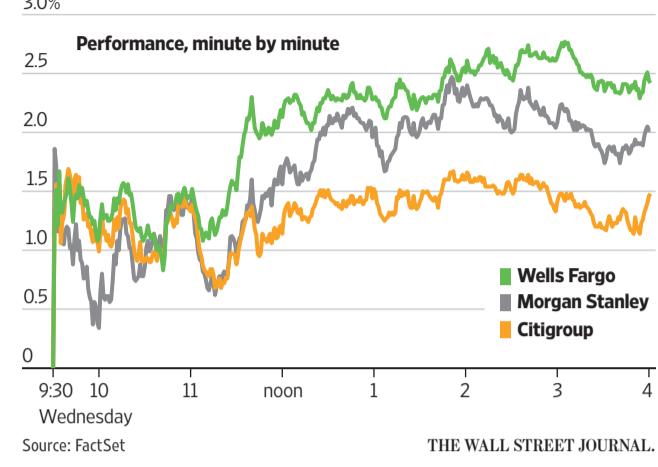
to 2724.01, with all of its 11 sectors rising. Both indexes posted their largest one-day percentage gains since May 4, coming off their worst day in more than a month. The Nasdaq Composite added 65.86 points, or 0.9%, to 7462.45.

In Europe, the Stoxx Europe 600 edged up 0.3%, while Italy's FTSE MIB Index erased some of its recent declines and climbed 2.1%.

U.S. bank stocks, which were among the hardest hit Tuesday

## Rising

Shares of large lenders including Wells Fargo, Morgan Stanley and Citigroup erased some of their Tuesday declines.



Source: FactSet

THE WALL STREET JOURNAL.

amid worries that debt-heavy governments like Italy's could weigh on the banking sector, bounced back. The S&P 500 financial sector rose 1.9%.

Despite worries that global tensions could slow the economy and hurt stocks, some analysts think the earnings backdrop remains favorable and could support major indexes in the coming weeks.

**HP Inc.** raised its profit forecast for the year as the maker of personal computers

and printers topped expectations for the most recent quarter. Shares added 86 cents, or 4%, to \$22.16.

Cloud software firm **Salesforce** rose 2.42, or 1.9%, to 129.30 after reporting record quarterly revenue.

Stocks rose early Thursday in Asia. Japan's Nikkei was up 0.5%, Hong Kong's Hang Seng Index was up 0.4%, South Korea's Kospi was up 0.8% and the Shanghai Composite was up 0.4%.

# Rupee's Drop Rattles India's Growth Story

By CORINNE ABRAMS  
AND DEBIPRASAD NAYAK

**MUMBAI**—The rupee is the worst performing currency in Asia this year, flirting with a record low on worries that India is headed for problems as oil prices remain high.

The rupee has declined 5.3% against the dollar this year and has underperformed against almost all others. Only those of Argentina, Brazil, Russia and Turkey have done worse. Most currencies have fallen against the dollar since the start of the year over a strong U.S. economy and rising U.S. Treasury yields.

The Indian currency is now trading close to its low of 68.90 rupees to the dollar hit in February 2016, and some economists see it sliding to 70 this year. Late Wednesday in New York, the dollar bought 67.43 rupees.

India is particularly vulnerable to fluctuations in oil prices, shipping in 80% of its energy needs due to demand that far outpaces domestic production. Brent crude oil is trading at about \$77 a barrel, compared with \$63 six months ago.

The increased price of oil imports will likely push up inflation in India as the costs of products and services rise and widen the current-account and budget deficits.

"As one of the largest importers of oil, the Indian economy is one of the most exposed to this particular shock, so it is not surprising to see some underperformance," said Kenneth Akintewe, head of Asian sovereign debt at Aberdeen Asset Management Asia Ltd.

Bank of America Merrill Lynch estimates that every \$10 increase in oil prices hurts Indian consumption by 0.6% of gross domestic product, threatening to hold back India's pace of expansion.

India had been in a sweet spot since Prime Minister Narendra Modi came to power in 2014. Its economic expansion



The rupee has declined 5.3% against the dollar this year and has underperformed against almost all other currencies.

DHIRAJ SINGH/BLOOMBERG NEWS

is outpacing even China's, inflation is in check, its budget deficit seemed to be shrinking and its popular prime minister had looked unbeatable. It is now the world's fastest-expanding large economy.

But the rise in crude prices and an emerging-market sell-off has rattled Asia's third-largest economy.

