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## THE WALL STREET JOURNAL.

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

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## What's News

## Business &amp; Finance

**T**rump said he was working with China's president to keep ZTE in business, throwing a lifeline to the Chinese telecom giant after U.S. firms were forbidden to sell to it. **A1**

◆ **Xerox** said it would back out of its merger deal with Fujifilm as it reached a new accord with two of its biggest holders. **B1**

◆ **Tesla** is dealing with losing two executives as it struggles to boost output and faces doubts about its ability to raise cash. **A1**

◆ **Wall Street** is showing more interest in home flip loans, projected to swell to \$15 billion in 2018. **B1**

◆ **Less demand for scrap**, especially by major importer China, is threatening the viability of the U.S. recycling industry. **B1**

◆ **Hearings will give U.S. companies** a forum to object to proposed U.S. tariffs on Chinese goods. **A2**

◆ **Trade friction** is emerging as a threat to the dollar's central role in the global financial system. **B6**

◆ **CTG** plans a \$10.8 billion offer to acquire the rest of a Portuguese utility, boosting its European reach. **B3**

◆ **Trump raised** the pressure on auto makers to increase production and jobs in Rust Belt states. **B3**

## World-Wide

◆ **Italy's 5 Star Movement** said it had agreed on the outlines of a political program with the anti-immigration League, clearing the way for a likely coalition government. **A1**

◆ **Middle East tensions** grew ahead of the opening of the relocated U.S. Embassy in Jerusalem. **A6**

◆ **Rising rates** of violent crime in rural areas are putting a strain on law-enforcement resources. **A3**

◆ **A severe drought** is being felt through much of West Texas and parts of four other states, threatening crops. **A3**

◆ **A family of suicide bombers** attacked three churches in Surabaya, Indonesia, killing seven. **A7**

◆ **The WHO is pushing** to eliminate trans fats from diets globally to improve cardiac health. **B2**

◆ **Some conservative House Republicans** face electoral headwinds from their voting records. **A4**

◆ **China's first domestically produced aircraft carrier** began sea trials to test its power system. **A7**

◆ **Iraqi voters** gave strong support to a coalition of communists and followers of cleric Sadr, in partial preliminary results. **A6**

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## Churches Targeted by Family of Suicide Bombers in Indonesia



**FIERY ASSAULT:** Motorcycles burned after a blast Sunday at one of three Christian churches targeted by a family of suicide bombers in the city of Surabaya in East Java, Indonesia. Police said seven people were killed. Islamic State claimed responsibility. **A7**

## Italy Begins Uncertain New Era

Anti-elite 5 Star joins hard-right League in coalition that shakes Europe's establishment

By GIOVANNI LEGORANO AND MARCUS WALKER

ROME—A movement that channeled Italians' rage at mainstream politicians struck a pact with a hard-right na-

tionalist party to govern the country, a major prize for the political insurgencies that have been shaking Europe's establishment.

The 5 Star Movement, an eclectic upstart group driven by scorn toward Italy's ruling elites, on Sunday evening said it had agreed on the outlines of a governing program with the anti-immigration League party, clearing the way for a likely coalition government. The parties

said they would slash and simplify taxes while boosting spending on pensions and anti-poverty benefits. They were due to present their program on Monday to President Sergio Mattarella, who formally appoints the government.

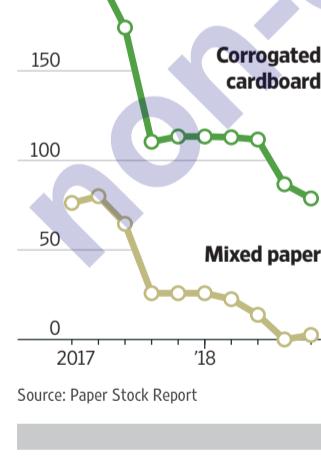
"We are writing history and we need a bit more time," said Luigi Di Maio, 5 Star's leader, as he left talks with League leaders in Milan on Sunday afternoon.

Italians and the European Union will watch closely whether the pair of rebel parties can overcome the deep malaise in one of Europe's biggest but most-troubled economies. The expected new government's performance will show whether alternative remedies can solve the legacies of Europe's economic and migration crises and assuage Europeans' widespread discontent

Please see ITALY page A8

## Paper Tiger

The U.S. recycling industry is struggling as Chinese imports fall and prices for scrap plunge. **B1**



## Michael Cohen's Consulting Career Met Mixed Success

Handful of firms signed up seeking his insight; Uber and Ford said no

By REBECCA BALLHAUS, PETER NICHOLAS, MICHAEL ROTHFIELD AND JOE PALAZZOLO

When Michael Cohen came knocking after the 2016 election, touting himself as the president's lawyer, the man who could decipher the new administration, Ford Motor Co. said no. So did Uber Technologies Inc.

He managed to notch AT&T Inc. and Novartis AG. And Squire Patton Boggs, a law and lobbying firm, hired him for a sizable fee—though he felt it wasn't enough.

Mr. Cohen talked to associates about building a huge practice. He mused about approach-

ing foreign governments and foreign firms. But a broad review of his Washington dealings since they first surfaced last week shows his efforts were scattershot and met only with mixed success—both for Mr. Cohen and his clients.

His work did have an impact in one way. It dragged some of the world's largest corporations and other firms into Special Counsel Robert Mueller's investigation. Novartis, Ford and AT&T have responded to information requests from Mr. Mueller's office, according to people familiar with the matter.

Please see COHEN page A10

## Trump Throws Lifeline To Chinese Tech Firm

By DAN STRUMPF AND JOHN D. MCKINNON

President Donald Trump said he was working with Chinese President Xi Jinping to keep ZTE Corp. in business, throwing an extraordinary lifeline to the Chinese telecommunication giant that has been laid low by U.S. moves to cut off its suppliers.

The surprise intervention comes less than a month after ZTE was hit with an order banning U.S. companies from selling components to the Chinese business. The U.S. Commerce Department directed companies to stop exporting to ZTE in mid-April, saying the Chinese firm violated the terms of a settlement resolving evasion of U.S. sanctions against Iran and North Korea.

The Commerce Department is reviewing ZTE's request for a stay of that order.

Mr. Trump said in a tweet that he is working with Mr. Xi to get ZTE "a way to get back into business, fast. Too many jobs in China lost." He said the Commerce Department has been instructed to "get it done!"

Mr. Trump's comments about the company and concern about Chinese jobs come as the U.S. and China are locked in high-stakes negotiations over trade and intellectual property. Both countries are threatening to slap tariffs on tens of billions of dollars of the other's products. Mr. Trump has regularly blamed China for U.S. job losses and Beijing's policies for the U.S. trade deficit, making his shift in tone notable.

U.S. concerns about ZTE go beyond its evasion of sanctions. For years, the U.S. has claimed that equipment made by Shenzhen-based ZTE and its larger crosstown rival Huawei Technologies Co. is a national security threat, an accusation that both companies have denied.

The U.S. has largely blocked both companies from selling telecommunications gear in the U.S., and the Pen-

Please see ZTE page A2

◆ U.S. firms given forum to object to China tariffs..... A2

## Rock Collections Aren't Complete Without One Resembling Brisket

\* \* \*

The Chinese think specimens that look like meat are juiciest; fat and skin help

By TE-PING CHEN

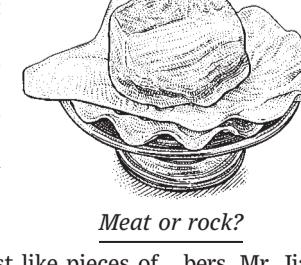
LUSHAN, China—Some Chinese rock collectors prefer jade, others prettily crenelated limestone. Jiang Sui'an prefers stones that look like pieces of pork.

Stones that turn up in riverbeds around Mr. Jiang's home have a rosy or caramel-colored hue, making them resemble pieces of meat. They "look just like pieces of pork freshly plucked from a pot, some stewed, others braised or deep fried," says Mr. Jiang, who has collected

hundreds over the years. They originate on "Meat-Rock Mountain." When storms come, the rocks are swept down to the river, where they are picked up by the many collectors here in the hills of central China.

Lushan boasts a museum dedicated to meat rocks and plans another. A local meat-rock research committee was formed last year and now has hundreds of members. Mr. Jiang's expertise has been called on to develop official classifications for what makes a good meat rock.

Please see MEAT page A10



## INSIDE



## GASOLINE PRICES ON THE RISE

U.S. NEWS, A2



## TROPHY ART DISRUPTS AUCTIONS

LIFE & ARTS, A11

## Big Test for Tesla as Officials Step Away

By TIM HIGGINS AND SAM GOLDFARB

Tesla Inc. will be without two important executives just as the electric-car maker struggles to boost production of its first mass-market vehicle and faces doubts about its ability to raise cash.

Matthew Schwall, who was the company's main technical contact with U.S. safety investigators as the Silicon Valley auto maker races to develop driverless-car technology, left the company for rival self-driving car company Waymo LLC. His departure comes as the National Transportation Safety Board has been investigating multiple crashes involving Tesla vehicles.

Mr. Schwall's exit comes after Tesla said Friday that its engineering chief, Doug Field,

was taking a leave of absence to recharge and spend time with his family.

Mr. Field is stepping away from the company for several weeks, according to people familiar with the matter. One person described the absence as a "six-week sabbatical" while Tesla declined to say when he would come back.

"He has not left Tesla," a company spokesman said.

Mr. Field, a key leader at the auto maker since joining in 2013 from Apple Inc., oversees the engineering of Tesla's vehicles, and last year he was also given oversight of production to better align those efforts. That changed this spring, when Chief Executive

Please see TESLA page A4

◆ Christopher Mims: Drivers become guinea pigs..... B1

## U.S. NEWS

THE OUTLOOK | By Stephanie Yang and Alison Sider

## Rising Gas Prices Could Brake Growth Trend

**D**rivers gearing up for trips this summer face escalating prices at the gasoline pump, an early sign that \$70-a-barrel oil is reaching into consumer wallets and could pinch economic growth.

Average U.S. retail gasoline prices are climbing toward \$3 a gallon, the most expensive in more than three years. The national average was around \$2.87 on Sunday. In states such as California and Washington, prices have already breached the \$3 level after rising 24% and 17%, respectively, from a year earlier.

Gasoline price spikes coincided with depressed consumer spending and recessions in 1980, 1990, 2001 and 2007-2008, but the two don't always go hand in hand. A spike in 2011 didn't stop the expansion.

The economy is vulnerable when hit by gas price rises driven by supply shocks, such as Iraq's invasion of Kuwait in 1990. The economy is also vulnerable when it faces other challenges, such as the global financial crisis of 2007 or the tech bubble burst of 2000.

The economy now is buoyed by several factors, including a strong job market, stable financial system and tax cuts—one of the underpinnings of the recent rise in

oil and fuel prices. Moreover, U.S. shale producers benefit from rising prices.

Still, growth might not measure up to expectations if consumers pull back.

"Prices at the pump are quite high especially as we enter the driving season," said Gregory Daco, chief U.S. economist at Oxford Economics. "That's going to be one of the channels where you see a hit to people's disposable income and spending."

**R**ising fuel costs can also feed inflation and pressure interest rates. The Federal Reserve typically looks past volatile energy prices in the short term, but the central bank is already poised to raise interest rates this year and next and this can contribute to its incentives to keep going.

Morgan Stanley estimates that if gas averages \$2.96 this year, it would take an annualized \$38 billion from spending elsewhere, an upward revision from the bank's \$20 billion estimate in January.

That would wipe out about a third of the additional take-home pay coming from tax cuts this year, the analysts said.

When oil prices collapsed in 2014, gasoline prices followed. People took advantage,

## On the Road

Drivers are seeing \$3 gas again after years of low prices and logging more miles than ever.

## U.S. average regular gas price



Sources: Energy Information Administration (average); AAA (states); Department of Transportation (miles)

## Most expensive states for gas

California	\$3.67 a gallon
Hawaii	\$3.66
Washington	\$3.36
Alaska	\$3.32
Nevada	\$3.29

## Vehicle miles traveled



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could blunt some of the impact from rising oil prices.

The country has become a more prominent supplier of crude oil and fuel. Domestic production has reached record weekly levels of 10.7 million barrels a day, and a lot of it is being exported.

Refiner Valero Energy Corp. said it wouldn't expect consumer demand to drop until oil prices are at \$80 to \$100.

"Three dollars is like a small fence. You can get through it, you can get over it," said Patrick DeHaan, petroleum analyst at GasBuddy, a fuel-tracking app. "But \$4 is like the electric fence in Jurassic Park. There's no getting over that."

**G**as prices are still a long ways off from when they reached as high as \$4.11 in 2008. And demand hit its highest levels ever last year even as prices rose.

"It's not only the price point, but it's how long that price point stays," Karl Fails, chief commercial officer at Sunoco LP, a wholesale fuel distributor, said during an earnings call Thursday.

"We're very comfortable with the U.S. economy right now. And I think that will also have a bearing on any demand impacts."

driving more than ever and buying larger, less fuel-efficient cars. At one point in 2016, prices tumbled toward \$1 in parts of the country.

That era may be coming to an end.

As gasoline rose above \$2.50 in November, Adam Mincey started to worry. His commute in North Carolina is about 60 miles round trip, and his old Chevrolet truck got about 8 miles to the gallon. Recently, he traded the truck in for a vehicle with better mileage. "I make decent money—I'm a scientist. But it's cutting into our disposable income," he said.

The steadily rising fuel prices brought back bad memories: "There were times

I couldn't fill up my tank in 2008 and 2009. I don't want that to happen again."

Robert Lozano—a car salesman in Los Angeles, where some gas prices are already above \$4—said the dealership's gas bill has climbed from about \$9,000 to \$12,000 a month recently.

Customers are inquiring more about electric vehicles, he said.

Some analysts are predicting another jolt to the market as President Donald Trump's decision to withdraw from the 2015 Iran nuclear deal could limit the country's crude exports.

Other factors outside the U.S. are pushing oil prices higher. The Organization of

the Petroleum Exporting Countries, along with other major oil producers including Russia, agreed in 2016 to curb output in the hopes of eliminating a global glut. Their efforts have been helped by a steep decline in production in Venezuela as the country has fallen into political and economic turmoil.

Airlines and shipping companies also will be paying more for jet fuel and diesel—costs that may be passed along to consumers. Even companies such as Whirlpool Corp. have noted that higher oil prices have boosted the cost of materials.

But some economists say the growing importance of energy to the U.S. economy

## A Reptilian Success Story in the Florida Keys



**SHELL GAME:** A loggerhead sea turtle named 'Judy' was released off the coast of Marathon, Fla., on Saturday, about three months after the 150-pound reptile was found injured in a fish trap line.

## U.S. Firms Given Forum To Object to China Tariffs

BY ANDREW TANGEL  
AND WILLIAM MAULDIN

The Trump administration is set to face criticism this week from a large cross section of corporations, including U.S. giants like General Electric Co., over how the administration's proposed tariffs on Chinese imports will affect American manufacturing.

The U.S. trade representative's office will hold three days of hearings from Tuesday on the proposed tariffs. The hearings will not only feature businesses facing supply-chain disruptions because of the tariffs proposed for \$50 billion of Chinese imports, but also exporters—from farmers to manufacturers—which are likely to suffer from retaliatory tariffs on U.S. exports threatened by China.

The U.S. business community has often been skeptical of the Trump administration's trade initiatives, particularly its threats of tariffs, which are being contemplated under Section 301 of the Trade Act of 1974. Executives from big companies, from electronics retailer Best Buy Co. to Swedish appliance maker Electrolux AB, have asked to testify at the hearings and are expected to raise complaints.

"The administration has attempted to assure Americans that it has a strategy to resolve

trade frictions with China without excessive collateral damage to U.S. economic interests," the U.S. Chamber of Commerce said in a written submission ahead of the hearings. "However, these assurances lack the coherence that would provide comfort to those businesses, farms and workers whose livelihoods are being put at risk."

The Trump administration argues that the threat of tariffs is necessary to bring China to the negotiating table over what

**\$50B**

Value of Chinese imports for which tariffs are proposed.

businesses generally agree are Chinese economic practices in need of reform. But business groups worry Washington may accept a pledge from Beijing to buy U.S. goods without addressing Chinese practices such as erecting barriers to China's domestic market or forcing U.S. concerns to transfer technology as a condition of entering into partnerships in China.

GE officials plan to raise specific examples of the challenges. One instance: magnetic-resonance-imaging machines that GE makes in Wisconsin will suffer if tariffs are placed on parts imported from China. High standards for quality, and the need to keep parts sterile, mean it would take "well over a year" to find new suppliers of the MRI parts outside China, according to Karan Bhatia, GE's president for government affairs and policy.

The U.S. and China are also in talks with North Korean leader Kim Jong Un about the regime's nuclear-weapons program. Mr. Trump is set to meet Mr. Kim in person in Singapore on June 12 to discuss denuclearization.

ZTE employs roughly 75,000 people world-wide and is the fourth-largest mobile phone vendor in the U.S., selling 19 million phones in America last year.

—Peter Nicholas contributed to this article.

## ZTE

**C**ontinued from Page One tagon recently pulled mobile phones made by both competitors from stores on U.S. military bases.

ZTE continues to sell phones in the U.S. through a number of retail channels, including through Best Buy Co. stores and through AT&T Inc. stores and its website, representatives from both companies said last week.

Phones made by Huawei, the world's No. 3 handset maker, are more difficult to find in the U.S. The company was set to launch a high-end handset earlier this year with AT&T, but the U.S. carrier pulled out of the deal at the last minute without explaining why.

Nodding to security concerns, Rep. Adam Schiff of California, the top Democrat on the House Intelligence Committee, responded on Twitter to the president's remarks: "Our intelligence agencies have warned that ZTE technology and phones pose a major cybersecurity threat."

Senate minority leader Chuck Schumer (D, N.Y.) tweeted in response to Mr. Trump: "How about helping some American

companies first?"

Late Sunday, amid confusion about the meaning of Mr. Trump's comments, the White House issued a statement saying that the ZTE matter would be decided independently by the Commerce Department.

"The administration is in contact with China on this issue, among others in the bilateral relationship," a White House spokeswoman said. She said that Mr. Trump expects Commerce Secretary Wilbur Ross to "exercise his indepen-

dent judgment, consistent with applicable laws and regulations, to resolve the regulatory action involving ZTE based on its facts."

The Commerce Department declined to comment.

Some Wall Street observers have speculated that the administration hoped to use the ZTE sanctions as leverage to soften Chinese resistance in other trade negotiations. One

possible indication of that was the Commerce Department's failure to impose about \$300 million in fines it was eligible to collect when it announced the penalties on ZTE earlier this year.

The Commerce Department also has signaled in recent days that it was trying to expedite ZTE's appeal, suggesting the agency was sensitive to the urgency of ZTE's situation.

ZTE, which relies on billions of dollars in component imports from U.S. tech titans such as Qualcomm Inc. and Intel Corp., has warned that the ban threatened its survival. Last week, the company said it had ceased major business operations.

A person close to ZTE said Sunday: "ZTE has noticed the tweet from President Trump, and welcomes this latest progress. Next, under the guidance of the Chinese government, ZTE will continue to communicate with relevant parties including the U.S. Department of Commerce to facilitate the final resolution."

The Wall Street Journal reported Saturday that in its efforts to have the ban stayed, ZTE has told U.S. authorities that process and human-resource errors, not a plan of systematic deception, were responsible for the lapses in

fully complying with its 2017 settlement, according to a person familiar with the matter.

The sudden sales ban placed ZTE at the sharp end of a rising trade dispute between Washington and Beijing that has included tit-for-tat tariffs. Technology has become a focus of tensions, with the U.S. accusing China of transferring key technologies back home and unfairly supporting domestic champions.

Chinese representatives complained to their U.S. coun-

terparts about the ban during a recent visit by a U.S. trade delegation to Beijing. The export ban was expected to figure in another round of trade talks between the two sides in Washington.

In a subsequent tweet at midafternoon Sunday, Mr. Trump said that China and the U.S. "are working well together on trade" but "it is hard for them [China] to make a deal that benefits both countries."

He added: "But be cool, it will all work out!"

## CORRECTIONS &amp; AMPLIFICATIONS

**In some editions** Saturday, the first paragraph of a World News article about military exercises in South Korea was garbled. The paragraph should have read: RODRIGUEZ LIVE FIRE COMPLEX, South Korea—Fifteen miles south of the demilitarized zone, a U.S. tank battalion is preparing for the possibility that the detente on the Korean Peninsula doesn't last.

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.

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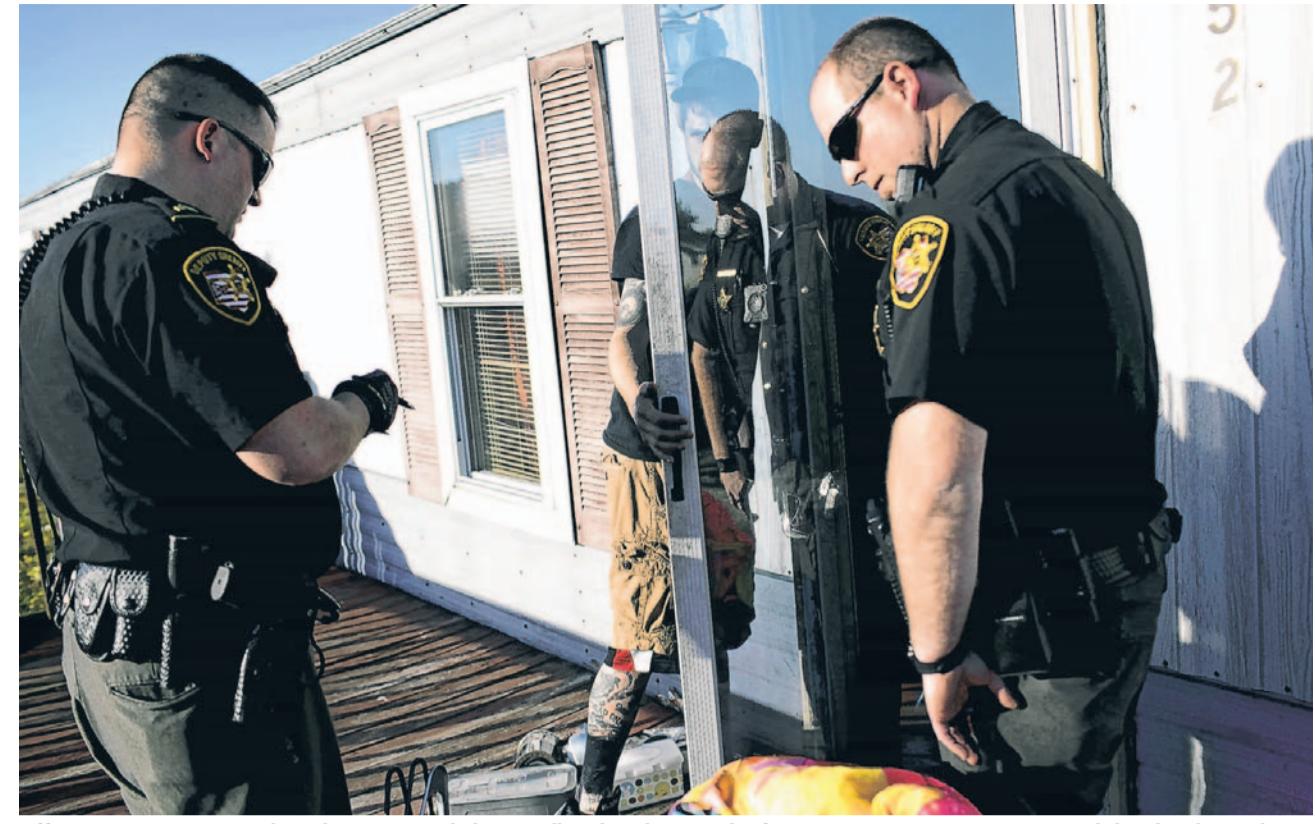
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## U.S. NEWS



MADDIE MCGARVEY FOR THE WALL STREET JOURNAL (2)

# Rural Crime Strains Law Enforcement

By SHIBANI MAHTANI

CHILLICOTHE, Ohio—Ross County, with its rolling forested green hills and two-century-old county seat, is an image of idyllic rural America.

But as night fell here on a warm Tuesday in May, chaos descended on the Ross County Sheriff's Office. A neighbor called to report a disturbance, likely a violent domestic dispute, and another called to report a man slumped over the steering wheel of his pickup, likely an overdose. Calls of other suspicious vehicles came flooding in.

"It is nothing but you and the cows and the sirens," said Sgt. Brenton Davidson, a patrol sergeant at the sheriff's office. "You are seeing more violence, and you never know where

your backup is coming from."

The violent-crime rate in rural areas rose above the national average for the first time in a decade, according to the most recently available data from the federal government. Though cities, on average, still have a higher violent-crime rate, large metropolitan areas are safer than they have been in decades, while small communities in some states are getting more dangerous.

In at least 10 U.S. states, most in the Midwest and Northeast, the rate of violence in rural counties has increased over the past two decades, even as it has fallen or stayed the same in those states' metropolitan areas, according to a Wall Street Journal analysis of federal crime data.

In these less-populated ar-

eas, increased drug use and associated crimes, like drug trafficking, prostitution and theft, as well as domestic violence, are fueling the rise. New crime-fighting strategies are designed for urban policing, and sheriffs who police small towns say they are playing catch-up.

Small departments, where budgets and the number of deputies have remained stagnant, are overwhelmed. The number of sheriff's deputies patrolling 691 square miles in Ross County, which sits some 50 miles south of Columbus, has remained at four over the past two decades. The population over the same period has increased to 77,000 from about 72,000. Starting pay for deputies is \$35,000 a year, compared with the Ohio average of about \$60,000.