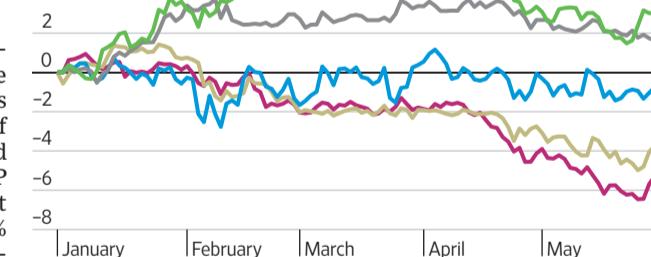
India runs a current-account deficit, meaning that the value of its imports of goods and services exceeds that of its exports. The deficit could move beyond the 2% of GDP expected for the year that ended March 31, to up to 3% this financial year, Nomura estimates.

India has in the past been cushioned from oil-price rises by strong foreign investment.

But foreign investors this year have pulled \$4.4 billion from India, including \$2.8 billion in May alone. That outflow comes despite central-

## Laggard

The Indian rupee is Asia's worst-performing currency this year.



Source: WSJ Market Data Group

bank efforts to increase corporate bond investment limits and relax government bond ownership rules for foreigners.

"You've got emerging markets selling off, you've got the

Domestic politics aren't helping. A year ago, analysts saw a 2019 general election win for Mr. Modi as almost certain, but a series of shaky state polls have made that appear less likely. His party this month failed to win enough seats to control the southern state of Karnataka, a local election seen as a bellwether for its success next year.

Mr. Modi will need to persuade voters that last year's chaotic introduction of a goods and services tax—and his 2016 move to cancel 86% of the currency in circulation—were worth it.

Investors worry that Mr. Modi's government will, in a bid to secure another five-year term, increase spending on populist measures and put the reduction of the fiscal deficit at risk. Opposition parties are also calling for him to reduce taxes on retail fuel prices to soften the blow.

# Saudi-Russia Pact Stirs OPEC Discord

The first cracks are showing in an alliance of petroleum-producing countries whose ef-

By Summer Said in  
Dubai and Benoit  
Faucon in London

forts have propped up oil prices, with some OPEC members accusing Saudi Arabia of capitulating to U.S. and Russian pressure for lower prices.

Kuwait and Iran are leading a faction in the Organization of the Petroleum Exporting Countries that are upset about an agreement struck between Saudi Arabia and Russia last week to ease up on oil-production cuts, according to people familiar with the matter. Those cuts—among OPEC's 14 members and a group of 10 outside the group led by Rus-

sia—drained a global oil glut and have helped oil prices rise 60% to over \$80 a barrel since November 2016.

Iran is Saudi Arabia's top political rival in the Middle East, but Kuwait is seen as a mediator in OPEC disputes. Kuwait's unease with the Saudi position signals deep discord in OPEC, which

could send oil prices lower if it derails the entente with Russia, the world's largest oil producer.

The price of oil had already fallen \$5 a barrel to \$75 after Saudi and Russian officials said last week that it was time to start releasing more oil. Their move came amid speculation that prices were headed toward \$100 a barrel, and the

average cost of a gallon of gasoline in the U.S. climbed toward \$3 a gallon, the most expensive in more than three years.

The decision came about a month after President Donald Trump tweeted about his concerns over rising oil prices, for which he blamed OPEC.

On Wednesday, light, sweet crude for July delivery rose 2.2%, to \$68.21 a barrel, on the New York Mercantile Exchange. Brent gained 2.8%, to \$77.50, on ICE Futures Europe.

Kuwait, Iran and other OPEC members say Saudi Arabia has allowed its political alliance with the Trump administration over Iran to affect its judgment on oil policy.

"Saudi Arabia won't let oil prices go to \$100 because they listen to Trump," a Kuwaiti oil

official told The Wall Street Journal.

In a letter sent Saturday to OPEC, reviewed by the Journal, Iranian Oil Minister Bijan Zanganeh demanded that the group support Iran in the face of U.S. sanctions.

Saudi Energy Minister Khalid al-Falih is set to go to Kuwait to mend fences with oil officials on Saturday. He will be accompanied by United Arab Emirates Oil Minister Suhail al-Mazroui, a key Saudi ally and OPEC's president, according to people familiar with the trip.

Representatives for the energy ministries of Saudi Arabia and the U.A.E. and for OPEC didn't respond to requests for comment. Spokeswomen for Russia's energy ministry and Iran's oil ministry couldn't immediately comment.