"Every year I've asked for more officers—for patrol, for the jail. Every year," said Ross County Sheriff George Lavender Jr.

The county's violent-crime rate has tripled in the past two decades. The jail, built to house 92 people, routinely holds 200. The sheriff's department has received nearly 3,000 calls this year—more than six times the number at the same point in the year a decade ago.

In Tennessee, urban gangs are moving out into the country to be closer to their customers, said TJ Jordan of the Tennessee Bureau of Investigation. "They start pushing their wares out into the rural areas," said Mr. Jordan. "Drugs breed guns, guns breed violence."

Law-enforcement officers play the role of EMTs because firefighters and ambulance squads are mostly staffed by volunteers. Sheriff's deputies across states like Iowa, Ohio and Kentucky spend hours searching for a free hospital bed in their area, which can take them off their regular jobs for an entire day.

In recent years, Sheriff Lavender has piloted a series of programs for the jail inmates, including GED courses and anger-management programs that incorporate cognitive behavioral training—borrowing ideas from his big-city counterparts. A former junk storage room in a corner of the jail now serves as a training room.

The sheriff's office also has formed a post-overdose response team with the Chilli-

cothe Police Department. Every week, the group, which includes social workers, visits people who have overdosed in the past seven days, providing materials on treatment, offering to bring them to the hospital and underscoring that their addiction could lead to death.

A visit in early May included dropping in on homeless addicts, living out of a corrugated metal shack in the middle of the woods and sleeping on a garbage bag tied between two trees.

"We did this by the seat of our pants," said David Weber, a deputy at the sheriff's office, noting that they had little training. "It is a completely different capacity than we've ever dealt with before."

—Zusha Elinson contributed to this article.

# L.A. Mayor Ties Political Future to Homeless Plan

By NOUR MALAS  
AND ALEJANDRO LAZO

LOS ANGELES—Since taking office five years ago, Mayor Eric Garcetti has marketed this city as a model of how an American metropolis can dream big: wooing the 2028 Olympics, courting high-tech companies and pushing for a "subway to the sea."

But last month, the mayor tied his political future to a goal that has long vexed policy makers here: housing the city's homeless, which he publicly declared his "No. 1 issue."

Homelessness has exploded during his tenure, leaving Los Angeles with a fast growing population of people living in cars, parks and on the streets.

Mr. Garcetti aims to get half of the more than 25,000 unsheltered homeless population into shelters or housing by

2022, his last year as mayor. The 47-year-old Democrat has made no secret of his interest in running for the presidency in 2020, and whether his new plan succeeds will bear heavily on his political future, critics and supporters say.

"If there's any hope of running for president, that's the problem he has to fix," said Sherry Bebitch Jeffe, a public-policy professor at the University of Southern California.

Mr. Garcetti won his first election as mayor in 2013 on a "back to basics" pledge to fix potholes and improve trash pickup, and rode a wave of popularity into a second term last year. In recent months, he has raised his national profile, traveling the country, talking jobs, and taking aim at President Donald Trump.

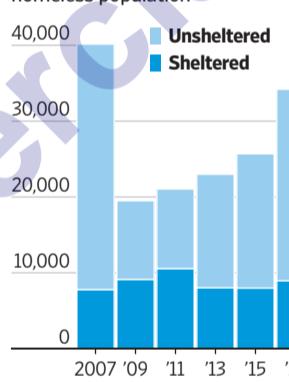
At home, he has come under pressure for not moving



Mayor Eric Garcetti has made housing the homeless a priority.

more aggressively to address a spiraling humanitarian emergency. The homeless population has grown nearly 49%

## Seeking Shelter



Source: Los Angeles Homeless Services Authority  
THE WALL STREET JOURNAL.

since 2013. Last year, there were about 900 more people in shelters than in 2013, according to the Los Angeles

Homeless Services Authority.

Homeless encampments have spread in L.A. in recent years, and city officials have sought to fund more affordable housing to combat the problem. But until now, there has been no comprehensive plan to build more shelters.

"This is our Katrina," said Jill Stewart, executive director of the Coalition to Preserve LA, a social-justice group that has opposed the mayor's handling of the homeless issue. "Where are the shelters?"

Under the mayor's plan, the city would build out a more expansive shelter system, hoping to draw more homeless into temporary shelters until they get on their feet, and speed up affordable housing construction.

Mr. Garcetti said people are falling into homelessness at a clip faster than the city can

handle. He pointed to a convergence of factors—surging rents, the opioid crisis and lighter criminal penalties—that have pushed people onto the streets.

"It is a bigger problem than it's ever been," Mr. Garcetti said. "We've had the right strategies, but we've never had the master plan, and we've never had the resources," he said.

The mayor has directed \$430 million of the city budget to tackle homelessness, including allocating \$20 million to City Council districts to build emergency shelters within a six-month window.

The plan is a break from past policies that have focused largely on affordable housing.

"We had to work to listen to people on the street and change our approach," Mr. Garcetti said.

# Plains Farmers Prepare for Drought

By JIM CARLTON

LAMESA, Texas—This time of year, Shawn Holladay usually is laying cotton seeds into rows of red soil on his farm here on the High Plains.

But less than two inches of rain has fallen across much of West Texas since last October,

compared with an average of about 10 inches over the same period last year. With fields bone dry, many farmers in the Texas Cotton Belt have held off putting seeds in all but patches of irrigated ground out of fear they will dry up.

"The way it's going right

now, the chances are slim to none we will have a crop," Mr. Holladay, 49, said as he inspected his fields this month.

After three fairly wet years, a drought ranging from "severe" to "exceptional" has descended on the southern Great Plains of Colorado, Kansas, New Mexico, Oklahoma and Texas, according to the U.S. Drought Monitor at the University of Nebraska-Lincoln.

Home to one of the nation's

most fertile farming areas—

cotton production in the Texas

region alone generates about

\$12 billion in economic activi-

ty—observers say the drought

could affect cotton, cattle and

farming-equipment sales,

among others.

"It's going to be in the bil-

lions in terms of crop loss,"

said Darren Hudson, director

of the International Center for

Agricultural Competitiveness at Texas Tech University.

A semiarid region, the southern Plains region has seen drought conditions for much of the past decade, but the severity of this latest dry spell is of particular concern. For many farmers here, the

sudden falloff in precipitation is reminiscent of the drought of 2011 when Texas agriculture incurred a loss of \$7.6 billion.

Already, the Plains drought has dealt a blow to two other pillars of the region's agricultural economy: winter wheat and cattle. An estimated 60%

of the 4.7 million acres of winter wheat in Texas as of May 7 was considered "poor to very poor," according to Texas Wheat Producers, a trade group, meaning the crops are likely unusable.

Kansas, the top winter-wheat-producing state, is expected to have its smallest crop in almost 30 years.

The economic ripples in Ochiltree County, Texas, is typical of what is happening across the southern Plains, said Scott Strawn, a Texas A&M agriculture extension agent. He estimated this county in the far northeastern corner of the Texas Panhandle this year could lose half of a wheat crop that is normally valued at as much as \$20 million.

"Look how bad this is—no roots," Mr. Strawn said, pulling a shriveled stalk of wheat out of dried ground on a farm outside Perryton, Texas.

Local ranchers have begun selling cattle, which have grazed down what little grass is left. Reece E. Taylor said he may have to sell many of his 100 cattle because they have grazed down the wheat crop he had used for forage on his 1,600-acre farm near Perryton.

Three hundred miles south in Lamesa, Mr. Holladay tried to savor little victories like the recent drizzle that helped keep dust down on his 10,000-acre farm. "I figure we'll survive it," Mr. Holladay said. "But it won't be easy."

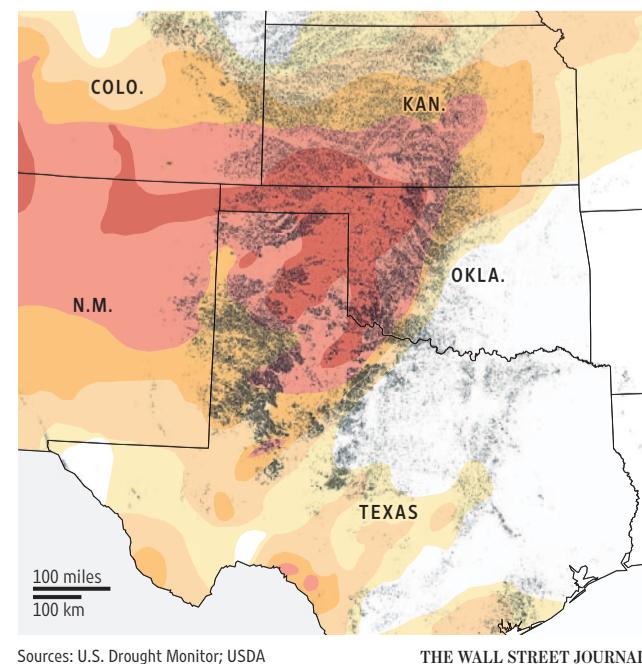
## Drying Up

Drought conditions are hitting one of the nation's most fertile areas for wheat and cotton.

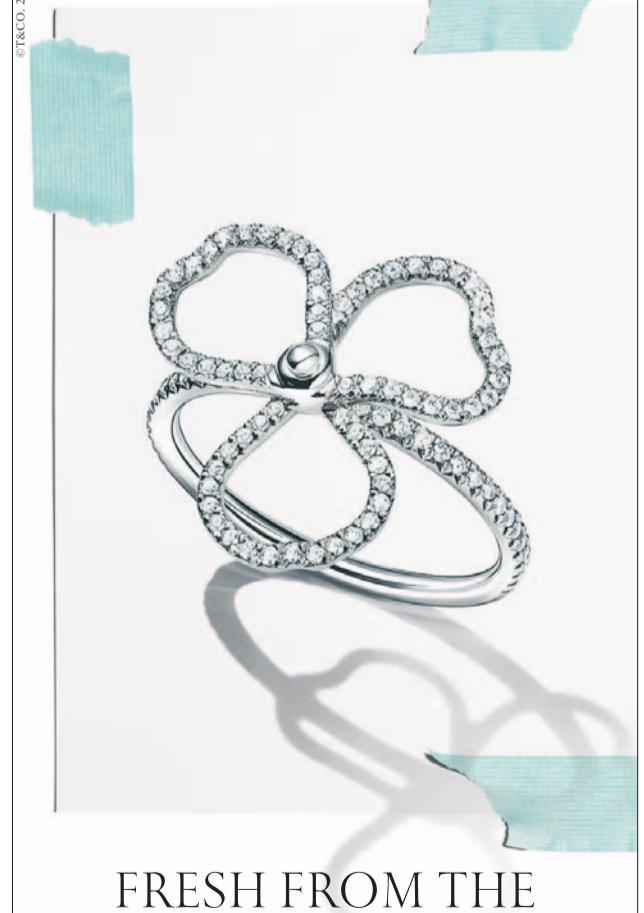
Winter wheat and cotton crops, 2017

Drought conditions for the week ending May 8

Abnormally dry Moderate Severe Extreme Exceptional



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## U.S. NEWS

# GOP's Right Flank Gears Up for a Fight

**November headwinds bring competition to some House Freedom Caucus members**

BY KRISTINA PETERSON

RICHMOND, Va.—The House Freedom Caucus, a group of the most conservative Republicans, doesn't shy away from bucking the leadership or demanding ideological fealty.

That stance could become a liability this year, as Republicans acknowledge they are facing political headwinds in the November midterms.

At least five members of the roughly three dozen caucus members face competition in the midterm elections. That is a smaller percentage than within the whole House GOP, but Democrats need to net just 23 seats to retake control, and they are fighting for them everywhere.

And, unlike many of the more centrist Republicans who are accustomed to battling Democrats, many of the most vulnerable Freedom Caucus members are running with less money in the bank and in districts where their deeply conservative voting records might not be welcome.

In Pennsylvania, redistricting in February added more Harrisburg suburbs to GOP Rep. Scott Perry's district, instantly tightening his race. There are four Democrats competing in Tuesday's primary to take him on in November.

In Virginia, both Republican Reps. Dave Brat and Tom Garrett face well-funded Democratic challengers.

In North Carolina, freshman Republican Rep. Ted Budd is trying to expand his name recognition in a district he won two years ago after capturing a 17-way primary with just over 6,000 votes. And in Iowa, Rep. Rod Blum is working to keep

his seat in a district that President Donald Trump won by less than four points.

The Freedom Caucus's chairman, Rep. Mark Meadows (R., N.C.) said he believes his colleagues will be rewarded for sticking to their principles, but he didn't dismiss the competition. "Every member of Congress, not just Freedom Caucus members, are trying to prepare more," he said.

Last week's primary elections highlight the challenges facing House Republicans. Two from Indiana lost the Senate primary to a businessman. Rep. Evan Jenkins lost the West Virginia Senate primary, and Rep.

Robert Pittenger (R., N.C.) became the first incumbent this year to lose his own primary.

In Mr. Brat's district, which includes the suburbs of Richmond, both redistricting and demographic change are making the race more competitive.

In 2013, former Democratic Gov. Terry McAuliffe picked up 38% of the vote in Mr. Brat's district. Last fall, Ralph Northam, now the state's Democratic governor, picked up 47% of the district's support.

Two Democrats are considered front-runners in the June 12 primary: former undercover Central Intelligence Agency agent Abigail Spanberger and

Dan Ward, a retired Marine colonel who later worked for the State Department.

Bill Landslide, a Henrico, Va., resident and independent, voted previously for former GOP Rep. Eric Cantor but said he would be supporting Ms. Spanberger. Mr. Brat "is to the right of the right of the Republican Party," he said. "He's doctrinaire, and I don't like doctrinaire people."

But Henrico resident Dana Smith, a Republican public-school teacher supporting Mr. Brat, said the GOP-controlled Congress had put more money in his pocket through the new tax law.

## Trump's Hard Line on Iran Could Test Alliances

BY IAN TALLEY

**WASHINGTON**—The Trump administration's decision last week to pull out of the nuclear deal with Iran will create an economic policy challenge for the U.S.: How does it enforce sanctions that the rest of the world no longer backs?

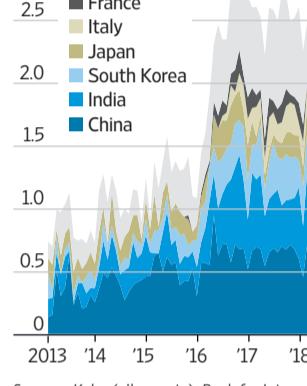
The White House last week announced a plan to reimpose economywide sanctions on Iran in two stages over six months, banning any financial or business dealings with blacklisted entities. Any non-Iranian bank, firm or person who violates that ban risks penalties themselves, including the possibility of losing access to U.S. markets and the ability to use the U.S. dollar in trade and finance.

Few U.S. firms had re-entered the Iranian market after the 2015 nuclear accord gave Tehran sanctions relief across most of the economy in exchange for halting its nuclear development. But the rest of the world ramped up buying Iranian crude and restarted trade relations, pulling the Middle East economy out of recession.

The world largely supported the sanctions regime used during the Obama administration, including America's Western allies and China, a major pur-

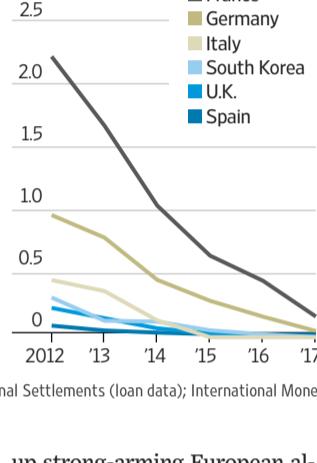
### Economic Warfare

**Iranian oil exports surged as sanctions eased...**

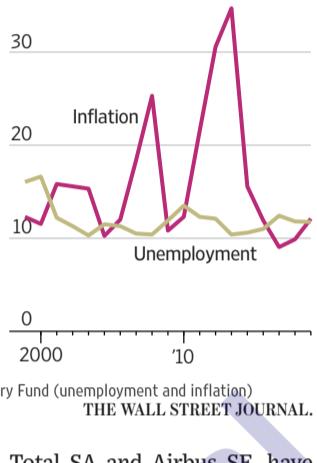


Sources: Kpler (oil exports); Bank for International Settlements (loan data); International Monetary Fund (unemployment and inflation)

**...but bank lending from rich countries has failed to recover...**



**...while the country battles double-digit inflation and unemployment**



Total SA and Airbus SE, have billion-dollar projects on the line with Iran. France's financial system had \$163 million in cross-border claims on Iranian banks in the last quarter of the year, according to the Bank for International Settlements.

Lending to Iran by advanced economies fell under the old sanctions regime and never recovered even after sanctions relief, in part because banks were still wary of facing U.S. action.

Some of Europe's largest companies, including France's

plies, other countries with foreign-policy aims often at odds with the U.S. may see an opportunity. Total, for example, is considering transferring its stake in a joint venture with the National Iranian Oil Co. to China National Petroleum Corp.

The best-case scenario is that the Europeans and Americans are able to craft a new deal that addresses U.S. concerns over Iran's nuclear development, missile program and support for regional proxies, said Jonas Parello-Plesner, a former Danish diplomat who is a senior fellow at the conservative Hudson Institute.

"Worst-case, we have a spat around whether European governments try to protect their companies, do counterlegislation, or challenge it at the WTO," he said, referring to the European Union's use of the World Trade Organization's to defy the U.S. embargo against Cuba in 1996.

Despite a decadeslong U.S. embargo on Cuba, the world's rejection of the U.S. position, including Europe, meant Washington wasn't able to dislodge the Communist Castro government's grip on the nation.

◆ Heard on the Street: Risk for French car makers in Iran...B9

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## TESLA

*Continued from Page One*  
Elon Musk said he retook control of production.

Tesla is at a critical juncture as it tries to produce enough of its mass-market Model 3 cars to generate cash to fund the business and instill confidence in investors that the company can move beyond being a niche-product maker.

Excitement about Tesla's ability to bring electric vehicles to the masses and then to develop autonomous vehicle technology helped push the company's stock to record levels last year and give it a market value that rivals that of General Motors Co.

But Tesla has struggled to crank up Model 3 output since it began last July in Fremont, Calif. It has twice delayed a critical goal of producing 5,000 Model 3s a week, more than double the pace the company said it reached at the end of the first quarter. Tesla now says it expects to make that many cars by around the end of the second quarter.

Mr. Musk has said Tesla won't need to raise more money this year, but the longer it takes Tesla to meet its production targets the "greater the financial risk," said Efraim Levy, a senior equity analyst at CFRA Research. Tesla shares have fallen roughly 2.2% this year to \$301.06.

Tesla finished the first quarter with \$2.7 billion in cash on hand, versus \$3.4 billion at the end of last year. Analysts surveyed by FactSet predict the company will burn through \$1.2 billion in the rest of the year. It will need to pay down a \$230 million convertible bond this November if its stock doesn't reach a conversion price of \$560.64, and a \$920 million convertible note next March if the stock doesn't reach \$359.87.

Issuing new shares would dilute shareholders and likely drive down the share price, potentially rattling creditors and pushing up borrowing costs. And the falling price of Tesla's unsecured bond means new debt could lead to significant added interest expense.

Tesla also could sell convertible bonds, a hybrid of debt and equity that has been



Matthew Schwall, shown in 2010 when he was a Toyota Motor executive, left Tesla for self-driving car company Waymo.

the company's favored means of raising cash in recent years. But that could prove more challenging. Many investors, such as hedge funds, will buy convertible bonds only if they can also bet against, or short, the issuer's shares. But Tesla is now the most shorted stock in the U.S. by dollar volume, making it increasingly costly and difficult to borrow its shares, a necessary move for shorting.

"If there isn't enough stock available, or the rate is so high, the hedge becomes untenable," said Ihor Dusaniwsky, managing director of

more conservative targets for the auto maker, which under Mr. Musk's leadership have been wildly off.

Mr. Wheeler was succeeded by Deepak Ahuja, a longtime Musk confidant who spent more than seven years as Tesla financial chief.

Then, this past February, Jon McNeill, Tesla's president of global sales, marketing and delivery and service, left to become chief operating officer at ride-hailing service Lyft Inc.

In April, Tesla lost Jim Keller, the head of the company's driver-assistance system called Autopilot, which can handle speed and steering in certain situations. That business has been hit with several departures, as Mr. Musk has pushed the team to put a self-driving car on the road.

Tesla has also recently lost its corporate treasurer and chief accounting officer.

Mr. Schwall, who was director of field-performance engineering, served as "primary technical contact" at Tesla with safety-regulation agencies including the NTSB and the National Highway Traffic Safety Administration, according to his LinkedIn biography.

The NTSB last week opened its fourth investigation into a crash involving a Tesla vehicle after a Model S sedan veered off the road in Florida. The agency has said it was initially reviewing the emergency response to the vehicle's battery fire that occurred after the crash. Tesla has said it hadn't retrieved the vehicle logs but that it appeared it crashed at a very high speed and that Autopilot wasn't engaged.

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# WORLD NEWS

## New Embassy Clouds Peace Bid

Trump keeps his word to shift Israel mission to Jerusalem, but draws Arab, European criticism

BY FELICIA SCHWARTZ

JERUSALEM—The opening of the relocated U.S. Embassy here this week fulfills a campaign promise of President Donald Trump's while dialing up tension around another administration goal: peace in the Middle East.

Mr. Trump's decision to relocate the embassy to Jerusalem from Tel Aviv has faced fierce criticism from European and Arab officials who say it could hamper any future peace negotiations. Palestinians are refusing to meet with representatives of the Trump administration and say they no longer recognize the U.S. as the main broker of peace talks with Israel.

U.S. officials said they would press on with their still-secret plan to secure what Mr. Trump has called "the ultimate deal" for Middle East peace. The plan is mostly finished, they said, and the administration is seeking the right time and place to present it.

"The peace process is most decided not dead," Secretary of State Mike Pompeo said on Fox News on Sunday. "We're hard at work on it. We hope we can achieve a successful outcome there as well."

U.S. officials have said recognizing Jerusalem as Israel's capital reflects the reality on the ground. Israel's parliament, the Knesset, and much of its government is in Jerusalem. The international community doesn't recognize Jerusalem as Israel's capital.

In an interview that aired Sunday on ABC, White House national-security adviser John Bolton said the embassy location would help the peace process.

"I think recognizing reality



A worker prepares for Monday's opening ceremony at the U.S. Embassy compound in Jerusalem.

RONEN ZVULUN/REUTERS

always enhances the chances for peace," he said.

A peace deal has eluded Mr. Trump's three most recent predecessors as president, and the most recent round of talks collapsed in 2014.

The U.S. Embassy opening on Monday culminates nearly six months of preparations. The State Department spent about \$400,000 to retrofit a consular building in Jerusalem's Arnona neighborhood, straddling West Jerusalem and what is called No Man's Land, a contested area that lies in between the 1949 armistice lines.

Ahead of the opening, new road signs for the embassy appeared near the site.

Israel captured East Jerusalem and the West Bank from Jordan in the 1967 Arab-Israeli war. Palestinians want East Jerusalem as the capital of a future state. The Trump administration has said the final boundaries of Jerusalem would be left up to final status negotiations.

The embassy move exacerbated tensions with Palestinian leaders, with the Palestine Liberation Organization calling for protests on Monday at the new

embassy. The issue of the U.S.'s recognizing Jerusalem has also drawn repeated condemnation from Arab rulers, including Saudi Arabia's King Salman, Jordan's King Abdullah and Egypt's president Abdel Fattah Al Sisi, staunch U.S. allies.

While the move announcement didn't initially spark as much violence as predicted by some opponents of the move, it

**U.S. officials say they will press on with their plan to secure Mideast peace.**

has helped fuel protests in the Gaza Strip, where thousands of Palestinians have turned out each Friday at the border fence to call for their right to return to what is now Israel. So far, more than 40 Palestinian protesters have died in repeated clashes with Israel's military.

The Gaza protests are expected to culminate the day after Monday's embassy opening, on what Palestinians call Na-

kba Day, or Day of the Catastrophe, marking the day after the anniversary of Israel's founding on May 14, 1948. Yahya Sinwar, leader of Hamas in Gaza, which controls the territory, suggested last week that more than 100,000 people could storm the fence.

Nearly all European ambassadors skipped a reception Sunday evening in honor of the embassy move held by Israeli Prime Minister Benjamin Netanyahu. Representatives from 33 countries including Nigeria, Vietnam, Paraguay and Guatemala were there, and the latter two have said they would also move their embassies.

Mr. Trump won't attend Monday's ceremony but will address the proceedings by video. The U.S. delegation is being led by Deputy Secretary of State John Sullivan and includes Mr. Trump's son-in-law and senior adviser Jared Kushner, daughter and senior adviser Ivanka Trump and Treasury Secretary Steven Mnuchin.

*Dov Lieber in Jerusalem and Kate O'Keeffe in Washington contributed to this article.*

## Early Vote Returns In Iraq Suggest Political Shake-Up

BY ISABEL COLES AND ALI NABHAN

MOSUL, Iraq—Voters appeared to deal a blow to Iraqi Prime Minister Haider al-Abadi in this weekend's election, giving surprisingly strong support to an unlikely coalition of communists and followers of populist cleric Moqtada al-Sadr in partial preliminary results.

Mr. Sadr, a firebrand whose militias once fought openly with U.S. forces and were implicated in sectarian bloodshed, has since entered the political mainstream. His new alliance with Iraq's communists did well in a contest in which many Iraqis stayed home and those who did vote said they wanted to shake up a political status quo known for corruption and bad governance.

With preliminary results counted in 10 of Iraq's 18 provinces, Mr. Sadr's coalition came in first in four of them, including the country's most populous city, Baghdad, and was near the top in all of them, according to preliminary results.

Mr. Abadi's coalition didn't finish first in any of the provinces for which results were released, suggesting his chances of re-election may be slim even after his government led the country to victory over Islamic State last year. Neither Mr. Abadi's coalition, seen as being implicitly supported by the U.S., nor Iran-backed groups were as successful as Mr. Sadr.

The predominantly Shiite provinces for which results were released account for around one-third of the seats in Iraq's parliament.

The early results don't necessarily mean that Mr. Sadr will become prime minister, a

post chosen in a round of political horse trading between political parties after the vote. But the vote gives him a powerful voice in the coming negotiations.

In recent months, Mr. Sadr has criticized Iranian influence in Iraq and received overtures from Saudi Arabia, a Sunni Muslim country that sees him as a possible bulwark against its rival Tehran. In 2016, Mr. Sadr was one of the few politicians with the ability to mobilize a protest movement against corruption that culminated in the storming of the fortified Green Zone and broke into parliament. His Sairun coalition was born from that movement.

Mr. Abadi is expected to win more seats than his Shiite rivals in Sunni provinces that were occupied by Islamic State, for which results have yet to be announced. The outcome of the vote in the Kurdish north is also yet to be announced amid claims of fraud that may force a manual recount.

*Ghassan Adnan in Baghdad contributed to this article.*



Moqtada al-Sadr's new alliance with communists did well.

HAIDAR HAMDANI/AGENCE FRANCE PRESSE/GETTY IMAGES



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# Real News.

## WORLD NEWS

# Three Indonesian Churches Are Bombed

BY BEN OTTO  
AND I MADE SENTANA

JAKARTA, Indonesia—A family of suicide bombers carried out coordinated attacks on three churches in the Indonesian city of Surabaya, police said, in the country's deadliest act of terrorism in almost a decade.

The attack Sunday on members of Indonesia's Christian minority, claimed by Islamic State, comes amid a rise in extremist violence and security lapses in the country, where supporters of the Islamist group have sought to wage large-scale attacks. It was the first time children have been involved in a terrorist attack in Indonesia.

Police said seven churchgoers and security personnel were killed and dozens were injured in the near-simultaneous morning bombings at the three churches in Surabaya, Indonesia's second-largest city, on the island of Java.

National Police Chief Tito Karnavian said the attackers came from a single family that had spent time in Syria in support of Islamic State. All six family members died in the bombings, police said.

Mr. Karnavian said that in



**Indonesians gather at a vigil for victims of the bombings, carried out by members of a family suspected of supporting Islamic State.**

one of the attacks, the mother and her two daughters, ages 9 and 12, were killed when they detonated one or more bombs at the entrance to the Immaculate Santa Maria Catholic Church, a Protestant church. He said he believed all three had bombs wrapped

around their waists.

In another attack, he said, two sons, 16 and 18, rode a motorcycle onto the grounds of the Immaculate Santa Maria Catholic Church and detonated a bomb. A witness speaking on local television said a volunteer

security coordinator was killed when he tried to stop the two from entering the compound.

The biggest blast was at Pentecost Church Central Surabaya, where police believe the father detonated a car bomb.

Islamic State claimed re-

sponsibility for what it described as "three martyrdom operations."

Indonesia, the world's largest Muslim-majority nation, has more than 25 million Christians, representing about 10% of the population, according to a

2010 census.

President Joko Widodo called the attacks "barbaric" and said he would "uproot the cells entirely." Police placed Jakarta, the capital, on high alert as terrorism experts warned of more attacks, with extremists rallying followers ahead of the Muslim fasting month of Ramadan, which begins this week.

The bombings come amid a wave of bloodshed largely targeted at police. Last week, inmates killed five officers in a 36-hour siege of a terrorist-detention center in Jakarta.

Islamic State claimed responsibility for that uprising, the second at the jail since Aman Abdurrahman, the de facto leader of the group's supporters in Indonesia, was transferred there last year to stand trial on charges of inciting followers to carry out attacks.

Hundreds of Indonesians have traveled to the Middle East to support Islamic State, and authorities worry their influence and possible return could lead to new attacks, a concern shared by Indonesia's neighbors. Last year, militants seized the Philippine town of Marawi for several months.

—Anita Rachman and Joko Hariyanto contributed to this article.

## China Tests First Aircraft Carrier

BY TE-PING CHEN

BEIJING—China's first domestically produced aircraft carrier began sea trials, the latest step forward in the country's quest to advance its military footprint.

The carrier set out from Dalian in northeast Liaoning province on Sunday, China's state-run news agency, Xinhua, reported. The trials are intended to test the reliability and stability of its power system, Xinhua reported.

While China trails the U.S. in its technological capacity, Beijing is rapidly modernizing

its forces under President Xi Jinping and has ramped up efforts to build a world-class navy that can safeguard its interests at home and abroad.

On Sunday morning, China's state broadcaster CCTV showed footage of the carrier on a gray day at sea. Hu Wenming, the aircraft carrier's chief engineering commander, told the broadcaster that the newly launched vessel was smaller than the U.S.'s Nimitz class, which can sail longer without refueling and accommodate more planes. However, the launch was a sign that the country had the ability to

build more similarly sized aircraft carriers in the future, and larger ones as well, the broadcaster said.

The carrier's sea trials come as China has continued to expand its military presence in the South China Sea, including runway construction and the recent deployment of military jamming equipment in the area, sparking concern among neighbors and in the U.S. In recent years, China has also dispatched ships and submarines deep into the Indian and Pacific oceans.

"It's raising the cost of an intervention, particularly by

## An Endorsement Undone



**AirAsia chief Tony Fernandes apologized for 'buckling' to government pressure to support former Prime Minister Najib Razak, who lost last week's election in Malaysia, where political connections often determine whether businesses succeed or fail.**

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## WORLD NEWS

# Lights Going Out in 'Desperate' Caracas

Just 15 years ago, Venezuela's capital was one of Latin America's jewels

BY RYAN DUBE

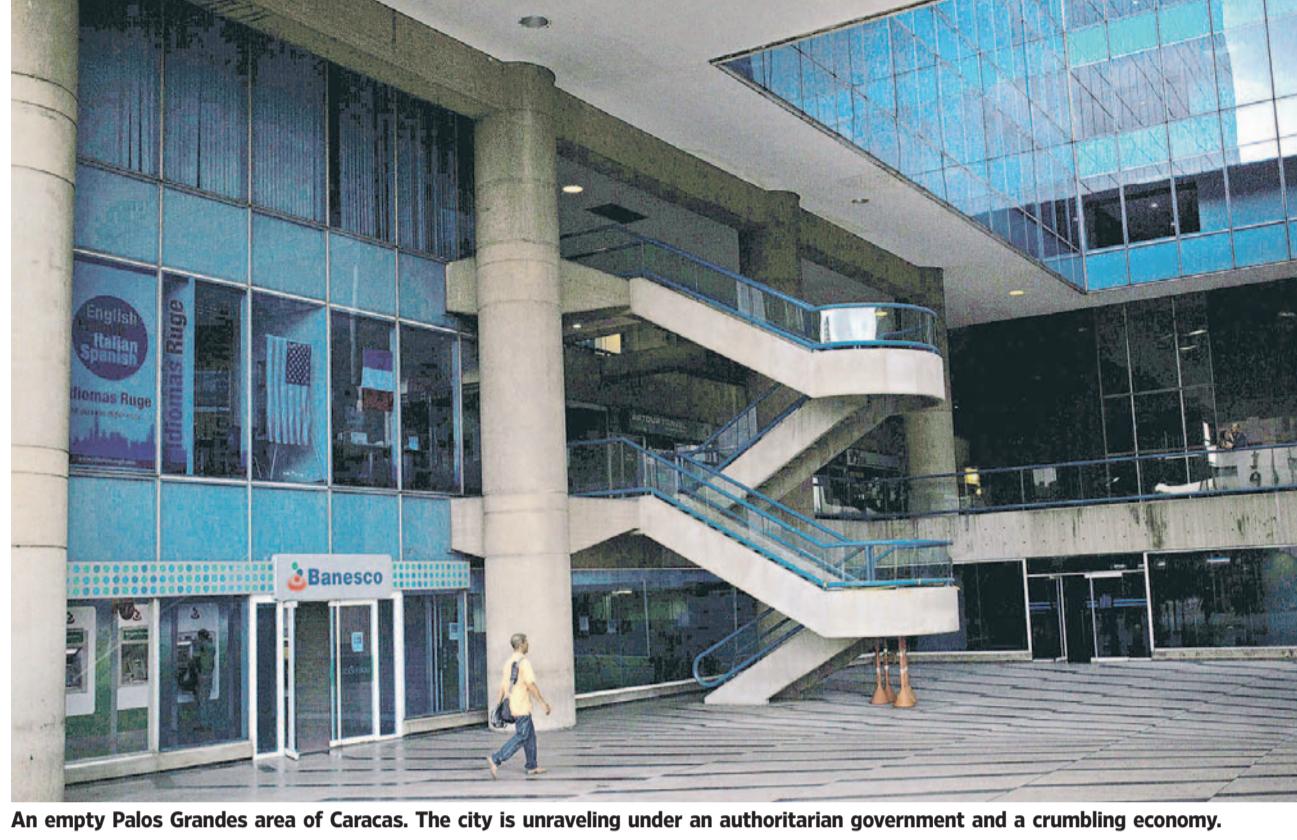
CARACAS, Venezuela—The young family bought their dream home six years ago, a five-bedroom triplex with marble floors in a luxurious building with a swimming pool in this city's fashionable La Castellana district.

They paid \$1.5 million, including renovations, for the penthouse apartment, according to the real-estate company that handled the deal, and got a 360-degree view over Caracas, for decades one of Latin America's most expensive urban gems.

No more. This city is unraveling fast: Water doesn't reach most homes, mass transit is grinding to a halt and businesses are closing in the face of hyperinflation expected to top 13,000% this year. Shotgun-toting troops wearing camouflage and balaclavas run checkpoints. Cash is so scarce people can't pay for the smallest necessities like bus fare.

Last year, the family fled their apartment in La Castellana, sold it for a third of what they paid and moved to the U.S. Since then, the exodus from this city has only accelerated, as Venezuelans escape an increasingly authoritarian government and an economy that has contracted by 40% in five years.

Few here see much hope for change as President Nicolás Maduro seeks re-election in a



An empty Palos Grandes area of Caracas. The city is unraveling under an authoritarian government and a crumbling economy.

vote on May 20 that the U.S. and other governments say will be rigged.

"There are an enormous number of properties [for sale] because everyone wants to leave," said Aura Corzo, who was a real-estate agent here until fleeing to Colombia recently. "They're desperate to go."

Just 15 years ago, Caracas was one of Latin America's most modern capitals, home to the region's tallest skyscrapers, a sleek subway system and a university campus described by Unesco as a "mas-

terpiece of modern city planning." Its museums displayed works by Pablo Picasso and Luciano Pavarotti performed at the renowned Teresa Carreño theater. Some Venezuelans dined here at world-class restaurants, sipped imported whiskey and flew to Paris on the Concorde to shop.

Now, the city's lights are going off.

"Living in Caracas is hellish and inhumane," said Ángel Luis Lecuna, 32, a lawyer who has seen 10 relatives flee Venezuela. "It's so bad it makes you think the government is

being negligent just to humiliate us."

Most international flights have been canceled, leaving the airport's runways nearly empty.

The Teresa Carreño, now a theater in decay, is used for Socialist Party rallies. And the once bustling nightlife has gone quiet in a city with roving bands of kidnappers and one of the world's highest murder rates.

In today's Caracas, malnourished families rummage through garbage for food, and young men wade into a toxic

open sewer searching for scraps of metal to sell. State employees, unable to get to their offices because of a dilapidated transportation system, are increasingly abandoning work; their salaries have been rendered all but worthless by inflation anyway.

Yulimar Toala, 26, says the lack of means to pay for the bus has left her unable for weeks to show up at work or take her two small boys to school.

"Oh, dear, this city isn't the same," she said. "I used to go out. I could give things to my

kids. I could buy them shoes. Now, I can't buy them anything."

Particularly vexing to Caraqueños, as residents here are known, is the breakdown in services. Garbage piles up on streets. Streetlights are out, leaving many of the city's byways in total darkness at night. The city's decrepit waterworks has largely broken down, creating the cruel irony of a lack of water in a country replete with rain forests and raging rivers.

As Mr. Lecuna's neighborhood enters its third month without water, he says he has to skip work so he can visit friends and relatives in other parts of the city to load plastic jugs with water. "It's draining to live this way," he said.

Those who say they can no longer withstand the hardship are selling homes at a fraction of what they paid, desperate for cash to start fresh elsewhere.

A 66-year-old therapist remembered falling in love with her three-bedroom apartment when she first walked into the hilltop building on a quiet, residential street more than 40 years ago. She recently turned down an offer of \$150,000—less than what she paid for the place in 1975.

"The country I grew up in is no more," she said. "It will take at least two generations to get the country back on its feet. I don't think I'll see it in my lifetime."

—Maolis Castro, Kejal Vyas and Juan Forero contributed to this article.

◆ Heard: Venezuela's oil meltdown worsens..... B9

## U.S. Gets South Korea Rent Break

BY JONATHAN CHENG AND YUN-HWAN CHAE

SEOUL—President Donald Trump's demand that South Korea foot more of the cost for basing U.S. troops on the peninsula reflects calculations that leave out one of Seoul's biggest contributions to the American presence: rent-free land.

U.S. and South Korean officials are set to meet in Washington on Monday for a third round of negotiations on cost-sharing terms.

The White House's push for better terms in its agreements with Seoul comes at a critical time for the alliance. Since the leaders of North and South Korea met in April—and ahead of a June 12 meeting between Mr. Trump and North Korean leader Kim Jong Un—senior officials and advisers in Washington and Seoul have raised the possibility that U.S. troops might be withdrawn from South Korea in the event of a peace treaty.

South Korean officials have been quick to swat down the possibility of a withdrawal, and Mr. Trump's new national-security adviser, John Bolton, had warned before joining the administration in April that a failure of denuclearization talks could open the door to allied military action against Pyongyang.

The Pentagon aims for host nations to bear half of stationing costs, which exclude soldiers' wages. A 1966 agreement grants the U.S. free use



South Korean marines return to their barracks in Pohang after a joint drill with U.S. troops.

of South Korean land for its military bases—costs borne by Seoul that aren't included in either side's recent published financial assessments.

South Korea, like Japan, relies on the U.S. security umbrella to contain regional threats. The country hosts more than 20 U.S. bases and 28,500 U.S. troops, who enjoy a strategic location on the Asian mainland.

Mr. Trump has said "we get practically nothing" for the roughly \$1.2 billion a year the U.S. spends to station forces there, and has said allies should pay 100% of costs.

More broadly, Mr. Trump

has raised questions in recent months about the terms of the U.S. relationship with South Korea. He has said Seoul should pay for a \$1 billion U.S. missile-defense system, and threatened to abandon their bilateral free-trade pact. This month, Mr. Trump said that "troops are not on the table," but added: "At some point into the future, I would like to save the money."

Lawmakers in Seoul have argued for years that the U.S. is getting a better deal on its Korean bases than it might appear.

Figures from the South Korean Defense Ministry and U.S. budget appropriations often

show Seoul's contribution at less than half—as low as 42% of the combined \$2 billion stationing cost this year, by one standard measure.

The calculation is "unfair" because it doesn't incorporate land-rent waivers Seoul grants the U.S. military, said Kim Jong-dae, a lawmaker with the left-leaning Justice Party. "It leaves all the big parts out."

Lee Jae-myung, a former mayor who rose to prominence last year as an upstart challenger for the presidency, has calculated South Korea's share at 77% and called for Seoul to cut its contribution. He declined to comment for this article.

Pyongyang plans to destroy all the tunnels at its northeastern testing ground with an explosion and remove observation and research facilities and ground-based guard units, the Foreign Ministry said. "A ceremony for dismantling the nuclear test ground is now scheduled between May 23 and 25," depending on weather conditions, the ministry said.

The announcement comes days after the U.S. said the summit between Messrs. Kim and Trump will be held June 12 in Singapore.

—Associated Press

**FRANCE**

### Paris Attacker Was Flagged as Risk

A French national of Chechen origin stabbed a person to death in central Paris on Saturday and wounded four others, in an assault that investigators were treating as a terrorist attack.

Police shot and killed the man shortly after the attack, French authorities said.

Paris prosecutor François Molins said the man yelled "Allahu akbar!"—"God is great" in Arabic—during the stabbing.

A judicial official said the

## WORLD WATCH

**NORTH KOREA**

### Pyongyang Plans to Destroy Nuclear Site

North Korea said it would dismantle its nuclear test site in less than two weeks, an event that would set up leader Kim Jong Un's summit with President Donald Trump in June.

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The announcement comes days after the U.S. said the summit between Messrs. Kim and Trump will be held June 12 in Singapore.

—Associated Press

**BURUNDI**

### Attack Ahead of Vote Leaves 26 Dead

Twenty-six people were killed and seven others wounded in an attack by an unidentified group in rural Burundi, the country's security minister said Saturday.

The attack came shortly before Burundians vote May 17 in a referendum that could extend the president's term. It wasn't immediately clear if the attack was related.

Security Minister Alain Guillaume Bunyoni said 24 people were killed in their homes Friday night and two others died of their wounds at a hospital. He gave no further details about the attack in Ruhagarika community in the northwestern province of Cibitoke.

Burundi has seen deadly political violence since early 2015 when President Pierre Nkurunziza successfully pursued a disputed third term. He later survived a coup attempt by army and police officers, including some who fled and announced they had launched a rebel group against the government.

—Associated Press

## ITALY

Continued from Page One with their political class.

The old center-right and center-left parties that built today's EU are losing popular support across most of the Continent, as new rivals seize on voter frustrations including unemployment and fears about societal cohesion amid large-scale immigration from the Middle East and Africa, which has brought 750,000 migrants to Italy since 2011. The main beneficiaries are politicians who argue self-serving elites are robbing ordinary people of their livelihood or cultural identity—a narrative political scientists call populism.

While many of Europe's rising populists are on the nativist right, others have roots in the anticapitalist left. Some—notably the 5 Star Movement—are an ideological hodgepodge united by their claim to offer a new politics. In a continent battered by a decade of crises, es-

tablished parties have often tried to copy such insurgents' policies or to enlist them as junior governing partners.

In Italy, however, antiestablishment groups are poised to take power on their own for the first time in one of the EU's major countries.

The reasons aren't hard to find: Italy has yet to recover fully from the global financial crisis. Industrial output and business investment remain depressed, bad loans burden banks, youth unemployment is among the highest in Europe, and many educated people are emigrating. Years of austere fiscal policies have shored up the budget but further alienated voters. High undocumented immigration from Africa and the Middle East has piled cultural angst on economic woes.

It wasn't clear late Sunday how the parties would tackle irregular immigration, which was a major election issue. The League has called for faster deportations of undocumented immigrants who don't qualify for asylum, which

would require reaching agreements with countries of origin to take them back.

The status quo's most effective critics, the 5 Star Movement and League, together won just over 50% of the vote in Italian parliamentary elections in March. Italy has been without a government since then because of the parties' tactical and policy differences. With new elections looming, the two populist groups overcame the impasse in recent days.

The parties won the elections by offering opposite kinds of fiscal largess. The 5 Star Movement pledged to introduce a universal basic income aimed at protecting the poor and unemployed, winning widespread support in Italy's economically blighted south. The League proposed a flat-rate income tax of 15%.

Both parties vowed to scrap or dilute an unpopular pension overhaul from 2011 that steadily raises the retirement age. Economists say the parties' fiscal promises, if enacted in full, would greatly add to It-



5 Star leader Luigi Di Maio

aly's budget shortfall, likely breaking EU rules that cap deficits at 3% of gross domestic product. Italy's public debt, at 132% of GDP, is the EU's highest after Greece.

It isn't clear how fast or how fully the expected new government will implement the promised measures. So far, financial markets have reacted calmly to the prospect of a 5 Star-League government.

For now, the European Central Bank's interventions in bond markets in recent years have removed fears of capital flight from indebted Southern European countries. But a sharp Italian departure from EU commitments to fiscal discipline could cast doubt on the ECB's willingness to keep markets steady.

Mr. Di Maio, 5 Star's 31-year-old leader, has tried to reassure Italians, investors and the EU that his party would behave prudently in government, countering critics' charge that it is more suited to rabble-rousing than running the state.

Mr. Di Maio said a 5 Star-led government would maintain budget discipline and stay within EU rules. His prospective junior partner, League leader Matteo Salvini, continues to say he would break EU fiscal rules if they are hurting Italians.

"Populists are normal people," said Alberto Bagnai, a member of Italy's Senate for the League. "They have a defect: They love their country

and look with great sorrow at the problems caused by the economic policies of recent years." Mr. Bagnai, an economist strongly critical of the euro, said the common currency remains a bad idea—but the League won't push to leave it. "Our top priority is growth. Exiting the euro is not at the top of our list of priorities."

In Italy, the prevailing mood is that it is time to try something new.

"The flat tax is an interesting proposal," said Beppe Fiumagalli, chief executive of home-appliance maker Candy Group. Although he doubts it can be enacted in full, given Italy's financial reality, he said: "Anything that leads to simplification is positive."

The prospective coalition is "a jump in the dark," Mr. Fiumagalli said. "But I think these parties are reaching a certain political maturity. These groups seized on the desire for change, and how they have to translate that into policies."

—Eric Sylvers in Milan contributed to this article.

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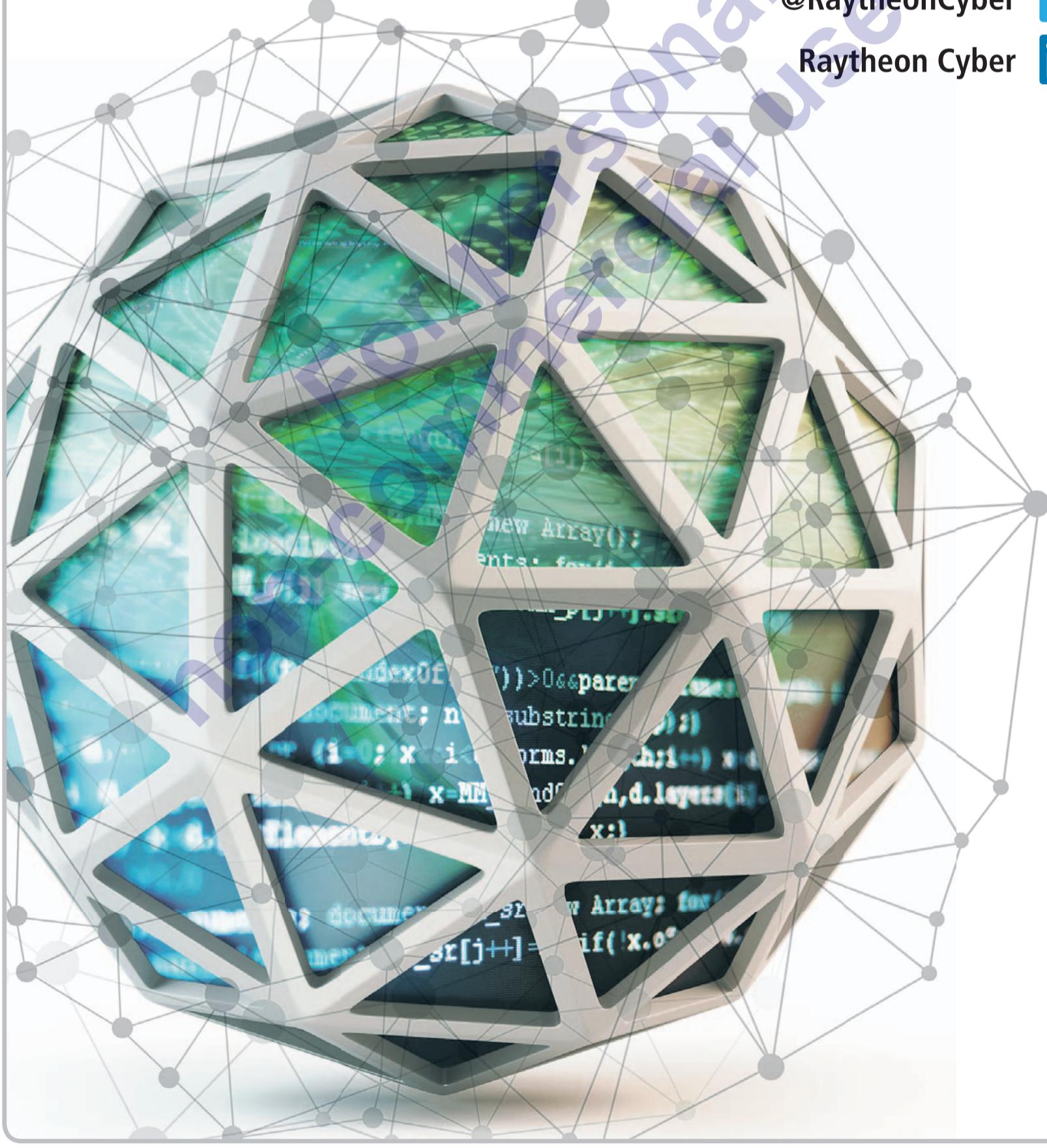
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## IN DEPTH

## COHEN

*Continued from Page One*

More fortunate are the dozens of Fortune 100 companies who, when contacted by The Wall Street Journal, said they hadn't received any overtures from Mr. Cohen or had any contact with him.