The dollar fell against the euro and a broad range of other currencies Wednesday, as investors took stock of the latest developments in Italian politics.

The euro late in the day was up 1.1% at \$1.1666. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, was off 0.6% at 87.05. It was the largest one-day percentage decline in the index since March 21, 2018.

Tensions eased Wednesday as Italian President Sergio Mattarella sought a way to create a new government and avoid fresh elections.

Mr. Mattarella was considering the possibility of reviv-

ing a coalition government supported by Italy's two large antiestablishment parties—the 5 Star Movement and the League—that had seemed poised to take power last weekend.

A day before, worries over the future of the eurozone sparked by Italy's political crisis pounded the euro and other currencies and pushed investors into the perceived safety of the dollar.

With tensions running high and some political leaders pushing for quick elections, however, the situation in Italy can quickly change.

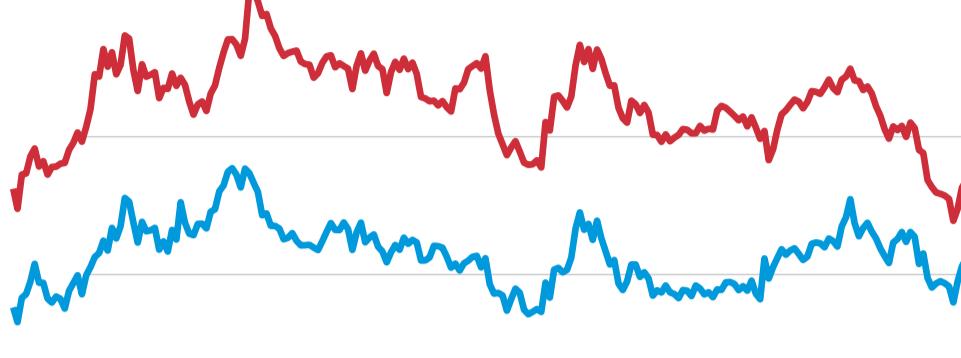
"Italian politics could continue to prove a drag on capital markets throughout the summer," analysts at DWS said in a note to clients.

## MARKETS

## The Italian Crisis in Seven Charts

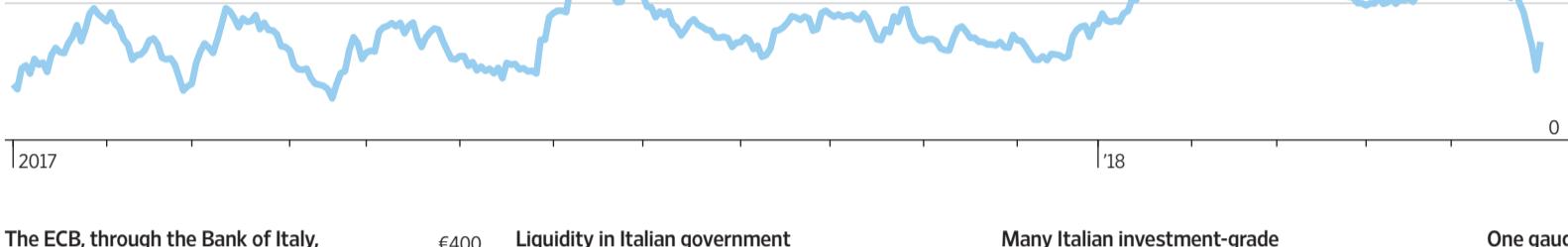
Turmoil in Italian politics has sent shock waves through financial markets in moves reminiscent of the eurozone crisis.

Much has changed in Europe over the past six years, with the region's economy improving and the European Central Bank becoming a prominent buyer of government and corporate debt. But some things remain the same, such as eye-watering levels of public debt in Italy.