Mr. Cohen's pitch was blunt. He would tell prospective clients—large corporations worried about their lack of connections to President Donald Trump's incoming administration—that he didn't know who was advising them, but that they "should fire them all," a person familiar with Mr. Cohen's approach said. "I have the best relationship with the president on the outside, and you need to hire me," Mr. Cohen told them, according to this person.

## Uber pitch

Mr. Cohen repeatedly pitched Uber, which said no, citing Mr. Cohen's ownership of New York taxi medallions as a potential conflict of interest with the ride-hailing firm, a person close to the company said. He modified his pitch in response those objections, reminding the company he was "the president's lawyer," this person said.

The company, this person said, was "bemused."

Severe losses on his New York City taxi investments had, in fact, fueled Mr. Cohen's desire to make money from his ties to the president. A friend described his financial situation as "precarious" and said Mr. Cohen was having trouble maintaining his family's upscale Manhattan lifestyle.

"I want you to know I'm looking out for deals," Mr. Cohen told his friend Mark Cuban in April 2017 as he pitched the owner of the Dallas Mavericks on hiring a health-industry firm Mr. Cohen took on as a client, according to Mr. Cuban. "Michael is a hustler," Mr. Cuban said. "That's who he is, that's what he does."

Mr. Cohen didn't register himself as a lobbyist, which wasn't required provided he only gave companies advice and didn't seek to influence policy on Capitol Hill or in the White House. His clients largely remained quiet about having added him to their payrolls. Lobbyists connected to the companies that hired Mr. Cohen said they were unaware their clients had done so.

His successful consulting deals were made through Essential Consultants LLC, the same company he had used months earlier to arrange a secret pay-



Michael Cohen, who tried to launch a Washington consulting business, arrives at Capitol Hill in 2017.

ment of \$130,000 to former adult film star Stephanie Clifford, professionally known as Stormy Daniels, in exchange for her silence about an alleged sexual encounter with Mr. Trump. He denies the affair.

When contacted by the Journal for this article, Mr. Cohen said in a written statement: "These falsehoods and gross inaccuracies are only being written in the hopes of maligning me for sensationalistic purposes. The truth will prevail and will ultimately be proven in court and not by pundits." He didn't respond when asked what he was disputing.

It is common for people close to a new administration to offer their services based on their proximity to power. "The more you can be seen as an intimate of the president, the more important you become to prospective clients," said Tom Daschle, the former Senate Democratic leader and head of a company that provides strategic counsel to large companies and other clients.

Last month, federal prosecutors raided Mr. Cohen's properties as part of an investigation into possible bank fraud and campaign-finance violations in his efforts to raise cash and conceal negative information about Mr. Trump during the 2016 campaign, according to people familiar with the matter. Mr. Cohen has denied wrongdoing.

The investigation, being led by the U.S. Attorney for the Southern District of New York, stemmed in part from Mr. Muel-

ler, who is probing Russian meddling in the 2016 election and whether the Trump campaign colluded with Moscow.

The president has denied any collusion and Moscow denies meddling. A spokesman for Mr. Mueller's office declined to comment.

From the campaign days, Mr. Cohen made an effort to establish his reputation as a confidant of Mr. Trump, whom he referred to as "the boss" regardless of whether he was speaking to the president or to others, according to people familiar with the matter.

In the first weeks after the election, Mr. Cohen maintained an office in Trump Tower in

mittee, according to people familiar with the matter.

In January, Mr. Cohen signed two of the wealthy donors to the president's inaugural committee as his clients: AT&T and the investment management firm Columbus Nova. AT&T had donated \$2 million to the inauguration; Columbus Nova CEO Andrew Intrater had donated \$250,000. Mr. Cohen solicited Mr. Intrater's donation, according to a person involved in the inauguration.

Columbus Nova's biggest investor is a company called Renova Group that was founded by Russian oligarch Viktor Vekselberg, Mr. Intrater's cousin and one of the richest men in Russia, who has close ties to the Kremlin. At Mr. Intrater's invitation, Mr. Vekselberg attended inauguration festivities, where Mr. Cohen networked with the crowd and spent time with Mr. Intrater, according to people who witnessed his interactions.

He pitched potential clients

on what he said was his ability to help them understand the administration, according to people familiar with the strategy. AT&T agreed to pay him \$50,000 a month. Columbus Nova paid \$500,000 last year.

"It was never that he could talk to Trump" about a client's particular policy interests, one person familiar with Mr. Cohen's pitch said. "It was more that he could decipher what the orbit was thinking because of his long-term relationships and understanding of how the president operates."

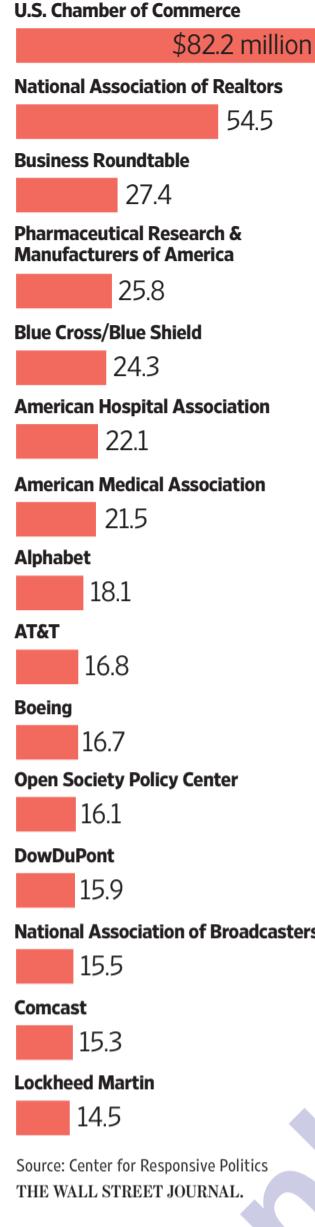
In February 2017, Mr. Cohen began discussing with Mr. Broidy, a venture capitalist who had helped raise money for Mr. Trump during the campaign, the possibility of going into the foreign-consulting business together, and told associates about those plans, according to people familiar with his discussions.

A spokesman for Mr. Broidy denied there were any plans to work together. That partnership didn't pan out, but Mr. Cohen kept trying, the people said. He proposed pitching foreign governments, including from the Middle East and Asia.

One of his early clients, Swiss drugmaker Novartis, paid Mr. Cohen \$100,000 a month for a year, even after a March 2017 meeting in which it determined the attorney's services wouldn't

## Lobbying Leaders

Top lobbyists by 2017 spending



Source: Center for Responsive Politics  
THE WALL STREET JOURNAL.

be useful. Monthly retainers for such services in Washington typically run from \$15,000 to \$30,000, lobbyists say.

In April 2017, Mr. Cohen signed a consulting contract with 4C Health Solutions, a Virginia-based startup. David Adams, the chief executive of 4C, previously told the Journal he met Mr. Cohen through another consultant. Mr. Adams said last month that the company, which agreed to pay Mr. Cohen 5% of business he generated, hadn't paid Mr. Cohen in connection with the contract because he hadn't brought in any business.

Mr. Cohen's deal with law and lobbying firm Squire Patton Boggs was for \$500,000 a year, and gave him a cut of any fees the law firm collected from clients he referred. Among the five clients he delivered to the firm was U.S. Immigration Fund LLC, a company with ties to Mr. Kushner. The Florida company connects businesses with foreign investors through a U.S. visa program.

A friend of Mr. Cohen said that Squire Patton Boggs worked "hand in hand" with Mr. Cohen, and the firm's leaders "paraded him around like a model" for many of their clients.

Mr. Cohen had an office in the firm's Rockefeller Center space in New York. He exchanged pleasantries with other lawyers in the hallway, but his office door was closed about 90% of the time, said one person close to the firm. At Mr. Cohen's request, Squire Patton Boggs installed a lock on his door for which only he had the key, the person said.

About his relationship with the president, he told lawyers at the firm he could call "the boss at any time," the person said.

People close to the White House say there was little contact between the two and, unlike other longstanding advisers to the president who wandered in and out of the White House in the early weeks, Mr. Cohen was more often found at the bar and restaurant of the new Trump International Hotel in Washington.

Over time, Mr. Cohen became frustrated with the relationship, telling one associate he believed he deserved more money, because Squire Patton Boggs was capitalizing on his ties to the president to sell clients on the firm.

"Every one of these mother-ers is going around the world and using my relationship in order to acquire clients, but I'm not being fairly compensated," the associate recalled Mr. Cohen saying.

The firm declined to comment on Mr. Cohen's remarks.

He told associates he wanted to seek partnerships with other consulting and lobbying firms, including Baker Botts and FTI Consulting, both international firms, according to people familiar with the matter. Both firms said they weren't aware of talks with Mr. Cohen and never entered partnerships with him.

## Growing frustration

As 2017 passed, Mr. Cohen grew frustrated with his lack of access to the administration. In calls with associates of the president, Mr. Cohen often asked: "Have you heard from the boss?" One person who saw Mr. Cohen at a restaurant over the winter said Mr. Cohen voiced unhappiness about the state of his relationship with Mr. Trump, complaining that the president was "not calling him and not helping him," this person said.

In November, he landed another client, Korea Aerospace Industries Ltd., which said it hired him to provide "legal consulting concerning accounting standards on production costs." Mr. Cohen proposed to associates pitching foreign governments and companies with a big U.S. presence, including Samsung Electronics Co. Samsung says it wasn't approached.

"I'm going to try to go out and get as many foreign clients as I can," one former associate recalled him saying.

Toward the end of the year, Mr. Cohen's Washington efforts started to unravel. AT&T and Novartis have since called him a mistake.

In March, Mr. Cohen confided in friends that he felt undervalued by Mr. Trump and questioned whether he should continue his work as lawyer for the president, said a person familiar with the matter. About a week later, Mr. Cohen's ambivalence seemed to have vanished. He called associates seeking contributions for a legal-defense fund for White House aides who had been subpoenaed by investigators, the person said. A person familiar with the fund said Mr. Cohen was never asked to raise money for it, and didn't do so.

Less than a month later, the FBI raided his home, a hotel room where he and his family were staying temporarily and his office at Squire Patton Boggs. The law firm, which had notified Mr. Cohen earlier in March that it was terminating his contract, announced the split that day.

—Michael C Bender, Drew Fitzgerald and Julie Bykowicz contributed to this article.



Ford's Ziad Ojakli, right, was queried over Mr. Cohen's approach.

## MEAT

*Continued from Page One*

Not so fast. Lushan's bid to be the center of meat-rock culture is landing with a thud with collectors in other parts of China whose rocks also resemble meat. They say Mr. Jiang's classification system favors Lushan's rocks.

"Of course we object," says Zhang Yaowen, 59, a meat-rock collector in a north China county also vying for recognition. "If Lushan wants to spread their standard throughout the country, that's not possible."

More is at stake than bragging rights. Lushan and other local governments hope meat rocks will draw investment and tourists. Across China, various governments seeking both have seized on monikers ranging from "Land of Donkey-Hide Gelatin"—a traditional Chinese remedy—to "Land of Big Drums," which a southern region known for its plus-size drums has embraced.

Development has lagged in Lushan, a mountainous region where farmers hawk mushrooms and honey roadside. "Meat rocks

are a resource we can develop to promote the economy," says Xing Chunyu, vice-chair of a local political advisory body.

Nationwide, prices for meat-rock specimens have boomed, helped in part by the country's state broadcaster, which in recent years has aired multiple segments spotlighting meat rocks. Stones bearing the most striking resemblance to meat can sell for thousands of dollars.

"Everyone can appreciate meat rocks," says Yuan Ziming, a collector from the northeast city of Tianjin who, like many, prefers to photograph his treasures on plates with real vegetables to boost their verisimilitude. (He also has a favorite stone that resembles a potato.)

Lushan's guidelines, which were published by the provincial government late last year, classify meat rocks into more than a dozen subcategories. These include definitions for what kinds of rocks look like beef, bacon and chicken and suggest stones should appear to have fatty meat, lean meat and skin, with pores, to be considered high-quality. Rocks are graded on a 100-point scale.

Few places may be able to match all those attributes, criti-

cies of Lushan's standards say. Some, like Liuzhou, in the south, carve their rocks, which purists like Mr. Jiang frown on. Size also matters in Lushan's standards. "Some claim their rocks are pork shoulders, but they aren't even as big as a fist!" says Mr. Jiang.

China's appreciation of meat rocks is centuries old, part of a tradition among scholars and connoisseurs who seek out stones in the service of meditation or beauty, prized for their resemblance to everything from mountains to mythical creatures. In the case of meat rocks, the stones contain varying degrees of quartz and silica; high-iron content in some brings out a reddish hue. Riverbeds and hot springs add polish to the finishes.

The world's most famous meat rock is a piece of jasper carved to resemble a slice of braised pork belly. A gift to a Qing Dynasty emperor some 300 years ago, it rests on a gold stand in Taiwan's National Palace Museum and is featured on postcards and museum memorabilia.

Many Chinese meat-rock collectors say Taiwan's meat-shaped stone is inferior to local

specimens. Taiwan's stone "doesn't have any lean meat," notes Mr. Zhang, the collector from northern China. By contrast, he says, stones from his county, Kangbao, contain darker stripes of lean meat, as well as pale stripes suggesting succulent layers of fat. They are deeper in color, Mr. Zhang says, than those found in Lushan.

Like other enthusiasts, he is fond of reminiscing about the first time he saw meat rocks, in his case back in the countryside in 1981: "It was like the whole

field was covered with pieces of pork!"

Drafting Lushan's rock standards wasn't easy, says Mr. Jiang, 65. The task involved heated debates over nomenclature, including whether the rocks should be referred to as "meat rocks"—as they have long been called—or "meat-shaped rocks." The latter, he says, won out: "It sounds more scientific than way."

He says Lushan's standards can be a reference point for others but aren't intended to be

prescriptive.

Huang Weiping, from Liuzhou, says meat rocks shouldn't have any standards at all, and that they are firmly a matter of taste. While Liuzhou's rocks wouldn't hold up well by Lushan's standards, given that they are carved, he says that doesn't diminish their quality. "For those who've just begun playing with meat rocks, ours are very good for their price."

He boasts of their deep red color, saying that they look like raw meat. "Cooked-meat rocks aren't so appealing, they aren't so bright and beautiful," he says.

Back in Lushan, meat-rock aficionado Liang Peng says he hopes their stones can help put the county on the map. In 2015, he founded the China Lushan Meat-Rock Museum, where slabs of rocks—some the size of small boulders—sit carefully plated inside glass cases. It sees a slow trickle of visitors, mostly meat-rock enthusiasts from elsewhere in China.

"We aren't a big city like Beijing or Shanghai," Mr. Liang says. "But our meat rocks are the country's finest. We should be proud."

—Kersten Zhang contributed to this article.



A collection of meat rocks on platters, arranged banquet style.

YUAN ZIMING

pects. Many Chinese meat-rock collectors say Taiwan's meat-shaped stone is inferior to local

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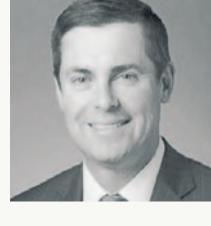
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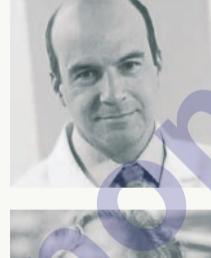
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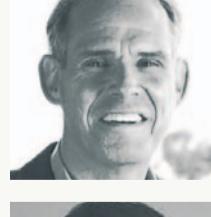
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A 'glamping' site is being built on a part of Governors Island, the latest effort to draw more visitors and make the park self-sustaining.

## Taming Governors Island

BY MELANIE GRAYCE WEST

It isn't much more than a dirt lot with wood platforms right now, but in less than a month's time Governors Island will host guests willing to pay as much as \$500 a night to stay in luxury tents with hotel amenities and views that can't be matched.

The "glamping" experience will include king-size beds, rain-style hot showers, farm-to-table dinners, morning yoga and evening s'mores. Sometime during the summer, the camp will add shipping containers refashioned as hotel rooms that can be used 365 days a year.

"I think of it as a sleepover on a private island," said Peter Mack, the chief executive of Denver-based Collective Retreats, which will operate the campsite.

Over the years the 172-acre oasis off the southern tip of Manhattan has been a military property used to store artillery and house infantry troops in the War of 1812 and in recent decades for the U.S. Coast Guard.

In 2003, the federal government sold 150 acres of the island to the city and state, with the remaining 22 acres staying under the control of the National Park Service. Visitors from May 1 to Oct. 31 can stroll the grounds, rent bikes, picnic, hit up food trucks or just read

### Ambitious Goals To Fill the Space

The long-term plan is for the island to be open year-round, but Michael M. Samuelian, president and chief executive of the Trust for Governors Island, thinks that requires two or three different draws.

With 50 vacant buildings totaling some 1.5 million

square feet, the Trust is shopping for a major cultural institution—perhaps a gallery or museum—to take space. Mr. Samuelian declined to say who is looking.

A bigger hotel using some of the old barracks or a university with a dormitory are also options. So, too, is an outdoor concert space.

"One of my fantasies is to be the Tanglewood of New York," Mr. Samuelian said.

a book on the grass.

Now, with the 100-person campsite, which will open in stages beginning on June 1, and an 80,000-square-foot European-style spa set to begin construction soon, Governors Island is taking a luxe turn. It offers a glimpse into how a park can be self-sustaining while continuing to serve as a resource for public enjoyment.

Michael M. Samuelian, president and chief executive of the Trust for Governors Island, the city-controlled independent nonprofit that runs the island, said the campsite is an experiment to prove to the hotel market that people will want to stay overnight on an island that lacks some basic amenities, such as a drugstore.

"We've toured around every hotelier you can think of," said

Mr. Samuelian in an interview. "I think hospitality, conference center, convening is a very natural next step for us."

It has only been in the past 15 years that tourists have come to poke around the island's landmarked buildings or lounge on the grass. Some 800,000 people visited last year and a million are expected over the next six months.

This year the island will add an artificial skating rink and a film series. Wi-Fi is on the way, and the island will remain open late on Friday nights to draw more weekday visitors.

The Trust has roughly \$51 million in operating and capital sources today. The city pays 85% of the Trust's \$16 million annual operating budget, and nearly all of its capital expenditures. The park's biggest single

expense is the ferry, the way visitors get to and from the island. It now costs \$3 round-trip, up from \$2 last year.

Some \$300 million in capital spending has already taken place, and another \$100 million is in the pipeline for infrastructure, according to the Trust's spokeswoman. The island's many dilapidated buildings, mostly on the Brooklyn-facing side, eventually will be torn down.

Geoffrey Croft, founder of NYC Park Advocates, an advocacy group, applauded the Trust's decision to allow for overnight stays and said the park has done a good job with its programming. But he is concerned that in providing high-end camping that there will be a "two tier park system."

"I'm worried about these blatant commercial ventures taking over the park and ruining it," he said.

Yet big park spaces need revenue to provide nice free things, said Adrian Benepe, a former parks commissioner and now a senior vice president of the nonprofit Trust for Public Land.

"I always felt that the restrictions placed on the island's use were a little bit too onerous," Mr. Benepe said. "Parks function best with cheek-by-jowl use with 24-hour communities."

## Candidates for Job Of Temporary AG To Face Legislators

BY KATE KING

New York lawmakers are set to interview more than a dozen candidates as possible temporary successors to former Attorney General Eric Schneiderman, who resigned last week following allegations of abuse.

Assemblyman Joseph Lentol, a Democrat from Brooklyn, will head a bipartisan committee of eight lawmakers from the state Senate and Assembly that is scheduled to begin public hearings Tuesday to question candidates for the post of interim attorney general.

Some prominent figures who are considering running for the job in the November election have decided to sit out the current legislative process. One such potential candidate, New York City Public Advocate Letitia James, wrote on Twitter Friday that she decided to skip the legislative interviews.

Among the applicants to be interviewed by lawmakers is acting Attorney General Barbara Underwood, a Democrat who served as the state's solicitor general until she replaced Mr. Schneiderman following his abrupt resignation.

Lawmakers will also interview Congressman Sean Patrick Maloney, a Democrat from the Hudson Valley who unsuccessfully ran for attorney general in 2006, and Lloyd Constantine, a close adviser to former New York Gov. Eliot Spitzer.

Some, worried the interim position could be decided by backroom deal making, have called for lawmakers to keep Ms. Underwood in charge of the attorney general's office until November. Zephyr Teachout, a former primary opponent of New York Gov. Andrew Cuomo who isn't scheduled to be interviewed by the legislature but is considering running for Mr. Schneiderman's former seat, said Ms. Underwood should stay on until the election.

State Sen. Brad Hoylman, a Democrat from Manhattan serving on the interview committee, said "of course" any legislative appointment would have politics behind it, but the state constitution is clear that the legislature is supposed to appoint a replacement for the attorney general position. He said there is a "vigorous debate" about whether Ms. Underwood should be appointed for the remaining months of Mr. Schneiderman's term.

Mr. Cuomo, a Democrat, said in an interview on the TV station NY1 on Sunday that he would be "just fine" with Ms. Underwood continuing to lead the attorney general's office until the November election.

Ms. Underwood wrote in a letter to Assembly Speaker Carl Heastie that she wished to fill out the remainder of Mr. Schneiderman's term. She said she wouldn't run in the November election.

## Rutgers Rolls Out Its Graduates



FINISH LINE: Thousands of students received their degrees at a commencement ceremony on Sunday in Piscataway, N.J.

## New Jersey Prepares for Court To Rule on Sports Gambling

BY KATE KING

The Supreme Court hasn't yet ruled on the future of sports betting, but New Jersey is already gearing up to cash in.

State officials, casinos, racetracks and sports-betting operators have been making preparations and investments in anticipation of the court's decision. They want to be ready for the first wagers if the justices side with New Jersey in its challenge to a 1992 federal law that effectively blocked gambling on sporting events outside of Nevada and a handful of states.

DraftKings Inc., the web-based fantasy sports firm, has been hiring staff for a new office it opened in Hoboken in February. Chief Executive Jason Robins said the company has also held discussions with officials at the New Jersey Division of Gaming Enforcement, which would need to approve the company's license and gambling software.

"We think we'll be ready Day 1 and we think it will be a real big success," Mr. Robins

said, adding that he believes the company could see "hundreds of millions in revenue" from sports betting in New Jersey.

New Jersey has been trying to legalize sports betting at racetracks and casinos since 2011, when 63% of the state's voters approved a ballot referendum that allowed the state

constitution to be changed to permit sports betting. Major professional and college sports leagues have sued to block the state from allowing sports betting, and the ensuing legal battles have cost New Jersey taxpayers more than \$8.5 million since 2012, according to state records.

Supreme Court justices heard oral arguments in the

case in December and expressed skepticism over the federal law, called the 1992 Professional and Amateur Sports Protection Act, which prohibits states from sponsoring, operating, licensing or authorizing sports gambling.

Nevada, the only state to allow legal wagering on individual sports contests, and Oregon, Delaware and Montana, which offer more limited versions of sports betting, were grandfathered in. New Jersey has argued that the law violates states' rights.

Daniel Wallach, a sports and gambling-industry attorney with the Florida-based law firm Becker & Poliakoff, predicts that the court will rule narrowly, issuing a decision that would allow New Jersey to decriminalize sports betting without striking down the federal law as unconstitutional.

"That will have significant consequences in that it could create, at least for New Jersey, a short-term monopoly on sports-betting outside of Ne-

*Please see BET page A10D*

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## GREATER NEW YORK

# Chef's Doughnuts Are a Labor of Love

BY JEANETTE SETTEMbre

One of New York's most celebrated and innovative chefs is whipping up a new career selling doughnuts.

Wylie Dufresne, who became a leading practitioner of a scientific cooking style known as molecular gastronomy in the 2000s, now slings cake doughnuts, crullers and coffee at Du's Donuts inside the William Vale Hotel in Williamsburg, Brooklyn.

Mr. Dufresne opened up shop in April 2017 after being forced out of his groundbreaking Lower East Side gastronomic laboratory, WD-50, in 2014 by a real-estate developer who planned to tear down the building.

Now, Mr. Dufresne is branching out, selling his sweet treats in all Whole Foods stores in New York City as well as coffee shops around Manhattan.

Mr. Dufresne, who won the James Beard Foundation's Best NYC Chef award in 2013, spent three months perfecting his made-from-scratch cake doughnut recipe and glazes.

Eccentric flavors include pomegranate tahini, peanut butter yuzu, pistachio pink lemonade and grapefruit camomile. The doughnuts cost \$3.50 each, or \$38.50 for a dozen.

Mr. Dufresne discussed the inspiration for his new career, scaling the new business from doughnut destination to wholesale enterprise, and what goes into the creation of such a pricey doughnut.

**What made you decide to go from fine dining to making doughnuts?**

Wylie Dufresne: I wanted to pursue this a number of years ago. My great-grandfather was a doughnut maker, so doughnuts have always factored heavily into my childhood and left a deep mark. Doughnuts are like a blank slate waiting to be adorned. How can we use our pseudoscientific approach to cooking to make a great doughnut and also use our creativity to make delicious, fun, flavorful glazes? That's where our creativity process hopefully is serving us well.



Acclaimed chef Wylie Dufresne, left, and his shop in Williamsburg where the sweet magic happens.

**New York loves its sweets. When Du's Donuts opened, people were lining up like it was the new Cronut. Are you aiming to be the next doughnut king?**

I would love that. I would love for those crowds to come back. We certainly do great



ELIZABETH SHAFROFF FOR THE WALL STREET JOURNAL (2)

business here, and we're very happy, and we've expanded our wholesale business tremendously since those early days when the line was around the corner, but if you were to come here on a Saturday there's no longer lines around the corner. It would be lovely

to be some sort of doughnut king, but I think we're currently just trying to make it a good doughnut and get it in front of as many people as we can.

**How did you scale your business so quickly?**

Every time I see a coffee shop I make a note of it. I say, 'Hey, why don't we reach out to them?' I was down walking by the Whole Foods on Houston Street and I noticed there was a coffee shop inside and I reached out. Turns out it was their in-house brand and they offered us an opportunity. Now we're in all New York City locations.

**A dozen Du's Donuts cost \$38.50. How do you justify the price?**

There's a lot of labor that goes into our doughnuts. A lot of doughnut shops around the country are using pre-mixes where you just add water the same way you'd go buy boxed cake. We're making it all from scratch and we're using high-quality ingredients. We're using really good flour, cage-free eggs, non-GMO this and that, and those ingredients can be expensive. We're certainly not trying to gouge people, but you know, to me, it's not that expensive when you see what people are paying for other baked goods. You can go buy commodity ice cream, or you can buy ice cream that's \$14 a pint.

# Downtown Tower Lands New Tenant in Tough Market

BY KEIKO MORRIS

Talk about flipping the script.

The office tower at 180 Maiden Lane, a 1.2 million-square-foot

**PROPERTY** building in downtown Manhattan that once housed insurance giant American International Group Inc., is getting a new tenant: consumer-debt resolution company National Debt Relief.

The property is a short stroll from 33 Maiden Lane, a building owned by the Federal Reserve Bank of New York, which played a crucial role in stabilizing the banking system during the financial crisis.

Maiden Lane also was the name of a series of companies created by the New York Fed to help control the damage from AIG and other wobbly firms during the crisis. AIG was among the companies rescued during the financial crisis with bailout packages from the federal government.

National Debt Relief, which got its start in 2009, helps consumers restructure personal debt, collecting fees for its service. The company signed a lease to take roughly 95,000 square feet of office space at 180 Maiden Lane, which has undergone about \$100 million in renovations in recent years and added amenities.

Owners MHP Real Estate

Services and Clarion Partners bought the building in 2015 with about 750,000 square feet of space left vacant after AIG relocated to another downtown tower.

The lease deal with the growing debt-resolution firm follows a lease for 276,000 square feet signed last fall with New York City's Department of Investigation, as well as other midsize deals with financial technology firms, media companies, law firms and nonprofit organizations. National Debt Relief expects to move its offices to floors 29, 30 and 31 from 11 Broadway by the end of the year.

"The momentum depended on the investment the owner-

ship made up front," said Jesse Rubens, a partner at MHP's brokerage services department. "You have to put in the work. You have to put in the renovations and invest the money up front."

The building's location, capacity to handle the company's technology requirements, and its amenities, which include a conference facility, new cafeteria, fitness center, bike room and a revamped, enclosed public space, were a draw for National Debt Relief, which now has more than 900 employees at 11 Broadway, where it has seven floors, said Grant Eckert, the company's chief marketing officer.

A robust economy, high con-

sumer confidence and low unemployment have revived consumer lending, making it easier for people to take on debt, he said. Some take on too much.

National Debt Relief's new offices will be able to accommodate the company's growth, provide the sort of space to attract workers and offer a convenient transportation hub to draw employees from the tri-state area, Mr. Eckert said. The firm intends to hire hundreds of employees over the next 12 months, he said.

"This shows how much tenants truly value these amenity spaces and areas," said Tara Stacom, executive vice chairman at Cushman & Wakefield and part of the team leasing

the tower. "Companies need to put employees in spaces that can attract the talent."

Built in 1983, the tower, which is about 85% leased, still faces a tough downtown leasing market. Coming off a busy 2017 marked by a number of large lease deals, the first-quarter availability rate for office space rose to 14%, up 2.7 percentage points from the previous year, according to CBRE Group Inc. Large blocks of office space for sublease could also add to the competition.

But the team leasing 180 Maiden Lane said they are in discussions with potential tenants for many of the six full floors remaining available. "We see the light," Mr. Rubens said.

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The Haskell Invitational at Monmouth Park Racetrack in 2016.

## BET

Continued from page A10C  
vada," said Mr. Wallach, who doesn't represent any of the parties in this case.

If the court rules the way Mr. Wallach expects, sports gambling would become legal in New Jersey but not regulated, so the state wouldn't be able to tax sports betting.

In anticipation of legalized sports betting, Monmouth Park Racetrack operator Dennis Drazin has been making investments. The racetrack signed a 2013 contract with William Hill US, to spend millions building a sports bar and other facilities to accommodate customers who want to place bets on basketball and football games as well as horse races.

The facility could start accepting wagers within two weeks of the Supreme Court's ruling, said Mr. Drazin, who hopes sports betting will help the state's struggling horse-racing industry survive. He predicts Monmouth Park's profits from sports gambling could range from \$25 million to \$50 million annually, which would be split evenly with William Hill.

Joe Asher, chief executive of William Hill US, said he invested early in New Jersey because the state was committed to going the distance to legalize sports betting. He believes the state's market could grow to more than twice that of Ne-

vada's, reaching a handle, or total amount wagered, of \$10 billion or more a year.

"There's a lot of people in New Jersey and also the sports culture is so deeply ingrained in that region," said Mr. Asher. "We just made a bet, that's all. It seemed like a good bet at the time."

In northern New Jersey, Meadowlands Racetrack operator Jeff Gural said he has taken a wait-and-see approach to sports betting. He believes sports wagers could help plug a \$3 million annual deficit his racetrack is operating with due to competition from higher purses in New York and Pennsylvania.

"It would bring me probably to a break-even, which would be helpful," he said.

In the event that the Supreme Court goes further and decides to strike down the federal law as unconstitutional, Mr. Gural believes that operators will have to wait for the state legislature to pass a law that would regulate and tax the industry.

State lawmakers are also preparing for this possibility, and earlier this month introduced legislation providing for an 8% gross revenue tax on in-person wagering and a 12.5% levy on online sports bets.

One of the bill's primary sponsors, Democrat Assemblyman John Burzichelli, said the legislation is a "placeholder" that was introduced to make sure lawmakers can move quickly following the Supreme Court's ruling.

## GREATER NEW YORK WATCH

JERSEY CITY

### Katyn Memorial Dispute Resolved

A battle over plans to move a waterfront statue commemorating the 1940 massacre of Poles has ended.

Jersey City Mayor Steve Fulop and local Polish groups said they reached an agreement on relocating the Katyn Memorial. Details on the deal will be announced Monday.

Mr. Fulop wrote in a tweet that the goal was one that "respects/cares/keeps the monument in an extremely prominent location to honor sacrifices" while also giving the city "a chance to re-purpose our waterfront."

City officials wanted to move the statue as part of a renovation of the plaza where it currently stands on the waterfront across from lower Manhattan. The Polish groups opposed that and had sought a court order in recent days to block the move.

The bronze statue depicts a Polish soldier bound, gagged and impaled by a bayonet. The planned move sparked strong emotions in Poland, where Katyn is remembered as one of the worst tragedies to befall the nation.

—Associated Press

NEW YORK

### Tappan Zee Panels To Be Used Elsewhere

Fourteen deck panels salvaged from the old Tappan Zee Bridge are heading north for use in new projects.

Orange County's Department of Public Works plans to use the panels in four bridge and two rail-trail projects. The deliveries of the old Hudson River bridge panels to New Hampton more than 40 miles away will start on Monday.

Thruway Authority officials sold 150 of the concrete-and-steel panels for \$1 each to public-works agencies willing to recycle them. The 50-ton panels measure 13 feet wide by 50 feet long.

Orange County officials say the panels will save taxpayers about \$770,000.

—Associated Press

# LIFE & ARTS



## What to Do When a Man's Sex Drive Flags?

**Have reasonable expectations.** Don't buy into the stereotype that says men are always ready to have sex.

**Be open to talking, and try not to get offended.** Think of it as a chance to improve the relationship.

**Consider therapy.** If the male partner is reluctant to go, the woman can suggest he talk to the therapist on the phone.

**Have the woman initiate.** Often couples have a "sexual script" where the man always initiates. The woman can take some of the pressure off him by starting the interaction.

**Pick your timing.** Don't have the conversation when you're in the middle of a sexual situation.

**Focus on the positive.** Rather than a criticism—"we never have sex anymore"—tell your partner you miss being intimate.

**Do new nonsexual things together.** Take up a new hobby, try a new cuisine, ride a roller coaster.

**Change your environment.** Try the shower, the guest room, in front of the fire.

**Be nice to each other.** Kind partners desire each other more, research shows.



JON KRAUSE

BONDS: ON RELATIONSHIPS | By Elizabeth Bernstein

## When Your Husband 'Has a Headache'

**CONTRARY** to conventional wisdom, sometimes it's men who first lose sexual desire in a long-term relationship, a new study finds.

Men's desire for sex can be as tricky as women's, according to researchers at the University of Kentucky. Men often lose interest when they feel insecure, when they worry they are losing autonomy in a relationship, or when physical changes cause embarrassment. Pressure to be the initiator compounds the stress.

"We expect male desire to always be high and to be simple, like an on and off switch, while we expect women's desire to be a complicated switchboard, but they are both complex," says Kristen P. Mark, associate professor of health promotion and director of the Sexual Health Promotion Lab at the University of Kentucky and the lead researcher on study, a broad look at men and women that analyzed 64 studies on sexual desire conducted since the 1950s.

Psychologists say desire in both sexes ebbs and flows. And it's natural for it to decline after the heady honeymoon period, which typically lasts about 18 months to two years. Still, almost 80% of married cou-

ples have sex a few times a month or more: 32% reported having sex two to three times per week; 47% reported having sex a few times a month, according to "The Social Organization of Sexuality: Sexual Practices in the United States," a 1994 University of Chicago study considered the most comprehensive in the field.

Women do lose desire more often than men: Research shows that about one out of three women—regardless of age—report a lack of interest in sex for at least several months in the past year, compared with one in five men, according to Edward Laumann, a professor of sociology at the University of Chicago, who has studied sexual desire and dysfunction for 25 years. But experts say that men are often reluctant to talk about sexual troubles, so the problem may be more prevalent.

Dr. Mark's research, published in March in the Journal of Sex Research, found that the reasons for a drop in desire generally fit into three main categories—individual, interpersonal and societal. Some issues, such as stress, a drop in self-esteem or changes in their attraction to their partner, affect both men and women.

But men's desire also wanes for different reasons. Men have trouble when they expect their desire to always remain high and it does not, or when they fail to make their relationship a priority. Sometimes men's desire drops when a couple has sex for negative reasons—to avoid a fight, for example—rather than positive ones, such as to increase intimacy. Men

**Men have trouble when they expect their desire to always remain high and it does not.**

also feel pressure to always be ready for sex and to initiate it.

There are often physical issues, as well. A man's less-efficient blood flow as he ages, diseases such as depression, or medicines for issues such as high blood pressure or mood disorders can all hurt a man's sex drive.

And these physical changes can cause emotional distress. Embarrassment is a big issue for men

who have trouble getting or maintaining an erection, and so they may stop initiating sex. "For the guys who don't like to do what they don't do well, there will be avoidance, because they feel ashamed," says Michael A. Perelman, co-director of Weill Cornell Medicine's Human Sexuality Program.

Unlike women, men often lose interest in sex when they are unhappy or insecure, Dr. Laumann says. Stress about a promotion, worry about a child, the transition to retirement "all undercut a man's sense of his abilities and prowess," he says.

And sometimes the problem does stem from the relationship. Sex can become routine in a long-term marriage, or partners grow apart. A man may harbor resentments, often about money. Or he may de-eroticize his wife. "He sees her as a good person, mother, supporter, but not as an exciting lover," says Barry McCarthy, a psychology professor at American University.

Is the relationship doomed when a man—or a woman, for that matter—loses interest in sex? Not necessarily. But it's definitely a

signal that you need to evaluate what is going on. And there is the possibility that a decrease in desire for your partner may indicate that the person is no longer right for you, says Gurit Birnbaum, a social psychologist and associate professor of psychology at the Interdisciplinary Center, a private university in Herzliya, Israel. You may have grown too far apart, or your goals, values or interests may have changed. "Your body may be telling you something," she says.

But often the problems can be solved. This will require talking, the experts say, and it's important to do that before it is too late. "A relationship becomes more fragile when it loses its sex aspect," says Dr. Birnbaum.

Start by having a conversation outside of a sexual situation—go for a walk or have a glass of wine. Tell your spouse you miss having sex rather than criticizing. Both partners should ease pressure by accepting that men, not just women, don't want sex all the time. "Approaching hard conversations by being vulnerable up front automatically creates a safer environment for a tough talk," says Dr. Mark.

### ART

## TROPHY WORKS DISRUPT AUCTIONS

BY KELLY CROW

**WHAT'S THE GOING RATE** for a masterpiece? As Sotheby's, Christie's and Phillips kick off a week of spring auctions Monday, the market for trophy art is in flux.

The historic sale of a \$450 million Leonardo da Vinci painting last fall continues to shake up art values at the marketplace's high end, as auctioneers seek to manage collectors' expectations and recalibrate price levels for dozens of other blue-chip artists.

Until recently, \$100 million was a gasp-inducing price for any work at auction. Six years ago, Sotheby's New York saleroom

erupted with shouts and applause when the house sold Edvard Munch's "The Scream" for \$119 million. Yet last week during Christie's sale of the estate of Peggy and David Rockefeller, the packed room was silent as Pablo Picasso's "Young Girl with a Flower Basket"—which had a \$100 million estimate—sold for \$115 million after a single telephone bid.

Afterward, dealers said it was unclear whether the lackluster bidding hinged on the Picasso's dour subject matter—a poor, nude girl—or reflected an audience that has grown accustomed to seeing, and paying, nine-figure prices for art.

Please see ART page A12



David Hockney's 'Pacific Coast Highway and Santa Monica' oil painting goes on the block at Sotheby's on Wednesday.

SOHETBYS

## LIFE &amp; ARTS

WHAT'S YOUR WORKOUT? | By Jen Murphy

# Lifting Golf Bags? That's the Easy Part

A retired PGA instructor puts in serious hours at the gym to serve as a caddie at clubs in Georgia and Massachusetts

**JIM TENNANT STARTED** caddying at age 12 and carried clubs through his teens as a way to save some fun money. Now retired, he's hauling 40-pound golf bags around the green again.

Mr. Tennant, 51, retired in 2016 after working 25 years as a PGA golf professional teaching juniors and women. Looking to stay connected to the game, he began caddying that fall at private clubs in Augusta, Ga., and near his Massachusetts summer home on Cape Cod.

"I chose caddying as a later-life job more for the lack of stress and joy of the game," he says. "It's how I started and got hooked on this industry, and ironically how I'll finish. The money is a nice benefit."

Mr. Tennant caddies nine months a year—February through early May and October through early December in Georgia and late May to early October in Massachusetts. It isn't unusual for him to work 15 summer days in a row.

"Show up, shut up and keep up is the caddie creed," Mr. Tennant says.

"And I'm definitely a few decades older than most of the other caddies."

Caddies carry one or two 40- to 50-pound golf bags for 18 or 36 holes in all weather. He was surprised how sore the job made him, especially in his legs.

To build his endurance and strength, Mr. Tennant developed a CrossFit-style training routine and started taking Bikram yoga classes. "The yoga prepares your body and mind to focus under physical duress," he says. "It duplicates the stress of caddying when it's 95 degrees outside."

**The Workout**

Mr. Tennant turned an old barn at his Farmington, Conn., home into a gym, complete with kettlebells, a TRX Suspension Trainer, battle ropes and tires. In his off-season, January through March, he works out for 1 to 2½ hours, four days a week.

"I'm like a kid in a playhouse," he says. "I have music for speakers and will go in and hit some golf shots into a net and slam around ropes and medicine balls." His wife joins him once or twice a week.

Mr. Tennant focuses on his lower body, doing squats, dead lifts and one-legged squats using the TRX. He pulls a 200-pound tire 30 yards, flips it 10 times and repeats. Golf requires a lot of trunk rotation, so Mr. Tennant also incorporates exercises like tossing a medicine ball against the wall, ini-

tiating the throw from his side body.

Last fall he bought a Super-Speed Golf Training System, which consists of three weighted shafts designed to increase golf swing speed and power. He alternates weights and will swing them for 20 minutes as hard and fast as he can, alternating sides.

He tries to get to a 90-minute Bikram yoga class twice a week. "The instructor is very militant," he says. "I thought I might pass out the first class, but she insisted we could not leave the room. I survived."

When he caddies in Georgia, he goes to a gym on his day off for maintenance. He frequently gets knots in the shoulder he uses to carry the bag. Stretching 15 minutes in the morning and at night helps ease the aches.

In the summer, he does yoga and goes to a local gym. He tries to play five holes of golf two to three nights a week. "If I wasn't in shape, I'd be coming home from caddying and falling on the couch," he says.

**The Diet**

Mr. Tennant eats the same breakfast six days a week: a mix of Cream of Wheat and Quaker Oats. One day a week he goes out for breakfast with his wife and splurges on eggs and waffles. He eats a Clif Bar pre-workout or on the sixth hole if caddying. He tries to always have a peanut butter and jelly sandwich in his cooler and plenty of water. He refuels post-workout with a protein shake. After 18 holes he'll have a chef salad. Dinners include shrimp, salmon or steak accompanied by broccoli and sweet potato.

**The Gear & Cost**

Mr. Tennant estimates he owns more than 100 golf clubs. Ping is a favorite brand. "If I didn't have a barn, my wife would get rid of them," he jokes. His SuperSpeed Golf Training System cost \$200. Mr. Tennant caddies in Adidas Superstar shoes (\$80). He works out in ON waterproof trail shoes (\$150). He wears Oakley Half Jacket sunglasses (\$133).

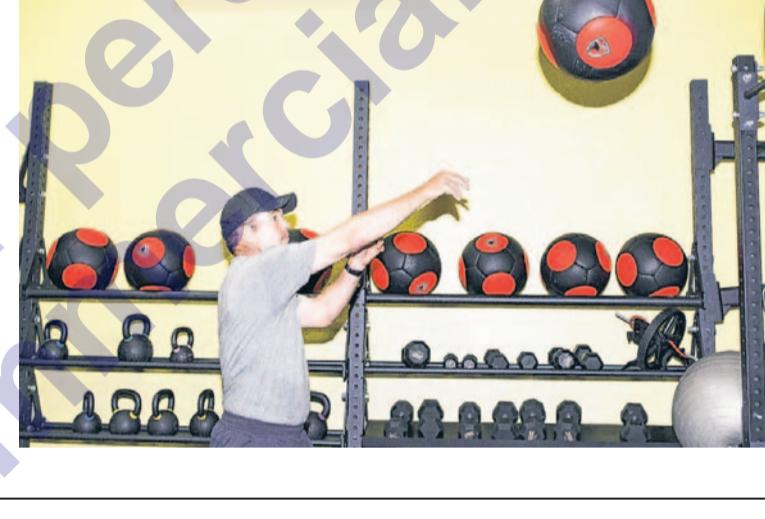
"They're so light, you forget you have them on, but they are indestructible," he says. His 10-class yoga punch card costs \$150. He pays \$30 a month for his membership at Gold's Gym.

**The Playlist**

"I'm a big fan of singer-songwriters like Phil Vassar, Bruce Springsteen, Eric Church and, I'll admit it, even Taylor Swift."



Jim Tennant works out at Gold's Gym outside Augusta, Ga., above, below left and bottom. Below right, Mr. Tennant, left, caddies in Plymouth, Mass. With him are Bob Rotella and pro golfer and instructor Bob Toski.

**The Golfer's Workout Versus the Caddie's Workout**

Golfers are the star athletes, but their caddies often exert at least as much physical effort.

"The two roles are very different, but both require a certain fitness level," says Corey Hug, a physical therapist with the PGA Player Performance Center. Caddies have to carry a 50-pound bag, sometimes on a very hilly course and in extreme heat for up to 7 miles, he says. "It's like putting on a heavy backpack and going for a hike," Mr. Hug says.

You don't have to be a golfer or have experience to be a caddie, says Tim Orton, director of Caddie Services at Western Golf Association in La Grange Park, Ill. As people get older, fitness can be a barrier to entry, though he says most golf bags are much lighter than they were years ago.

Caddies, Mr. Hug says, are more like long-distance runners. He says it isn't unusual to see caddies in the gym with the players, doing a full workout and stretching after a six-hour workday. "Caddies need endurance to carry a load for a long time, whereas golfers have a quiet body and then a fast swing," he says.



Among the high-profile works going up for auction in New York this month are, clockwise from above, a 1917 nude by Modigliani, a bronze and marble portrait by Constantin Brâncuși and an untitled sculpture mask by Mark Grotjahn.



has pledged to buy the work if no one else steps up during the sale. That is a risk-offsetting maneuver that aims to reassure the seller but can also damp competition because rivals know they will need to outbid the investor to win the work. (Christie's \$115 million Picasso sold to its so-called guarantor.)

Overall, the houses will try to sell at least \$1.7 billion worth of impressionist, modern and contemporary art during this series. Other potential trophy works to watch:

**Constantin Brâncuși**

Christie's reset the record for this Romanian sculptor last May when it sold "Sleeping Muse" for \$57.4 million. On Tuesday, it will ask around \$70 million for "Portrait of a Young Sophisticated Girl (Portrait of

Nancy Cunard)," a 1932 work of polished bronze and marble that pays homage to the shipping heiress. Christie's said he sold it in 1955 when an American couple, Frederick and Elizabeth Stafford, stopped by his Paris studio while on vacation. The couple paid \$5,000 and later lent it to the Metropolitan Museum of Art for four decades. Now, their children are selling the work.

**David Hockney**

At age 80, this British-born painter is hotter than ever. The Metropolitan Museum of Art just closed a retrospective of his colorful landscapes and portraits, and earlier this month, another Hockney show, "82 Portrait and 1 Still-Life," opened at the Los Angeles County Museum of Art. Sotheby's hopes to capitalize on the attention to break the artist's \$11.7 million auc-

tion record, set two years ago with "Woldgate Woods, 24, 25 and 26 October, 2006," a forest scene. On Wednesday, Sotheby's estimates it will sell "Pacific Coast Highway and Santa Monica," a rainbow-colored mountain vista from 1990 for at least \$20 million.

**Mark Grotjahn**

This Los Angeles artist's paintings of masks have sold for as much as \$16.8 million at auction. Phillips plans to test another aspect of Mr. Grotjahn's market by offering one of his lesser-known sculptures, "Untitled (Free Standing Large Garden Sculpture Mask M24.g)." Mr. Grotjahn started experimenting with sculpture in 2010, and deputy chairman Jean-Paul Engelen said this 2014 work is a "mask you can walk around." Asking price: \$500,000.

MELISSA GOLDEN FOR THE WALL STREET JOURNAL (3); JIM TENNANT (CENTER)

## ART

Continued from page A11

"Maybe \$100 million is the new \$10 million," said dealer Larry Gagosian.

Christie's said the Rockefeller family was pleased by the Picasso price, adding that the estate sale totaled \$832.6 million overall, a sum that fell short of predictions it might top \$1 billion yet surpassed its own estimates.

Simon Shaw, Sotheby's co-head of impressionist and modern art world-wide, said, "It's becoming more and more difficult to price these masterpieces because people focus so much on them but only a few people in the world wind up competing for them."

On Monday, Sotheby's will need to convince a few of the world's roughly 1,500 billionaires to chase after its priciest offering: Amedeo Modigliani's "Reclining Nude," which it expects to sell for at least \$150 million, the highest estimated price an auction house has ever asked for a work of art. The 1917 portrait depicts a nude blonde looking languidly over her shoulder as she lounges on disheveled sheets.

It's the largest example in a series of at least 35 portraits of nude models that Modigliani painted for his dealer between 1916 and 1919. This one, which has a hunter-green background, is being sold by Irish horse breeder John Magnier, who paid Christie's \$26.9 million for it in 2003. Bloomberg identified Mr. Magnier as the seller.

Mr. Shaw said Sotheby's strategically priced "Reclining Nude" at \$150 million so that it looked like a "great value" compared with a smaller Modigliani nude from this same series that Christie's sold for \$170.4 million three years ago. That work had an asking price around \$100 million. Sotheby's also found an outside investor who

CLOCKWISE FROM LEFT: SOTHEBY'S; CHRISTIE'S IMAGES LTD.; PHILLIPS

## LIFE &amp; ARTS



View of 'Heavenly Bodies' in The Met's Medieval Europe Gallery

into an almost photographic sheen. Here is an echelon of embellished artistry that any czar, king or emperor would envy. Upstarts all, they've been trumped by God.

Do not forgo a trip to the Cloisters, where Mr. Bolton's choices are in such intimate dialogue with the art they look like they could live here. The mood is often playful—Craig Green's knight-like suits of bold medallions (autumn/winter 2017-18) seem to have stepped out of the "Nine Heroes" tapestries that surround them. It is sometimes severe: Olivier Theyskens, using four long slits held in place by simple hooks and eyes, produces a black taffeta gown fit for a goth princess, a cross of bare skin on her chest (spring/summer 1999). And the Passion prevails amid the Unicorn tapestries, where Thom Browne's wedding dress of 2018, wrought from ribbons of white tulle, hovers like a strange cloud. On the bodice, the creature's head and horn are formed with twisted tulle and gold bullion. On the back, yes, there they are, the subtle stab wounds (Father, forgive them, for they know not what they do) that we see in the tapestries.

Another lone vision in white—the holy grail of fashion purists—is Balenciaga's wedding dress of spring 1967. It is posed in glorious isolation, back to the viewer, in a stone apse. This glacial cone of satin has long been one of the most revered designs in fashion history, a mysterious evocation of untouchedness. It was long believed to be conceived with one seam. Mr. Bolton discovered it actually has three. The Trinity.