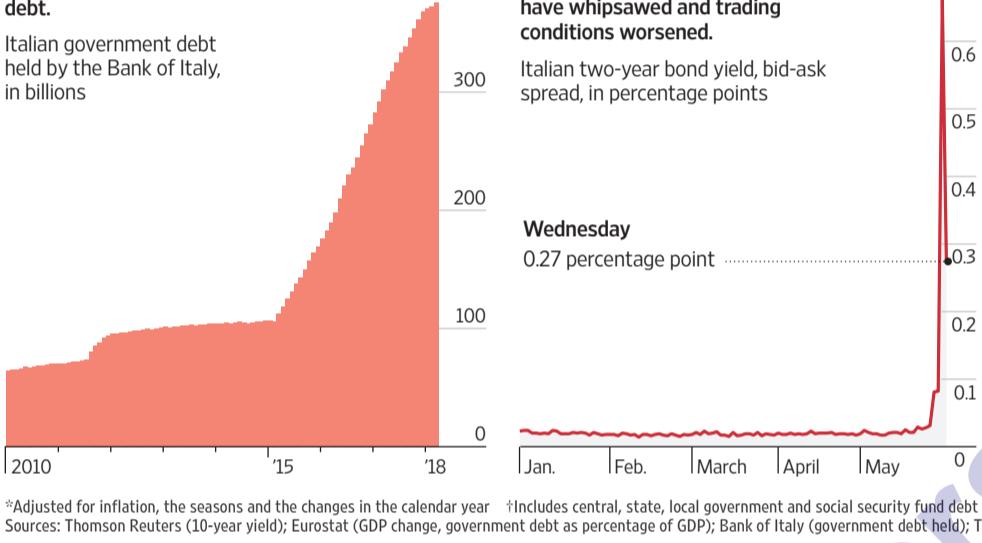
Italian bond yields, the main barometer of risk, have spiraled higher relative to haven German debt as investors have dumped Italian bonds.

10-year government-bond yield



The ECB, through the Bank of Italy, has become a huge buyer of Italian debt.

Italian government debt held by the Bank of Italy, in billions



Liquidity in Italian government bonds has evaporated as prices have whipsawed and trading conditions worsened.

Italian two-year bond yield, bid-ask spread, in percentage points

Wednesday

0.27 percentage point

Many Italian investment-grade corporate bonds trade with lower yields than comparable debt issued by the Italian government.

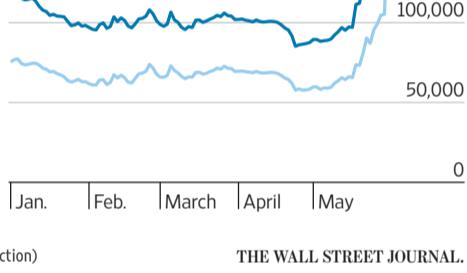
Italy's two-year bond yield versus selected local companies

■ Italy  
■ Intesa Sanpaolo  
■ Eni  
■ Snam

One gauge of re-denomination risk: Credit-default swaps panned in 2014 (■) should protect investors against Italy leaving the euro, analysts say.

Contracts dating from before the eurozone crisis in 2003 (■) may not.

Cost of default protection on \$10 million of Italian debt



\*Adjusted for inflation, the seasons and the changes in the calendar year. †Includes central, state, local government and social security fund debt. Note: €1=\$1.1541. Sources: Thomson Reuters (10-year yield); Eurostat (GDP change, government debt as percentage of GDP); Bank of Italy (government debt held); Tradeweb (bid-ask spread, two-year yield, local companies); IHS Markit (protection)

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## HEARD ON THE STREET

Email: [heard@wsj.com](mailto:heard@wsj.com)

FINANCIAL ANALYSIS & COMMENTARY

[WSJ.com/Heard](http://WSJ.com/Heard)

## Profit Rise Has Hidden Weakness

According to companies, profits were great in the first quarter. According to government data, not so much.

Profits for companies in the S&P 500 grew a stunning 26.3% in the first quarter compared with a year earlier, according to Thomson Reuters I/B/E/S. That measure, which is used by investors, benefited from a strong global economy, a weakening dollar and, most of all, a cut in the corporate tax rate to 21% from 35%.

But a Commerce Department measure of corporate profits, released alongside gross-domestic-product data on Wednesday, showed that profits rose by just 0.1% in the first quarter from a year ago. Take away the tax-cut benefit, and the numbers were worse: Before accounting for the benefits of the tax cut, profits were down by 6%. These numbers are the only ones that show the impact of the tax cut, which created a divergence of the pre- and posttax numbers.

## Divergence

Change from a year earlier



There are a number of important distinctions between the profits S&P 500 companies post and the government profit figures. Government figures largely exclude companies' overseas operations. The government figures include all U.S. companies, not just big public ones.

The government figures also include the one-time charges that lower earnings

and are typically excluded from S&P 500 profit figures. Lastly, S&P 500 earnings figures are based on earnings per share, so they benefit from the record \$178 billion in first-quarter stock buybacks.