**Heavenly Bodies: Fashion and the Catholic Imagination**  
The Met Fifth Avenue and The Met Cloisters, through Oct. 8

*Ms. Jacobs writes about culture and fashion for Vanity Fair.*

## EXHIBITION REVIEW

## A Gift From the Sartorial Gods

BY LAURA JACOBS

**New York CHASUBLE.** Chalice. Crosier. Monstrance. Miter. The words themselves are dipped in gold, and each has its glittering place in a hierarchy of symbolic dress and timeless imagery. Sun rays like spears, piercing the flock with light. Sacred wounds spilling blood, sacrificial and ecstatic. The cross, a design gneflection that is both abstract and transcendent. The martyred saints. The winged angels. Gilt reliquaries housing bits of bone. Renunciation clothed in costume of material luxe. Catholicism!

"Catholics live in an enchanted world," writes the theologian and novelist Andrew Greeley in "The Catholic Imagination," published in 2000, "a world of statues and holy water, stained glass and votive candles, saints and religious medals, rosary beads and holy pictures." These are mere hints, Greeley continues, of a "religious sensibility which inclines Catholics to see the Holy lurking in creation." Enter the Met. Its spring exhibition "Heavenly Bodies: Fashion and the Catholic Imagination" places couture and ready-to-wear from the 20th and 21st centuries amid the museum's religious triptychs, altars and artifacts, an idea so right, so inevitably majestic, that it's amazing it never

happened here before. As it turns out, most of the designers whose work cried for inclusion in this show were raised Catholic. No matter if they lapsed; the church's iconography, steeped into the soul, remains a reference and inspiration, voluptuous and transporting. Gianni Versace, Domenico Dolce and Stefano Gabbana, Pierpaolo Piccioli

Avenue and the Met Cloisters. Large as it is, "Heavenly Bodies" is so disciplined in its choices and laid out with such a light touch that it feels unforced, airy, as if the Met's art and architecture were enjoying a visitation from kindred spirits.

The exhibition begins with processions in the parallel Byzantine Galleries, where shimmeringly beaded and sequined dresses by Versace (autumn/winter 1997-98) and Dolce & Gabbana (autumn/winter 2013-14) nod to the Byzantine mosaics and metal-work that influenced their creation. Andrew Bolton, who organized the show and is the Wendy Yu curator in charge of the Costume Institute, has said he wanted "to evoke both the concept and the experience of a religious pilgrimage," and he achieves this in the hall of Medieval and Byzantine Art. Here the classic silhouettes of Catholicism's earthly personae and celestial pantheon—the bishop's soutane, the nun's habit, the pope's "cappa magna," the Virgin Mary's spire-like sheath, the armor of Joan of Arc and the orders of angelology—find themselves poetically acknowledged and exquisitely, sometimes outrageously, reinvented. Simultaneously, we are invited to look again at the specific artwork that frames the dresses—paintings and sculptures we've walked by for years without noticing.



(for Valentino), Jean Paul Gaultier, Christian Lacroix, John Galliano, Alexander McQueen and Thom Browne—the younger generation. Elsa Schiaparelli, Coco Chanel, Madame Grès and Cristobal Balenciaga—from the mid-century. These designers dominate, but the exhibition's more than 150 ensembles come from 50-plus designers and grace more space than any Costume Institute show has thus far: 60,000 square feet at the Met Fifth

Make sure to look up. Thierry Mugler's diamanté gown in virgin blue (autumn/winter 1984-85), invoking the Assumption of Mary, floats above an archway and blesses the long view into the Robert Lehman Wing, where a tableau of angels awaits. These gowns, two made by Jean Lanvin in the 1930s and the rest from a 2011 capsule collection by Rodarte, suggest an early-Renaissance rainbow, their colors the saturated pastels

of Giotto and the lapis lazuli of Fra Angelico.

The coup of the exhibition resides downstairs in the Anna Wintour Costume Center. Approximately 40 vestments from the Sistine Chapel Sacristy—rarely (if ever) released papal mantles and chasubles, priceless tiaras, rings and crosses—speak to the way sumptuous earthly beauty engages the divine. Marvel at embroidered biblical stories, the stitching so fine and nuanced it dissolves

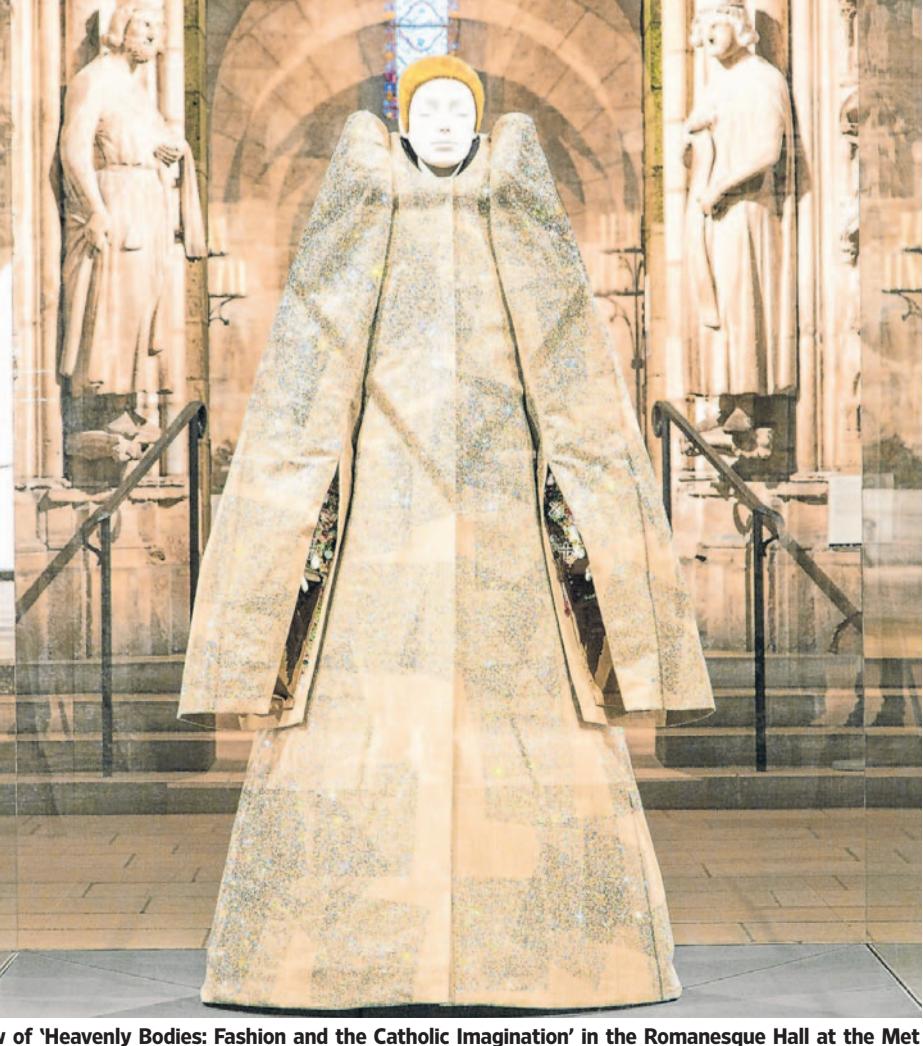
AFLUTTER WITH DIAMONDS  
YELLOW DIAMOND DRAGONFLY

Fancy vivid diamonds. Legendary jewelers. Breathtaking workmanship. 60.26 carats of rare fancy vivid yellow diamonds cover this monumental dragonfly brooch. The collaboration of legends Fred Leighton and Carvin French, this piece was crafted *en tremblant*, allowing the dragonfly to literally "flutter" with the wearer's movements. Assembling over 60 carats of perfectly matched vivid yellow diamonds of the most prized color grade is tremendously difficult. The result is this *pièce de résistance* of singular beauty. Made for Patricia Kluge, then-wife of Metromedia founder John Kluge. Punctuated by 5.40 ctw. rubies. 18K gold. Signed "Fred Leighton". 4 1/4"l x 6 1/2"w. #30-7565

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View of 'Heavenly Bodies: Fashion and the Catholic Imagination' in the Romanesque Hall at the Met Cloisters, above; 1929 miter of Pius XI (reigned 1922-39), center

## SPORTS

## SOCCER

## WENGER TAKES FINAL BOW

BY JOSHUA ROBINSON

HUDDERSFIELD, England—A contrarian until the end, Arsène Wenger took his curtain call before the game even started.

On a bright afternoon in Yorkshire, 22 years after his reign in English soccer began, he strode out of the tunnel here and made his way to the section of traveling fans. Ahead of his 1,235th and final appearance as Arsenal manager, he wanted to share one last moment with them in the strange intimacy of a soccer stadium.

That's when, amid the applause and the chanting, the 68-year-old Frenchman did something unexpected: he took a bow. "It was spontaneous," Wenger said after his side's 1-0 victory. "I know that we disappointed the away fans this season...They had disagreements with me that I can accept. But we had one thing in common: we loved Arsenal Football Club."

That love has been tested in recent seasons, as Arsenal's decline became more difficult to ignore. Until Wenger announced his exit last month, the consensus among the club's supporters was that Wenger had to go—a fact that Huddersfield fans were happy to bring up during Sunday's love-in by singing, "You wanted him out."

The club has yet to name a successor, but the British rumor mill has generated names such as Mikel Arteta, the 36-year-old former Arsenal player who has spent the past two years learning the trade as an assistant to Pep Guardiola at Manchester City. Other candidates are believed to include Juventus' Massimiliano Allegri or New York City FC's Patrick Vieira.

Whichever manager Arsenal settles on faces an enormous task. He will have to repair a broken squad that finished sixth in the league with its lowest points total since the mid-1990s, and function in an environment that is reinventing itself while untangling from Wenger.



Arsène Wenger took his curtain call.



The Western Conference Finals begin on Monday. Clockwise from top left, Stephen Curry, James Harden, Steve Kerr, Chris Paul, Kevin Durant and Mike D'Antoni.

CLOCKWISE FROM TOP LEFT: REUTERS; AP (2); GETTY (3)

## NBA PLAYOFFS

## Myths About Warriors, Rockets

BY BEN COHEN

The Golden State Warriors and Houston Rockets have been the two best and most fascinating teams in the NBA for the last two years. They have model front offices, superb coaches and electrifying star players. They reshaped the league. They redefined the sport. And then they reinvented themselves.

That's the thing about their seductive matchup in the Western Conference Finals, which begins with Game 1 on Monday: The Warriors and Rockets have changed so much this season they now defy much of the conventional wisdom about the Warriors and Rockets.

Here is how Golden State and Houston turned four popular notions into myths.

## The Warriors are a 3-point-shooting team.

They're not.

Golden State is always going to be the face of the league's 3-point revolution, at least for as long as the Warriors have Stephen Curry, and there is no denying they weaponized the 3-pointer on their way to winning an NBA championship in 2015 and the most regular-season games in the history of the league in 2016.

The only problem with that idea is that it isn't true anymore.

The Warriors attempted 28.9 threes per game this year. That

ranked 16th of the 30 teams in the NBA. The Rockets were No. 1 with 42.3 per game. And threes accounted for 33.9% of Golden State's field-goal attempts. That was almost exactly the league average. But it isn't like the Warriors have completely abandoned the shot. They still lead the NBA in 3-point-shooting percentage, which is what happens when Curry, Klay Thompson and Kevin Durant play for the same team.

## The Rockets play too fast and don't play enough defense.

They don't. And they do.

Houston coach Mike D'Antoni was basketball's patron saint of pace when his Phoenix Suns experimented with their "Seven Seconds or Less" offense in the mid-2000s, and he still believes good offense is the result of taking the first good shot. Last year's Houston team played faster than any NBA playoff team in decades.

Which only makes this year's Houston team all the more unusual: The Rockets win fast and slow. They're brutally efficient in transition, averaging more points per possession than any team, but they're also ruthlessly boring in the halfcourt, where James Harden destroys the poor defender he picks to isolate. Their methodical offense is built around getting the mismatch they want every single time down the court and exploiting it until the other team has no choice but to adjust. The Rockets' tempo actually ranked 14th this

season and 27th since February.

The other hallmark of D'Antoni's past teams is that they weren't particularly good on defense. But the Rockets blast that assumption to smithereens. Because this D'Antoni team is excellent on defense.

That was the plan all along. "Our whole focus now is to make sure our defense is solid and tight,"

D'Antoni said in an interview before the season. And the players Houston general manager Daryl Morey acquired as he engineered a roster to beat the Warriors—Chris Paul, P.J. Tucker and Luc Mbah a Moute—have turned the Rockets into a defensive force.

## Isolation basketball is stupid.

It might not be.

The Warriors became a team that could become a dynasty when Kerr installed a beautiful offense predicated on the idea that basketball is an egalitarian sport. They consistently rank near the top of the league in passes per game, and the percentage of their offense that comes from cuts and off-ball screens is astounding.

The Rockets believe in the exact opposite style as the Warriors' symphony of motion. They were dead last in the NBA in passing. And that's because they were first in isolation.

Harden isolated defenders on 35% of his possessions this season, and he scored 1.22 points on those possessions. No one else in the league was above 29.3% or 1.1 points. That's how good he was:

Harden led the league in volume and efficiency. The Rockets were such outliers in this regard that they even had the league's other high-volume, high-efficiency isolation guard. That player above 29.3% and 1.1 points? Chris Paul.

## The mid-range jumper is a bad shot.

Except when it isn't.

The mid-range is the most inefficient part of the basketball court. As it turns out, though, the Warriors see it as something of a market inefficiency.

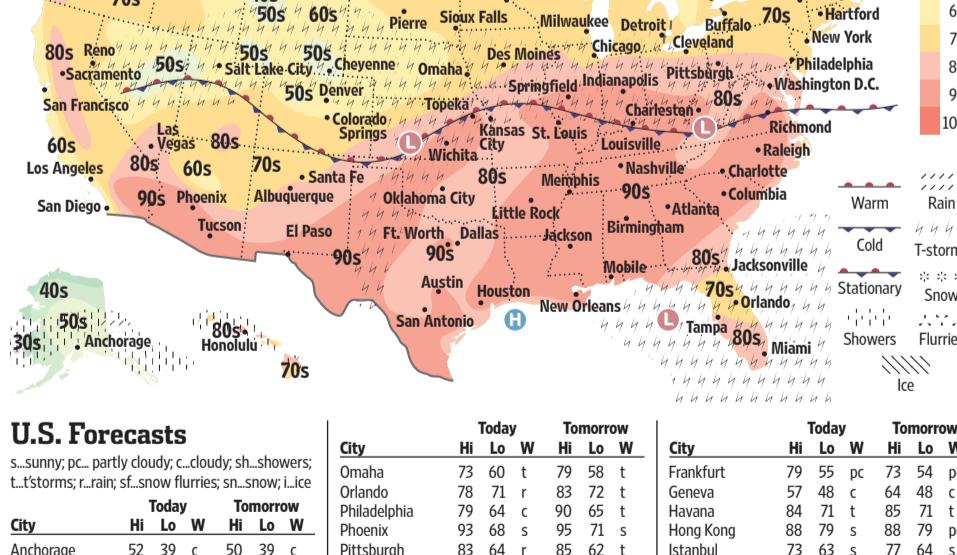
While long twos are never going to be as valuable as layups and 3-pointers, other teams have adapted to the game's evolution, and defenses are increasingly willing to give the Warriors open mid-range jumpers to avoid giving them layups and 3-pointers. And they have taken advantage. Golden State shot 47% in the mid-range this season. Which means they got more value from the least valuable shot than any team in 20 years.

Houston prides itself on its mid-range disdain. It relied on mid-range shots less than any team this year—and for the five seasons before this season. But in an ironic twist, the mid-range was surprisingly useful for Houston in the last round against the Jazz, when Utah's defense made Paul shoot, and he made them pay by shooting 14-of-26.

The Rockets, like the Warriors, were great enough to make a bad shot good.

## Weather

Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.



## U.S. Forecasts

S...sunny; pc...partly cloudy; c...cloudy; sh...showers;

t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

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## OPINION

# The Argentine Peso's Death Spiral

AMERICAS  
By Mary Anastasia O'Grady

A sharp sell-off of the Argentine peso is sparking new inflation fears in South America's second-largest economy. For a country that is heavily dependent on foreign capital and has a history of repeatedly destroying its currency, this is no passing storm.

The return of the International Monetary Fund to Argentina last week with a \$30 billion emergency aid package is proof that the government is in panic mode. But outsiders can't fix this problem, and IMF austerity is likely only to rekindle isolationist sentiment.

Any rescue has to start with President Mauricio Macri explicitly backing the central bank's independence so that the monetary authority can restore its credibility. That effort was under way in the first year of his presidency, which began in December 2015. But a persistent fiscal deficit, inadequate regulatory reform and slow growth have put increasing pressure on the central bank to print money and lower interest rates.

The idea that easy money can substitute as a fix for underlying structural problems wasn't born in Argentina. Barack Obama and Federal Reserve Chairs Ben Bernanke and Janet Yellen tried it for eight years after the 2008 financial

crisis. Yet U.S. growth didn't pick up until the Trump administration began to cut taxes and reverse an antibusiness bias.

It's astounding that Argentina would administer something similar to the Obama-Bernanke elixir, and not only because the U.S. dollar's reserve-currency status is a unique privilege. Argentina has a terrible monetary reputation that can be overcome only by demonstrating a firm commitment to price stability. Germany learned this lesson in the period between World War I and World War II. Argentina keeps reliving it.

The peso is down more than 15% against the dollar in the past three weeks. The central bank has responded by hiking overnight interest rates to 40%. Since April 19 it has sold around \$8 billion in international reserves in a futile attempt to reverse the slide. Credit-default swaps spiked last week.

Mr. Macri is blaming the peso rout on rising dollar interest rates, higher oil prices and "other variables that we don't manage." But as I noted in a February column on this topic, Argentina's deeply rooted culture of populism is the original sin, and Mr. Macri's reluctance to confront it threatens his success.

The president inherited a fiscal mess from his predecessors, Cristina Kirchner, who was president from 2007-15, and her husband, Néstor, president from 2003-07. But the Kirchners also sowed deep

social division with hateful, vicious rhetoric as a strategy for remaining in power. Mr. Macri has sought to heal the nation with a kinder, gentler message from the Casa Rosada presidential office.

Yet sugarcoating the grim economic reality is no way to build consensus for change. It is impossible to generate

## To solve the problem, President Macri needs to get aggressive in challenging Peronism.

support for better policy without a conversation in the public square about how economic nationalism—a.k.a. Peronism—has cost the country.

Only a leader willing to make the case for smaller government and greater economic liberty—every day—can begin to right the ship. If Mr. Macri can't do this, he should hire a team of communicators who can.

The president has instead opted for gradualism, which is a code word for soft-pedaling the sad facts. More than two years into a four-year term, he hasn't made a dent in aggregate government spending, and, as important, tax, labor and trade policy remain too restrictive.

In 2002, the year before Néstor Kirchner took the reins of power, the consolidated government budget was less than 23% of gross domestic product.

When Mrs. Kirchner left it was over 41% of GDP. In other words, there is plenty of fat to cut. Yet the overall fiscal deficit in 2017 was 6.5% of GDP, slightly larger than when Mrs. Kirchner stepped down.

Mr. Macri's first year in office was promising. By October 2016 the exchange rate had been freed, and the central bank was gaining credibility. Inflation was annualizing at more than 44% but the government was able to issue 10-year bonds with a 15.5% coupon.

That may have been because the bank had set an inflation target of 10% for 2018. But in December it raised that target to 15% and subsequently began cutting the overnight lending rate. At the same time the government lobbied, not so subtly, for a weaker peso. The idea was to spur growth to generate more government revenue. It was a mega-miscalculation.

Financing a fiscal deficit in a country without national savings means importing capital, which naturally generates a current-account deficit and a currency that is stronger than it would otherwise be. Creditors were willing to finance the large budget deficit. But the peso devaluation has them heading for the exits, setting off a death spiral and raising inflationary expectations.

Mr. Macri wants Argentina to return to normalcy. But asking the central bank to bear the cost of runaway populism is no way to get there.

*Write to O'Grady@wsj.com.*

BOOKSHELF | By Melanie Kirkpatrick

# Ambitious, Shrewd, Ladylike

Phoebe Apperson Hearst

By Alexandra M. Nickliss  
(Bison Books, 630 pages, \$39.95)

Orson Welles's "Citizen Kane" is famously based on the life of William Randolph Hearst, the flamboyant newspaper publisher and politician of the first half of the 20th century. But there's at least one detail that Welles made up: Kane's parents. In the film, Kane's mother, played by Agnes Moorehead, inherits a fortune and abandons her young son to the care of a banker to protect him from his abusive father. In real life, Hearst's mother, a San Francisco philanthropist and socialite, doted on him, while his workaholic father was largely absent. Hearst's *mère* is the subject of "Phoebe Apperson Hearst: A Life of Power and Politics" by Alexandra M. Nickliss, an instructor of history at City College of San Francisco.

Phoebe Apperson was born in a tiny town near St. Louis in 1842, the eldest child of parents who made sure that their daughter got a good education and who taught her the value of hard work. When she was 19, she married George Hearst,

22 years her senior. George, the son of a neighbor and a successful miner in California, was on a visit home. Phoebe saw him as her ticket to a better life.

Her rise from schoolteacher in rural Missouri to one of the country's wealthiest and most powerful women is worthy of examination, and I wish I could say I liked Ms. Nickliss's book. But it is overlong, over-footnoted and overly PC in its perspective. It is also repetitive. If only I had a Susan

B. Anthony dollar for every time the reader is informed that Hearst was a member of the "elite," or "wealthy," or "white."

That said, "Phoebe Apperson Hearst" is deeply researched, and the persistent reader will be rewarded with a vivid portrait of the challenges faced by women with ambitions outside the home in the latter part of the 19th century. Rich women like Hearst "built distinguished reputations as well-known philanthropists," Ms. Nickliss writes. "But few Americans, especially men, acknowledged and recognized their power."

It didn't hurt that Hearst was a shrewd businesswoman with a "masculine grasp of financial affairs," in the words of one of her friends. Her husband entrusted most of his business finances to her and left her full control over his vast estate at the time of his death in 1891. The wealthier Phoebe Hearst became, the better she learned to direct the recipients of her largess. In public, as Ms. Nickliss describes, she maintained a "ladylike" demeanor with men—quiet, reserved and dignified. In private, however, she was far more assertive, in order to "gain acceptance, achieve her goals, and be effective." Men who worked with her often made the mistake of underestimating her capabilities.

**With control over the Hearst estate, she had leverage over William Randolph, to whose money requests she usually, if not always, acceded.**

Hearst focused her philanthropic interests on education, especially the education of women. She championed the establishment of free kindergartens in Washington, D.C., where her husband served as a senator in the 1880s, and she was a founder of the National Cathedral School, then only for girls. Back home on the West Coast, she was the first woman to serve on the University of California's Board of Regents, where she used her influence and money to create an architectural plan for the Berkeley campus after a highly publicized international competition. Harvard, Princeton, Yale and other universities drew on her creative model.

Her grants to women to attend the University of California may have been the first scholarships based on financial need. She encouraged the university to hire women faculty members; she established a handicraft program so that working-class women could earn money to pay for their studies; and she persuaded the University of California at Berkeley to hire a female doctor and provide physical education for women, who had previously been considered too fragile for such exertions.

Hearst's impulse to do good was shaped by her evangelical upbringing as a member of the Cumberland Presbyterian denomination and by parents who pushed her to "find a useful role in life with meaning and purpose beyond the traditional domestic role," the author relates. In Ms. Nickliss's telling, Hearst was often caught between conflicting desires to give away money and to spend it on expensive homes and lavish entertaining in a manner that befitting what she saw as her proper station in life. The medieval-style castle she built on the McCloud River in California, Ms.

Nickliss says, "left little doubt about Hearst's craving to be viewed and treated like a queen." She apparently passed along the castle gene to her son, whose sumptuous Hearst Castle in San Simeon, Calif., is a popular tourist site today.

Which brings me to an odd omission—her relationship with her famous son. William Randolph Hearst puts in only a few appearances in Ms. Nickliss's narrative. We learn that Will accompanied his mother to Europe as a boy, that his father considered him a spendthrift and refused to leave him any money, and that Phoebe made an agreement with him not to interfere in the management of his newspapers. Since she controlled the Hearst estate, she had significant economic leverage over Will, to whose requests for money she usually—but not always—acceded. It would have been interesting to know whether his mother's business acumen had an influence on the more famous Hearst.

Phoebe died in 1919, at age 76, a victim of the influenza epidemic. For most of her life she distanced herself from the rough-and-tumble of politics, preferring to work with nonpartisan voluntary organizations. Toward the end of her life, she came to support women's suffrage. Breaking her usual rule about not appearing in public, she dressed in suffragette white and marched in the women's division of a parade for war readiness in San Francisco in 1916.

Hearst died before the adoption of the 19th Amendment in 1920. Her life story shows how women—especially rich women—exercised power before they had the right to vote.

*Ms. Kirkpatrick, a former deputy editor of the Journal's editorial page, is a senior fellow at the Hudson Institute and the author of "Thanksgiving: The Holiday at the Heart of the American Experience."*

# A Better Alternative to Payday Loans

By Todd H. Baker  
And Snigdha Kumar

**M**ore than 50 million Americans in low-income working families struggle to manage everyday cash flow. That means they have the resources to pay monthly bills but can't handle small financial shocks or timing mismatches because they lack the savings buffer the more affluent take for granted. Most lack access to reasonably priced credit and can't stretch out medical, home and auto expenses over time. The result is a damaging cycle of reliance on high-cost payday loans, auto-title loans and bank overdrafts that often leads to financial ruin. While interest groups squabble over whether more or less regulation is the answer, people suffer.

There is a solution with benefits for employers and employees. In a new working paper published from Harvard's Mossavar-Rahmani Center for Business and Government, we show that mobile and online financial products sponsored by employers can cover a wider range of borrowers and charge them less money than those available to individuals in the market. Use of these FinTech products may also significantly reduce employee turnover and save employers millions. The key to their success is the "salary link"—meaning the money provided to employees is automatically repaid through

salary deduction. Large employers can make these benefits available today without changes in law or government intervention.

Our paper examined two employer-sponsored FinTech products—a short-term installment loan from SalaryFinance and an "early wage access product" provided by PayActiv. The SalaryFinance online loan is available to

## Using a 'salary link,' employers can help low-income workers get access to credit.

employees in the U.K. (and starting next month in the U.S.) at a fraction of the cost of competing market products. The cost difference is most significant for borrowers with poor credit.

SalaryFinance's typical loan, made to a borrower with a 480 to 500 U.S. FICO score, bears an 11.8% annualized interest rate. A borrower with such a low credit score wouldn't qualify for a standard loan in the U.S. market at any price and would be forced to turn to a payday-type loan or bank overdraft at more than 200% interest. An employer that offers SalaryFinance can be sure it is providing much lower borrowing costs and broader credit access to its employees.

Our preliminary research also found that such employer-sponsored financial products may improve employee retention, with annual turnover rates 19% to 28%

lower among users of PayActiv or SalaryFinance. While more research is needed to fully establish a causal relationship, these findings have significant implications for business. We estimate turnover costs at Target, for example, are around \$567 million annually, or \$3,300 every time a retail employee leaves the company (half do every year). Even a 5% reduction in turnover is worth around \$28 million to a company like Target—and a full 28% reduction would be worth close to \$160 million a year. That would be a gold mine for shareholders.

One encouraging sign is that Walmart, one of the largest employers of low-wage workers, recently made PayActiv available to its employees. From December to March, 80,000 Walmart employees received more than \$30 million through PayActiv.

It's time for more American employers to help low-wage employees deal with liquidity and credit challenges. There's no excuse for waiting when products are available that will save money for workers and their bosses.

*Todd H. Baker is a senior fellow at the Mossavar-Rahmani Center for Business and Government at the Harvard Kennedy School. Ms. Kumar is a 2018 recipient of a master's degree in public policy at the Harvard Kennedy School and a former intern at PayActiv. This op-ed is based on their recent working paper.*

# My Long Recovery From Kindergarten

By Pamela Jane Bell

**F**or a long time I puzzled over how I managed to go from a hopeless screw-up in school to a hardworking, disciplined writer as an adult. After considering it for 50 years or so, I came to the realization that I had been a very hard-working little girl. In fact I was a workaholic, striving, in my 4-year-old way, to decipher the mysteries of the universe and the meaning of life. What was real? What was illusory?

Sometimes, in the middle of the night, it seemed as if nothing was real, that sunlight and houses and stop signs were pictures painted on a curtain. Behind the curtain was a black hole—nothingness. We kids weren't supposed to know about the nothingness. Late at night, when we were asleep, the grown-ups touched up or repaired any wrinkles or tears in the curtain so that we wouldn't suspect what lay behind the seamless surface. Even my

consciousness, my essential being, might be part of the illusion. I lay in the dark, prickling with panic, praying for daylight and the sounds of activity and life to dispel the terrifying specter of nonexistence.

Then, in the middle of wrestling with these dilemmas—I admit I wasn't making much progress—something terrible happened.

## As a girl I played with ideas. The teachers had other ideas.

My parents sent me to kindergarten.

Kindergarten came as a rude interruption to my existential preoccupations. What did finger painting or building blocks have to do with the questions that haunted me? It wasn't that I didn't want to play; I just didn't want to play with blocks and finger paint, at

least not exclusively. I wanted to play with ideas.

I felt hamstrung. This didn't bode well for future academic achievement.

And, sure enough, by third grade I was in the slow reading group. Though I loved to read, I hadn't read the stories or answered the questions in the workbook. I didn't want to answer those questions. I had too many of my own.

Numbers were even more infuriating, especially when concealed in story-problems about children going to the store to buy candy. Just when you were getting interested in the candy-store adventure, they yanked the narrative out from under you and presented you with a math problem involving money laundering.

I hated school so much that I took to heating up the thermometer on the radiator so my parents would think I had a temperature and let me stay home. This worked well, except for the time the thermometer

had too many of its own.

In other words, I was working to become a writer.

*Pamela Jane Bell writes children's books, memoirs and essays under the pen name Pamela Jane.*

## OPINION

## REVIEW &amp; OUTLOOK

## The African Terror Fight

Fighters loyal to Islamic State killed four American soldiers in Niger last fall, surprising even some Members of Congress who apparently had no idea the U.S. is fighting ISIS in Africa. Last week the Pentagon published a highly critical summary of its investigation into the incident, but it should lead to military improvements not a U.S. retreat from Africa.

The report blamed the deaths on "individual, organizational, and institutional failures and deficiencies." On Oct. 4 a platoon-size force of Nigeriens, accompanied by 11 U.S. Special Forces soldiers, was ambushed by a larger and better-equipped terrorist force outside the village of Tonga Tonga. In addition to not being properly integrated with the Nigeriens, the Americans hadn't completed rehearsals to prepare for enemy contact. By the time French aircraft arrived, four Americans were dead.

The incident has prompted reforms to how dangerous missions are approved, and Americans will now have heavier weapons and armored vehicles. Gen. Thomas Waldhauser, who leads the U.S. Africa Command (Africom), acknowledged in a press conference last week that while the U.S. mission is to advise and assist, it's "a little bit of an art, not necessarily a science." Americans have since accompanied Africans on fewer risky missions, which are vetted higher on the chain of command, and protective aircraft are required to join them.

It's reassuring that the U.S. military and the White House have chosen to reform—not to cut and run. Most Americans associate Islamist terrorism solely with the Middle East, but the threat has spread to Africa.

The Bush Administration created Africom in 2007 to deal with growing threats in the region. President Obama made progress against al Qaeda in his first term—until he declared the group effectively defeated and gave Islamic State an opening in Iraq and Syria. The Islamist menace grew in Africa and around the world as the U.S. disengaged, and Mr. Obama had to play catch up late in his Presidency.

ISIS has captured America's attention since 2014. But after the caliphate's collapse as a geographic power in Syria and Iraq, aspiring jihadists are looking elsewhere for safe havens and softer targets. Today someone looking to wage

### The U.S. should stay on the continent despite the failed Niger mission.

holy war might do better in Africa.

African "jihadist operations have generally become more sophisticated," according to a February report from the Foundation for Defense of Democracies. "Between January 2007 and December 2011, jihadists conducted 132 successful, thwarted, or failed attacks against Western interests in Africa."

That number almost tripled between 2012 and 2017. U.S. strategy has shifted accordingly. There are now about 7,200 Americans working for the U.S. on the continent, according to Gen. Waldhauser. The U.S. conducts drone strikes, surveillance flights, training missions and occasional raids against many jihadist groups.

The Islamist group al-Shabaab controls swaths of Somalia and plots attacks across East Africa. It has actively recruited foreigners, including dozens of Americans. President Trump loosened use-of-force restrictions in Somalia, where American troops assist Somali and African Union troops. U.S. forces launched 31 strikes in Somalia last year, according to the Long War Journal, up from 15 in 2016 and three in 2015. Americans are also deployed in nearby Kenya.

The U.S. operates a drone base in Cameroon, conducting missions against Boko Haram, the Nigerian terrorist group that has killed thousands. Then there's Niger, which shares a border with lawless Libya, where the U.S. has conducted airstrikes against Islamists. Boko Haram is on Niger's southeastern border, while an Islamic State offshoot operates to the west. American personnel also assist from nearby Chad and Nigeria.

About 800 American military personnel are based throughout Niger, with many working at a drone base outside the central Nigerien city of Agadez. Most troops are involved with drone operations, though some Special Forces soldiers—like those who died in October—remain.

A Presidential speech laying out the threat and a strategy would provide some clarity and prepare Americans for potential casualties. Mr. Trump can rightly say that Americans are fighting today to prevent new jihadist sanctuaries that could be used to launch attacks against the U.S. homeland, and so that our African allies can eventually manage their own security.

## Contradicting Comey on Flynn—Again

The contradictions of former FBI director James Comey keep piling up. The latest came Friday when Senate Judiciary Chairman Chuck Grassley provided new evidence that Mr. Comey told Congress a different story last year about the truthfulness of former White House national security adviser Michael Flynn than Mr. Comey is now telling the public.

In a letter to the FBI and the Justice Department seeking documents, Mr. Grassley relates that Mr. Comey "touched on" the Flynn case before the Judiciary Committee on March 15, 2017. A "career, non-partisan law enforcement officer" was present and took notes. "According to that agent's contemporaneous notes," Mr. Grassley writes, "Director Comey specifically told us during that briefing that the FBI agents who interviewed Lt. General Michael Flynn, 'saw nothing that led them to believe [he was] lying.'"

Mr. Grassley says this contradicts Mr. Comey's "public statements during his current book tour denying any memory of those com-

ments," and that Mr. Comey "led us to believe during that briefing" that "the Justice Department was unlikely to prosecute [Mr. Flynn] for false statements made in that interview."

The House Intelligence Committee has released a transcript of Mr. Comey saying the same thing about Mr. Flynn, so this is the second time Mr. Comey has contradicted on the point. In December Mr. Flynn pleaded guilty to making false statements to the FBI, and the question is whether special counsel Robert Mueller pressured him to plead to a crime he didn't commit. Attorney John Dowd asks the same question in a nearby letter and says Congress should seek the 302 forms filed by FBI agents who did the interviewing.

This is presumably among the documents Mr. Grassley is seeking from Justice and the FBI, which have no good reason to resist cooperating now that Mr. Flynn has pleaded guilty. This would help Americans learn whether Mr. Flynn was telling the truth—and whether Mr. Comey is lying now.

## A Useful Spending Debate

Rеспubicans in this Congress have failed to tame federal spending—on either entitlements or the discretionary accounts that won a big increase in this year's omnibus bill. Perhaps they can now impose at least a little restraint on money that the government isn't even spending.

Congress can claw back spending with a simple majority through a procedure in the Congressional Budget and Impoundment Control Act of 1974, and last week the White House sent such a \$15 billion "rescissions" package to Capitol Hill. The Administration proposes cuts, and the accounts are frozen. Congress has 45 days to act, or the spending proceeds.

The package zeros out \$4.3 billion from the Advanced Technology Vehicle Manufacturing loan program, an Energy Department outfit that hasn't made a loan since 2011. The program lent your tax dollars to the likes of Fisker Automotive, the electric car maker of the Obama years that went bust.

Some \$133 million would be cut from a lapsed railroad unemployment insurance program, and \$252 million from an Ebola response account, as apparently the money outlived the outbreak. The proposal would cut more than \$100 million in Hurricane Sandy funds that states haven't put up the matching money to tap. The nickels and dimes include farm marketing cash that had been used in at least one case to promote chocolate-covered peanuts, which we'll eat even without subsidies.

About half the package is a rescission to the Children's Health Insurance Program. Every year Congress dedicates more money to the program than is spent, and appropriators pocket the rest to spend elsewhere. In 2016 Congress appropriated about \$23 billion, including a contingency

fund, but only spent a bit more than \$14 billion. No child will lose health care.

That won't stop Democrats from claiming the worst, and Senate Minority Leader Chuck Schumer wasted no time saying Republicans are "looking to tear apart" the program, "hurting middle-class families and low-income children." Republicans have to call out the Democrats for wanting to keep these funds in reserve so they can spend it later on pork.

The current package avoids cuts from the omnibus bill because Senate Majority Leader Mitch McConnell fears that would make it harder to negotiate another deal with Democrats when the budget year ends in September. Mr. McConnell is right that some conservatives are too quick to denounce the tradeoffs in the omnibus bill; a military spending increase was urgently needed. Democrats used the leverage of the 60-vote filibuster to extract more domestic spending in return.

But the GOP now has the leverage of the rescission process to claw some back. This isn't "reneging" on the deal. Republicans are merely using the tools of the majority to pass their agenda, much as Democrats used the tools of the Senate minority to pass theirs in the omnibus. Democrats will do that again in September no matter what Republicans do on rescissions.

The larger political point is that the GOP has an opportunity to make the sensible case to voters that defending the country is more important than other spending and transfer programs. The Administration says this is the first of "several" rescission packages to come, and if Republicans want to motivate their voters to come out in November they'll argue for and pass these cuts.

### Republicans can win a 'rescissions' battle if they make their case.

I enjoyed the exchange between Prof. Jason Furman ("Worry About the Trade Deficit—a Bit," op-ed, May 2) and Donald Boudreaux (Letters, May 8) on the meaning of "current-account deficit." Mr. Furman says: "If a country saves less money than it puts toward things like factories and equipment, then it has to finance the difference with foreign borrowing." Mr. Boudreaux argues: "It is simply untrue that the difference between total investment in the U.S. and total savings in the U.S. must be financed with borrowed funds." He then gives a number of examples of redressing the balance by transferring U.S. assets to foreign creditors.

The correct formula is (investment - disinvestment) = (saving + borrowing). A classic example is the transfer of Manhattan from American Indians to the Dutch for 60 guilders. I am not sure who got the better deal, but the Indians' current account remained in balance.

STEVEN CROW, PH.D.

Boulder, Colo.

## LETTERS TO THE EDITOR

### Tribalism Threatens the Great Melting Pot

Regarding Jason Whitlock's "Kanye Had One of the Best Tweets of All Time" (op-ed, May 8): There is a debate today over whether anyone should be entitled to independent thought and free speech. That is, should anyone be entitled to think and say things that the established purveyors of "correct" thought and speech deem inappropriate? The outrage among African-American "leaders" toward Kanye West is palpable. How could he, an African-American, possibly tweet such things? It is obviously an outrage to his race, no?

This is very similar to the debate about a woman's right to free thought and speech. As Madeleine Albright said regarding women who didn't support Hillary Clinton, "there's a special place in hell" for them.

Increasingly, it seems, we are required to identify with our tribe and then fall lockstep in line with the views established by the chiefs of the tribe. Our tribal leaders are, of course, a jealous lot that fight over their fiefdoms of women, African-Americans, Hispanics, immigrants, etc. And the turf fighting seems to get nastier and more bitter as the chiefs' selfish interests are whetted. It's truly ugly stuff.

I am proud to be a member of the only group that apparently doesn't have a politically correct tribe: European-American males. In this group,

I am allowed to think freely and express my First Amendment right of free speech without being criticized for "abandoning my tribe." It is a good group to be in and I welcome all others who wish to leave their tribes and enjoy the liberation of independent thought and free speech.

HENRY SCOTT  
Potomac, Md.

In the 1960s I often sent letters of support to white people in the Southern states who bravely stood up against segregation, often at the risk of their lives and acceptance in their communities. Now I must applaud Kanye West for his eloquent expression of the need for cultural change and political independence from the yolk of government-support addiction—an equally brave stand that has brought him similar pressures and reactions from his peers. Thank God there are a few brave souls who see beyond the safety of conformance and are willing to start another march for freedom.

BRAD BENNETT  
Binghamton, N.Y.

The greatest form of racism and bigotry is to assume by looking at someone you know who they are, what they think and how they should act.

STEVE RESTAINO  
Chesapeake, Va.

## That Population Bomb Dud Is Still a Danger

William McGurn presents a great overview of the argument for why "The Population Bomb Was a Dud" (Main Street, May 1). However, there is a reason people should not pick up a dud bomb—some blow up unexpectedly. Paul Ehrlich's "The Population Bomb" was that kind of dud; its problem was one of timing. As someone who studies natural resources, I've never had a problem seeing the population problem described in that book. The original title was "Population, Resources, and the Environment," and that's the way it needs to be read. The publisher insisted on the catchier title. Casually keeping up with the news last week, I noted a garbage dump in the middle of the Pacific twice the size of Texas, another smaller one in the Atlantic, microplastics in the water I drink and immigrants scaling border walls—all parts of that

"bomb." Population and consumption need to be jointly considered, but you have to be pretty naive not to think that dud might still go off.

PROF. THOMAS J. STRAKA  
Clemson University  
Clemson, S.C.

If there is anything to be learned from that famous bet Julian Simon made against Paul Ehrlich, it's that they bet on the wrong things—metals. Any farm boy (or thinking person) could tell you that what's in increasingly scarce supply in an overpopulated world are the very things life depends on—potable water and arable land. Since that 1980 bet, the price of these have dramatically increased while the supply continues to diminish.

JIM WALTERS  
Iowa City, Iowa

## President Trump Should Pardon Gen. Flynn

Regarding your editorial "The Mystery of Michael Flynn's Plea" (May 7): If I were Rudy Giuliani, I would advise President Trump to immediately issue a full pardon to Gen. Michael Flynn based on the sworn testimony of both the director and deputy director of the FBI. News organizations could hardly ignore the pardon and, given the testimony of James Comey and Andrew McCabe, would be hard pressed to call it obstruction of justice.

Once pardoned, Gen. Flynn should then be asked, under oath, if he was coerced, due to lack of funds or by a threat to his family, to plead guilty to making a false statement. There is a growing smell of "swamp gas" and it appears to be rising from the top echelons of the FBI and Justice Department. The good people who make up the core of those agencies must be furious with their leadership for the disgrace they all are forced to share.

JIM BARBER  
Mesa, Ariz.

### The Sale of Manhattan In Balance of Trade Terms

I enjoyed the exchange between Prof. Jason Furman ("Worry About the Trade Deficit—a Bit," op-ed, May 2) and Donald Boudreaux (Letters, May 8) on the meaning of "current-account deficit." Mr. Furman says: "If a country saves less money than it puts toward things like factories and equipment, then it has to finance the difference with foreign borrowing."

Mr. Boudreaux argues: "It is simply untrue that the difference between total investment in the U.S. and total savings in the U.S. must be financed with borrowed funds." He then gives a number of examples of redressing the balance by transferring U.S. assets to foreign creditors.

The correct formula is (investment - disinvestment) = (saving + borrowing). A classic example is the transfer of Manhattan from American Indians to the Dutch for 60 guilders. I am not sure who got the better deal, but the Indians' current account remained in balance.

STEVEN CROW, PH.D.

Boulder, Colo.

Congress needs the FBI "302" report of the Flynn interview. There are reports that Gen. Flynn referred to the FISA wiretap of the Ambassador Sergey Kislyak conversation at the outset of the FBI interview. If those reports are true, his reference to the complete and accurate wiretap precludes any charge of false statement.

The Flynn plea on Dec. 1, 2017 was improvident and should not have been accepted by the court. A

provident plea to 18 USC § 1001 (false statement to FBI) has two elements:

A) that it be false; B) that it be material to the inquiry.

The Mueller investigation concerned possible collusion with Russia during the 2016 election campaign that ended Nov. 8, 2016.

The questions and answers in the Flynn FBI interview occurred in December 2016 and involved conversations with the Russian ambassador in December 2016—after the 2016 election campaign, and are thus immaterial to the stated inquiry of collusion during the 2016 campaign. Gen. Flynn kept his security clearance.

Neither DAG Sally Yates nor Mr. Comey recommended charging Gen. Flynn. Thus, the improvident plea as drafted and signed by Special Counsel Robert Mueller was defective on its face and should have been unacceptable by the court. The special counsel and the court failed us.

JOHN M. DOWD  
Washington

Mr. Dowd formerly served as counsel to President Trump.

## Pepper ... And Salt

THE WALL STREET JOURNAL



"Amazon has taken from us the sense of waiting your turn."

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## OPINION

# Mueller's Investigation Crosses the Legal Line

By Steven G. Calabresi

Judge T.S. Ellis has expressed skepticism about the scope of special counsel Robert Mueller's investigation. "What we don't want in this country is . . . anyone with unfettered power," Judge Ellis, who is to preside over the trial of former Trump campaign manager Paul Manafort, told prosecutor Deputy Solicitor General Michael Dreeben May 4. "So it's unlikely you're going to persuade me that the special prosecutor has unlimited powers."

Judge Ellis is right to be skeptical. Mr. Mueller's investigation has crossed a constitutional line, for reasons the U.S. Supreme Court made clear in the 1988 case *Morrison v. Olson*. That case is best known for Justice Antonin Scalia's powerful lone dissent arguing that the post-Watergate independent counsel statute was unconstitutional. But Chief Justice William Rehnquist's opinion for the court, while upholding the statute, set forth limits that the Mueller investigation has exceeded.

## It's unconstitutional under *Morrison v. Olson*—the decision, not the dissent.

At issue is the Constitution's Appointments Clause, which provides that "principal officers" must be appointed by the president with the Senate's consent. Rehnquist wrote that independent counsel Alexia Morrison qualified as an "inferior officer," not subject to the appointment process, because her office was "limited in jurisdiction" to "certain federal officials suspected of certain serious federal crimes."

Mr. Mueller, in contrast, is investigating a large number of people and has already charged defendants with many different kinds of crimes, including—as in Mr. Manafort's case—ones unrelated to any collaboration between the Trump campaign and Russia. That's too much power for an inferior officer to have. Only a principal officer, such as a U.S. attorney, can behave the way Mr. Mueller is behaving. Mr. Mueller is much more powerful today than any of the 96 U.S. attorneys. He is behaving like a principal officer.

Rehnquist's majority opinion has never been overturned. In *Edmund v. U.S.* and in *Free Enterprise Fund v. Public Company Oversight Board*, the justices said that an officer cannot be inferior unless he has a boss—as Mr. Mueller does in Deputy Attorney General Rod Rosenstein, who appointed him. But that's not a sufficient condition. As a principal officer, Mr. Rosenstein could legally have brought all the indictments Mr. Mueller has. But he may not delegate that authority to Mr. Mueller, any more than President Trump could delegate his veto power to Mr. Rosenstein.

The Framers struggled long and hard over the Appointments Clause. For better or worse, they arrived at the process of presidential nomination with senatorial consent. The Justice Department's Office of Legal Counsel should confirm the analysis set forth above in a legal opinion to guide Mr. Rosenstein in the exercise of his duties. Judge Ellis should dismiss the indictment against Mr. Manafort on Appointments Clause grounds. All other defendants Mr. Mueller charges, and witnesses he subpoenas, should challenge the constitutionality of his actions on Appointments Clause grounds.

*Mr. Calabresi served as a special assistant to Attorney General Edwin Meese (1985-87) and a law clerk to Justice Antonin Scalia (1987-88). He is a co-author of "The Unitary Executive: Presidential Power from Washington to Bush."*

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# America Recognizes One Jerusalem

By Eugene Kontorovich

The U.S. on Monday will officially open its new embassy to Israel in Jerusalem. This will correct a surreal policy whereby, since Israel's independence 70 years ago, the U.S. and other nations have refused to recognize its sovereignty over its capital city. President Trump announced in December he would reverse the old policy. By moving the embassy he now translates words into deed.

The embassy's exact location within Jerusalem has gotten much less attention, but it is equally consequential. It will be housed in buildings used by the American Consulate, as well as in an adjacent former hotel purchased by the State Department in 2014. Most of that complex is located on the far side of the armistice line that divided Jerusalem from 1949 to 1967. Thus the embassy site demonstrates that the U.S. not only sees Jerusalem as Israel's capital, but also—consistent with bipartisan calls from Congress—recognizes the city as unified.

The "Green Line" was created in the wake of Israel's 1948-49 War of Independence. Upon the country's founding, Jordan and its allies invaded, with the goal of preventing the creation of a Jewish state. Although they failed at that goal, the Arab armies did occupy significant territory when the armistice was called, including what is now widely referred to as the West Bank and East Jerusalem. Jordan subsequently expelled all Jews from the areas under its control.

In 1967, during the Six Day War, Israel recaptured these places. But in the war's aftermath the United Nations invested the temporary 1949 armistice line with talismanic significance. The U.N. claimed Israel was "occupying" the territory that Jordan had forcibly seized not two



Outside the U.S. Consulate in Jerusalem—now the embassy—on May 8.

decades earlier. Thus the international community came up with a unique demand: Israel had to keep the areas under its control, including East Jerusalem and the Old City, free of Jewish inhabitants. Any move to unify Jerusalem would be considered a war crime.

## The new U.S. Embassy straddles the 'Green Line,' refusing to dignify claims of Israeli 'occupation.'

In international law, armistice lines are not borders; they merely mark breaks in the fighting. The claim that the Green Line created a permanent "Judenrein" zone in the area occupied by Jordan, or that it in any way changed the legal status of the territory on the far side, is unique and illiberal.

By ignoring the armistice line today, the U.S. is showing that it attaches no legal significance to this outdated demarcation. Having an embassy that straddles the Green Line

But that sentence does not mean what they claim. The president was leaving open "final status" borders—those that might be negotiated in the future. Mr. Trump was saying that American recognition of today's Jerusalem, with its well-known municipal boundaries, in no way would prevent Israel and the Palestinians from later agreeing on different lines.

Most proposed peace plans contemplate Israel ceding parts of its undisputed sovereign territory to a future Palestinian state. In that sense, all of Israel's "specific boundaries," far beyond Jerusalem, are subject to change by a final status agreement. That possibility, however, does not negate American recognition of Israel's current borders.

Others who wish to obfuscate the significance of the new embassy's location note that it sits in a pocket of land that was a U.N.-administered demilitarized zone from 1949-67. But the legal theory that paints Israel as an "occupier" is not based on who controlled the land during that period. Rather, the argument is that Israel does not have the right to any territory on the Green Line's far side. The former DMZ is exactly such a location. In 1958 a U.N. Security Council resolution explicitly declared that the DMZ was "beyond" the 1949 armistice line.