None of these differences have mattered much until now. The S&P 500 and Commerce Department corporate profit figures had been

tracking each other fairly well. The split may signal that profit growth is weaker than it seems, something that the stock market, which has essentially gone nowhere this year, seems to agree with. Weaker profits make sense given the backdrop of rising costs for labor and other items and lack of pricing power in many industries, which combine to squeeze profit margins.

This is just one quarter's worth of data, and the government figures, which can be volatile, could bounce back. And if the tax cut has the desired effect, it would eventually boost economic growth and profits.

But if the trend of weak earnings continues, it means that the tax cut provided a temporary boost to earnings that have already peaked. If that is true, investors should rethink the valuations they have been willing to pay for shares. That would make for an interesting stock market.

—Justin Lahart

## Spain May Hold Key To the Eurozone's Fate

Is the eurozone crisis back? Italian government bonds have moved even more violently than during 2011-12. A key question now is how far the ripples spread across the eurozone. Investors should watch Spain.

Spain and Italy once traded places on the front-line of the eurozone crisis. Spain was under greater pressure in 2012 when European Central Bank President Mario Draghi's pledge to do "whatever it takes" turned the tide.

This time around, Spain's bonds have only stumbled—the 10-year yield has risen to just over 1.5% from a low below 1.2% in April—while Italy's have been hammered. The gap between Spanish and Italian 10-year yields has hit levels not seen since 2011; the gap between Spain and Germany, at 1.2 percentage points, was often seen in 2017.

That Spanish bonds get caught up in bouts of risk aversion is a legacy of the crisis. All Southern European government bonds are recognized as containing a mix of credit and interest-rate risk. So some spillover is unavoidable. Real contagion would

require investors to decide that Spain and Italy share similar vulnerabilities.

For now, that looks like a stretch. Yes, Spain faces its own political challenge in the shape of a no-confidence vote in the minority government led by Prime Minister Mariano Rajoy, as well as lingering uncertainty over Catalonia. A snap election could jangle nerves. But there is nothing like the uncertainty caused by Italy's crisis.

The political climate in Spain is much more pro-European, perhaps because its economy has been growing at a 3% clip in recent years, far above the pace recorded by Italy. Spanish unemployment also has fallen sharply in recent years. Meanwhile, the strong market forces that drove eurozone yields down in recent years are still in play, with the ECB expected to exit only gradually from its monetary stimulus.

During the previous crisis, a lot of eurozone countries looked alike, creating contagion. Now Italy really stands out. The current selloff in Spanish debt looks more like an opportunity than a reason for concern.

—Richard Barley

## The Real End Game for CBS-Viacom

## Deal Drama

CBS share price over the past year



Source: WSJ Market Data Group

The latest lawsuit says Ms. Redstone and National Amusements "are open to eventually relinquishing NAI's voting control" if there was a deal. As recently as 2012, Sumner Redstone, Ms. Redstone's father, insisted he would never sell Viacom or CBS, and that his estate planning precludes the trust from selling the family's controlling interest "unless they start doing terribly, which they will not."

The Redstone family's departure from the media and entertainment business would represent the second potential exit of a powerful media family, triggered by a pressured industry and an aging mogul. Last December,

Rupert Murdoch, executive chairman of **21st Century Fox**, agreed to sell key parts of his empire to **Disney** in a \$52.4 billion deal. (Fox and Wall Street Journal parent **News Corp** share common ownership.)

**Comcast** is trying to torpedo that deal with its own bid for the Fox assets. If it fails in its pursuit of Fox, it could try to buy the CBS-Viacom assets instead. Investors dreading a prolonged legal battle should keep this in mind. **Verizon** has reportedly expressed interest, too.

The immediate future doesn't look pretty, but if Ms. Redstone wins and ends up selling, it may be worth the wait. —Elizabeth Winkler

## OVERHEARD

Miracle of miracles, observant Jews the world over can now have a cheeseburger!

While eating milk and meat together are a no-no according to kosher dietary laws, the Orthodox Union has given its seal of approval an incredibly realistic beef substitute made by **Impossible Foods**, according to Tablet Magazine.

In terms of sheer numbers, the development might not be a huge commercial breakthrough.

There are, for example, 23 times as many vegetarians on earth as there are Jews, most of whom don't keep kosher anyway. And there are about 70 times as many Hindus, many of whom shun eating beef or meat altogether. The cost, the taste and even the very idea of fake meat need to appeal to this far larger audience.

Still, now that fake beef answers to a higher authority, nothing is impossible.