All this can mean only one thing: The U.S. no longer buys into the legal theory behind claims of Israeli "occupation." Other countries may soon follow, just as they are now announcing their intention to recognize Jerusalem. America's affirmation of a unified city may be only the first fissure in the ossified international consensus.

*Mr. Kontorovich is a director at the Kohelet Policy Forum, a Jerusalem think tank, and a professor at Northwestern University's Pritzker School of Law School.*

# Managed Trade? I'm Back in the U.S.S.R.

By Daniel M. Price

The current U.S.-China trade talks have a historical parallel, with an odd role reversal. On June 1, 1990, seven months after the Berlin Wall fell, Presidents George Bush and Mikhail Gorbachev met at the White House to sign an agreement normalizing trade relations between the U.S. and the Soviet Union.

The agreement capped a year of intense negotiations, during which Ambassador Julius Katz, a legendary trade diplomat, led the U.S. delegation, and I served as his legal counsel. Katz had negotiated with the Soviets in the 1970s and was charged with reaching a modern agreement that could be signed at the June summit.

The negotiations began with the two sides exchanging initial drafts. The U.S. draft proposed rules for reciprocal market access, nondiscriminatory treatment of U.S. companies, protections for intellectual property, and various other standard trade and investment rules. It stated that trade should proceed on the basis of contracts between parties "concluded in the exercise of their independent commercial judgment and on the basis of customary commercial considerations such as price, quality, delivery and terms of payment."

The Soviet draft was essentially a series of proposed purchase and sale orders, indicating the types and volumes of products the parties were to buy from each other. Not terribly surprising for a centrally planned economy where government fiat and so-called state orders dominated commercial life.

Ambassador Katz explained to the Soviet side that the goal was to reach an accord on rules for a fair trading relationship, not prescribe the precise commercial outcomes. That is, government's role was not to manage trade but to set the legal framework for fair and open trade.

As for the Soviet delegation, they were split. Some favored the U.S.

approach as helping the transition to a market economy. Others reflected the older Soviet approach, insisting on immediate transactional benefits.

Almost 30 years later, the U.S. again finds itself in difficult trade talks in a changing world. Yet it faces a similar choice: to reach agreement with China on a set of rules for the trade relationship, or, Soviet-style, to dictate commercial outcomes by prescribing purchases and sales.

But this time it's the U.S. that is internally divided. The recent meeting in Beijing was meant to address escalating trade frictions brought on by U.S. threats and Chinese counter-threats of tariffs. President Trump proposed the U.S. actions in response to the U.S. trade representative's Section 301 report, which exhaustively catalogued China's unfair and discriminatory practices that impede reciprocal market access, appropriate U.S. intellectual property, and compel technology transfer by foreign companies doing business in China.

Reflecting the president's preoccupation, the U.S. team in Beijing led with a demand that China agree to a numerical trade-deficit reduction target of \$200 billion by 2020. Last Thursday Commerce Secretary Wilbur

Ross confirmed the administration's fidelity to the Soviet managed-trade script: "Our approach has been to request individual products on which we could sell more to them . . . as opposed to them selling us less."

Instead of threatening tariffs that U.S. consumers would ultimately have to pay, or prioritizing deficit-reducing purchases by China that

## Soviet negotiators' 1990 demands find echoes in the Trump administration today.

would temporarily help only a small group of U.S. companies, the administration should seek commitments for systemic change. Once an agreement is reached, it should be recorded in a set of enforceable rules tailored to address China's unique challenges.

The U.S. is more likely to be successful if it works with its allies. And they would readily join in pressuring China for such commitments as their companies suffer from the same unfair practices.

First, unlike U.S. trade deficit-reducing measures that would likely come at our allies' expense—China can simply substitute U.S. products for other foreign imports—rules for market access and fair treatment would benefit all.

Second, good models for such rules are already reflected in recent trade and investment agreements concluded by the U.S., the European Union, Japan, South Korea, Australia, Canada, Singapore and many others.

Moreover, China itself has shown a willingness to negotiate similar rules in various agreements, including in talks begun under the George W. Bush administration, advanced during the Obama administration, but never concluded.

As negotiations continue this week in Washington, Mr. Trump should remember that real and sustainable change in trade relationships comes from agreement on rules, not purchase targets. He has a historic opportunity to secure new commitments from China and chart the new rules that eluded his predecessors. To succeed, he must turn away from old Soviet-style trade priorities.

*Mr. Price is managing director of Rock Creek Global Advisors LLC.*

# A Mayor Tries to Zone Out Free Speech

By Margot Cleveland

*South Bend, Ind.* The U.S. Supreme Court is considering a constitutional challenge to a California law targeting pro-life pregnancy centers.

The so-called FACT Act requires the centers to tell clients they may qualify for subsidized abortions—a clear example of compelled speech. But such laws aren't the only threats to the centers' freedom of speech. At the local level, activists have begun a quiet push to protect the abortion industry through zoning.

Last month the Women's Care Center, which operates 28 pregnancy and family-resource centers in 10 states, became the latest target. A Texas-based abortion-clinic chain, Whole Women's Health, convinced the mayor of South Bend, Ind., to veto a decision by the city's Common Council rezoning a house for a Women's Care Center next to a planned abortion clinic.

Mayor Pete Buttigieg made clear the veto was motivated by the center's pro-life message: "In my judgment, the neighborhood would not benefit from having the zoning law changed in order to place next door to each other two organizations with deep and opposite commitments on the most divisive social issue of our time," he wrote. "It is far from clear that a neighborhood benefits from co-locating facilities with such opposite views." He added that while the Department of Community Investment staff approved the rezoning,

"the recommendation did not contemplate broader concerns about the health and welfare of the area, given the deep opposition in values between the petitioner and its existing neighbor."

The mayor also cited his purported concern over violence. He wrote that "research" provided by Whole Women's Health indicates "clinics in close proximity to a crisis

## At the behest of an abortion clinic, Pete Buttigieg of South Bend targets a pro-life center.

pregnancy center experience significantly higher rates of violence, threats, and harassment (21.7%) than those not near such a center (6.8%)."

The Supreme Court has allowed local zoning laws to survive constitutional scrutiny based on negative secondary effects, such as higher crime rates near strip clubs. But that precedent will not save Mr. Buttigieg, for several reasons.

First, the so-called research consisted of one unscientific survey distributed to abortion clinics, which self-reported any incidents of violence, threats and harassment. The Supreme Court has said that "shoddy data" cannot be used to justify viewpoint discrimination. Second, in the survey the abortion clinics consider "harassment" to include

peaceful protests. Since such demonstrations are constitutionally protected, they cannot be considered a "negative secondary effect."

The survey also does not distinguish between the types of pro-life organizations and the activities they sponsored. While some crisis pregnancy centers may protest abortion clinics or engage in confrontational tactics, the Women's Care Center does not engage in political activity or allow others to do so on its property. There has never been an instance of violence connected to the Women's Care Center—the nation's largest such organization—although 22 of its 28 centers are adjacent to abortion clinics.

Mr. Buttigieg's veto is not surprising. He is 36 and ambitious: Last year he ran for Democratic National Committee chairman. Given the party's extreme pro-abortion position, he had to comply with the demands of the abortion lobby in order to keep his national political hopes alive.

But his first responsibility is to the people of South Bend. Mr. Buttigieg's decision will subject the city to legal liability under the First Amendment—that is, unless the Common Council overrides the veto when it meets Monday. That would be a victory for choice, for South Bend—and for the Constitution.

*Ms. Cleveland is a lawyer and an adjunct instructor at the University of Notre Dame. She served on the Women's Care Center board from 1996-2003.*

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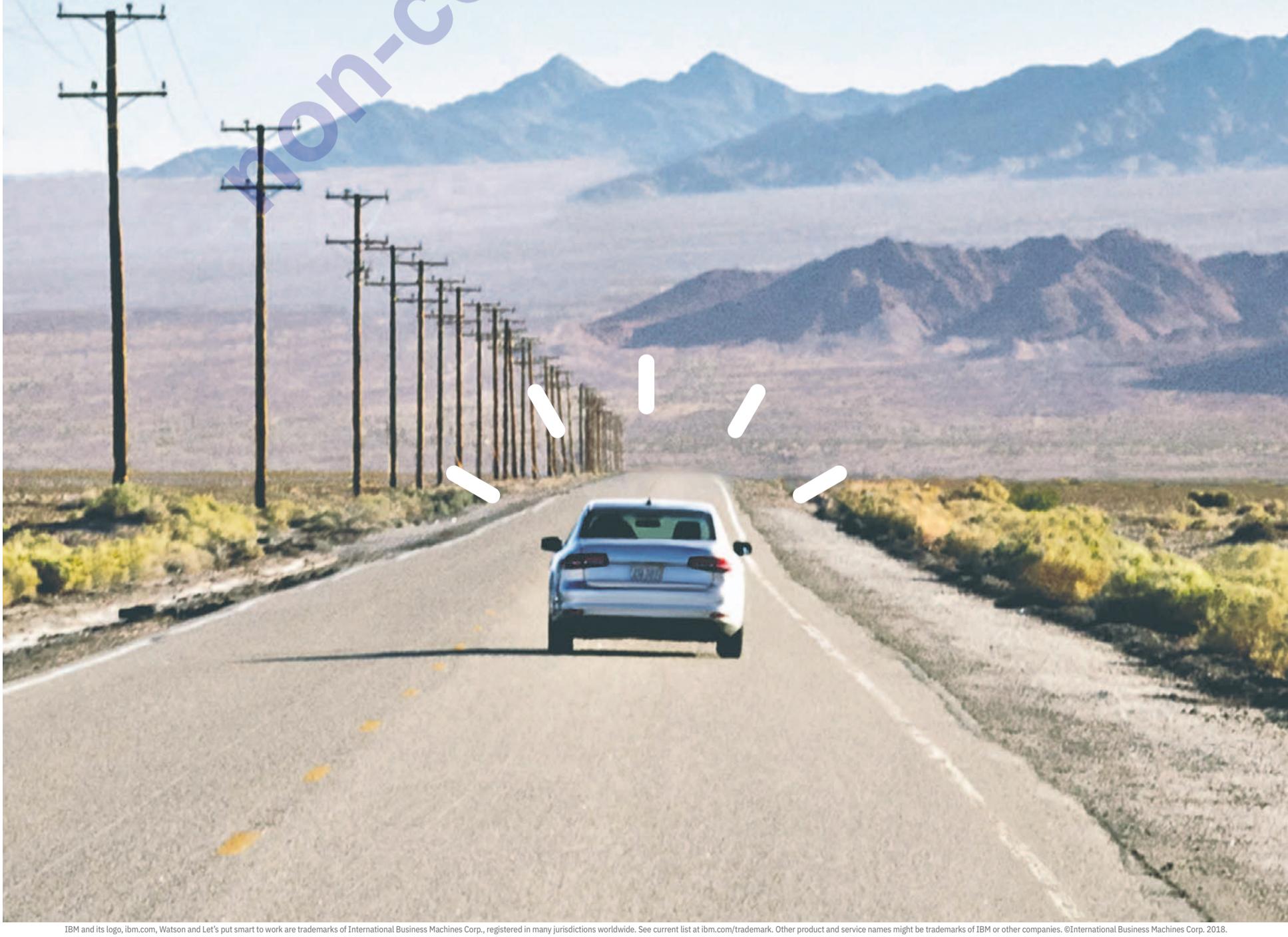
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# BUSINESS & FINANCE

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\* \*

THE WALL STREET JOURNAL.

Monday, May 14, 2018 | B1

## Xerox Pulls Out of Fujifilm Deal

By CARA LOMBARDO

Xerox Corp. said it would back out of its merger deal with Fujifilm Holdings Corp., as it reached a new settlement with two of its biggest shareholders, the latest twist in a monthslong tug of war over the future of the iconic American company.

The printer and copier company said it reached a settlement

to replace its chief executive and overhaul its board after it ended a plan to combine with its joint venture with Fujifilm. This is Xerox's second settlement with activist shareholders Carl Icahn and Darwin Deason; the company had earlier struck a deal with the two billionaires to oust Chief Executive Jeff Jacobson and flip the board, but that agreement abruptly expired ear-

lier this month before receiving court approval.

The new settlement marks a win for Messrs. Icahn and Deason, who agreed to table their proxy fight after several months of drama. They opposed the plan to combine with the joint venture Fuji Xerox, arguing it undervalued Xerox, and had planned to run their own slate of directors for Xerox's board.

Xerox appointed five new members to the board and five existing members resigned, plus Mr. Jacobson. One of the newly appointed members, Icahn Enterprises CEO Keith Cozza, is expected to be chairman.

Now, the new Xerox board—the majority of which is made up of directors backed by the activists—will immediately begin examining strategic alternatives.

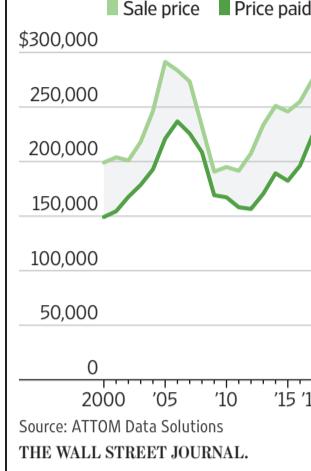
Messrs. Icahn and Deason have said Xerox could be sold to a competitor or private-equity firm.

As part of the settlement, John Visentin will succeed Mr. Jacobson as chief executive, the company said Sunday. Mr. Visentin is a former executive at several technology companies and had been working with the

Please see XEROX page B2

**Before and After**

The average price paid by house flippers has risen faster than the average sales price of rehabbed houses.



Source: ATTOM Data Solutions

THE WALL STREET JOURNAL

## KKR Ups Ante On Home Flippers

By RYAN DEZEMBER  
AND PETER RUDEGEAIR

KKR & Co. is raising its bet on high-interest, short-term home loans, the latest sign that Wall Street firms are aiming to cash in on the risky but lucrative house-flipping market.

Borrowers of residential transitional loans—or flip loans, as they are better known—use the money to buy a property, renovate it and then try to quickly resell at a profit. They have become a lucrative and growing niche of finance in recent years. Nomura Holdings Inc. estimates that flippers will borrow some \$15 billion this year, nearly 25% more than last year.

KKR is the latest example of Wall Street's growing interest in the area. The private-equity house is boosting its commitment to Toorak Capital Partners LLC, a New Jersey concern that buys up loans made to home flippers and other residential-rehabilitation specialists from originators throughout the U.S. and the U.K. Toorak has been able to so far buy more than \$1 billion of this debt.

KKR had previously invested \$75 million in equity in Toorak. Now, the firm says it is increasing that to \$250 million.

Goldman Sachs Group Inc. is another big financial player that has entered the business of writing and buying flip loans.

Toorak and other firms like it buy flip loans from originators, often online operations like Peer Street Inc. and LendingHome Corp. Those companies have backing from Silicon Valley venture firms Andreessen Horowitz and

Please see KKR page B6



MAX WHITAKER FOR THE WALL STREET JOURNAL  
Many trash haulers and city agencies that paid for curbside collection by selling scrap are now losing money on almost every ton they handle.

### INSIDE

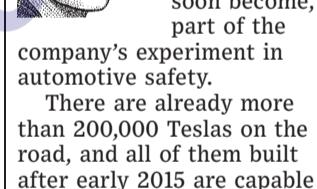


### ABU DHABI JOINS BOOM IN MIDEAST OIL REFINING

ENERGY, B9

### KEYWORDS | By Christopher Mims

## Drivers Become Guinea Pigs



Even if you don't own a Tesla, you are, or might soon become, part of the company's experiment in automotive safety.

There are already more than 200,000 Teslas on the road, and all of them built after early 2015 are capable of Autopilot—that is, semi-autonomous driving. This makes drivers, and anyone encountering these cars on the road, guinea pigs who are helping to train the artificial intelligence Tesla hopes to use for a fully au-

tomous driving system.

During this experiment, at least two people have died in driver's seats of Teslas that crashed while Autopilot was engaged, but Chief Executive Elon Musk argues the system continues to improve and, overall, Teslas are safer than they would be without the technology.

Uber Technologies and Alphabet's Waymo, among others, are also road-testing on public streets. They're experimenting at much smaller scales, though an

Uber autonomous vehicle struck and killed a pedestrian in March. Subsequently, Uber suspended its self-driving-car program. CEO Dara Khosrowshahi has said it will resume within a few months.

These experiments are based on assumptions about the abilities of AI, and the compatibility of humans and partially autonomous driving systems. If automobile companies are wrong about any of them—and there's reason to believe they are—we'll almost certainly see more self-driving

Please see MIMS page B4

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## XEROX

Continued from the prior page  
activist investors at Xerox.

Xerox said it opted to back out of the deal with Fujifilm because the Japanese company didn't deliver Fuji Xerox's audited financial statements by April 15, and there were material deviations in the audited financials when compared with the unaudited financials.

Fujifilm didn't immediately respond to a request for comment.

Xerox in January struck the complex merger deal with Fujifilm, which would have traded Xerox's 25% ownership of their 60-year joint venture to Fujifilm for 49.9% of a new company that combines all of Xerox with the joint venture. Xerox shareholders

would also have been paid \$2.5 billion in aggregate via a special dividend.

Messrs. Icahn and Deason have been seeking to kill the merger, and Mr. Deason had filed a lawsuit against it, alleging Mr. Jacobson raced to seal the deal to protect his own job. Documents and communications disclosed in the suit showed the Xerox board in November had nearly replaced Mr. Jacobson with Mr. Visentini, and that it had told Mr. Jacobson to halt negotiations with Fujifilm. Instead, Mr. Jacobson struck the deal.

In late April, a judge temporarily blocked the deal, saying the transaction was negotiated by a "massively conflicted" Mr. Jacobson and that he was looking out for his own interests over those of Xerox shareholders.

—David Benoit contributed to this article.

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—David Benoit contributed to this article.

## RECYCLE

Continued from the prior page  
scrap metal and plastic bottles for the return trip to China.

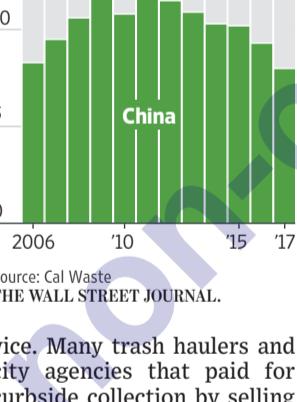
As cities aggressively expanded recycling programs to keep more discarded household items out of landfills, the purity of U.S. scrap deteriorated as more trash infiltrated the recyclables. Discarded food, liquid-soaked paper and other contaminants recently accounted for as much as 20% of the material shipped to China, according to **Waste Management** Inc.'s estimates, double from five years ago.

The tedious and sometimes dangerous work of separating out that detritus at processing plants in China prompted officials there to slash the contaminants limit this year to 0.5%. China early this month suspended all imports of U.S. recycled materials until June 4, regardless of the quality. The recycling industry interpreted the move as part of the growing rift between the U.S. and China over trade policies and tariffs.

The changes have effectively cut off exports from the U.S., the world's largest generator of scrap paper and plastic. Collectors, processors and the municipal governments that hire them are reconsidering what they will accept to recycle and how much homeowners will pay for that ser-

### Compacted

U.S. recyclable exports from California ports



vice. Many trash haulers and city agencies that paid for curbside collection by selling scrap said they are now losing money on almost every ton they handle.

The upended economics are likely to permanently change the U.S. recycling business, said William Moore, president of Moore & Associates, a recycled-paper consultancy in Atlanta.

"It's going to take domestic demand to replace what China was buying," he said. "It's not going to be a quick turnaround. It's going to be a long-term issue."

The waste-management authority in Lancaster County this spring more than

"It's going to cost the rate payer to recycle," he said. "They're going to demand we make our best effort to use those cans and bottles they put out."

Sacramento County, which collects trash and recyclables from 151,000 homes, used to earn \$1.2 million a year selling the scrap to Waste Management and another processor. Now, the county is paying what will amount to about \$1 million a year, or roughly \$35 a ton, to defray the processors' costs.

Waste Management paid the county \$250,000 to break the revenue-sharing contract and negotiate new terms. County waste-management director Doug Sloan expects costs to

keep climbing. "We've been put

doubled the charge per ton that residential trash collectors must pay to deposit recyclables at its transfer station, starting June 1. The higher cost is expected to be passed on to residents though a 3% increase in the fees that haulers charge households for trash collection and disposal.

The additional transfer-station proceeds will help offset a \$40-a-ton fee that the authority will start paying this summer to a company to process the county's recyclables. Before China raised its quality standards at the beginning of this year, that company was paying Lancaster County \$4 for every ton of recyclables.

Mr. Warner may limit the recyclable items collected from Lancaster County's 500,000 residents to those that have retained some value, such as cans and corrugated cardboard. He said mixed plastic isn't worth processing.

Pacific Rim Recycling in Benicia, slowed operations at its plant early this year to meet China's new standard. But company President Steve Moore said the more intensive sorting process takes too long to process scrap profitably. Pacific Rim idled its processing plant in February and furloughed 40 of its 45 employees.

"The cost is impossible. We can't make money at it," Steve Moore said. "We quit accepting stuff."

on notice that we need to do our part," he said. The county hasn't yet raised residential fees.

Some recyclers said municipalities need to give up the "single-stream" approach of lumping used paper and cardboard together with glass, cans and plastic in one collection truck. Single-stream collections took hold about 20 years ago. Collecting paper separately would make curbside recycling service more expensive but reduce contamination.

"We're our own worst enemies," said Michael Barry, president of Mid America Recycling, a processing-plant operator in Des Moines, Iowa, of single-stream recycling. "It's almost impossible to get the paper away from the containers."

## BUSINESS & FINANCE

# WHO Attacks Trans Fats



replacing partially hydrogenated oils without altering the taste, texture and consistency that diners expect. Minnesota-based Cargill has replaced partially hydrogenated oil with products like a new doughnut shortening, which blends palm oil with healthier versions of canola or sunflower oil.

Consumers didn't miss trans fats when they were replaced in Denmark, the first country to eliminate them, said Steen Stender, professor of nutrition, exercise and sports at the University of Copenhagen. "No one is addicted to trans fatty acids," said Dr. Stender, who was involved in the effort in Denmark.

Some of the alternate oils that food makers use carry their own potential drawbacks, including health concerns and, in the case of palm oil, deforestation.

More than 20 nations have restricted trans fats because they raise LDL or "bad" cholesterol, a marker for heart disease, while lowering HDL, or "good" cholesterol.

The WHO recommends trans fat intake be limited to less than 1% of total energy intake, meaning less than 2.2 grams a day in a 2,000 calorie diet. Trans fats are linked to 537,000 deaths from heart disease globally each year, or about 7.7% of all heart-disease deaths, according to a 2016 study in the Journal of the American Heart Association.

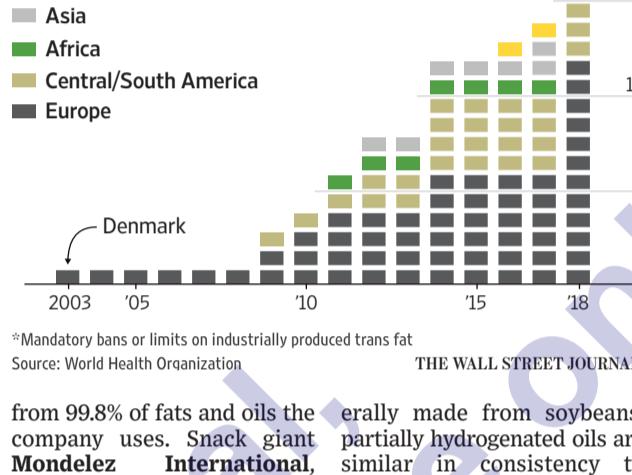
The WHO is promoting a six-point blueprint called "Replace" to help governments eliminate trans fats. It was developed with Resolve to Save Lives, part of the public health nonprofit Vital Strategies.

"There's no doubt that artificial trans fat can and should be replaced," said Tom Frieden, president and chief executive of Resolve to Save Lives. As New York City's health commissioner from 2002 to 2009, he led implementation of a ban on trans fats in restaurant foods there.

"It's one of the easiest ways to prevent heart-disease-related deaths," Dr. Frieden said.

### Countries Cutting Fat

The number of countries limiting trans fats is growing, but most are high-income or upper-middle-income.



from 99.8% of fats and oils the company uses. Snack giant

Mondelez International, maker of Oreo cookies, is on track to eliminate partially hydrogenated oils from its products by the end of the year, a spokeswoman said.

Trans fats, often in the form of partially hydrogenated food oils, played a leading role in the post-World War II popularization of packaged foods in the U.S. and elsewhere. Gen-

erally made from soybeans, partially hydrogenated oils are similar in consistency to Crisco shortening and replaced animal lard in many recipes. Food makers used them to make longer-lasting cooking oils, stabilize margarine and help packaged cookies retain their taste.

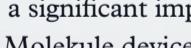
For food-oil manufacturers like Archer Daniels Midland Co., Bunge Ltd. and Cargill Inc., the challenge has been

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## BUSINESS NEWS

# Trump Presses Car Makers to Hire

Auto executives urged to boost factory jobs; 20% tariff proposed for imported vehicles

BY MIKE COLIAS

The auto industry is juggling a range of policy priorities in Washington, from tariffs to tailpipe emissions. But one item remains firm atop President Donald Trump's agenda for the industry: more jobs for Rust Belt states that helped elect him.

Mr. Trump made clear at a White House meeting Friday with top auto-industry executives that he wasn't done prodding them on jobs—including foreign manufacturers.

During a televised portion of the meeting, Mr. Trump told the executives he wants to see "manufacturing of millions of more cars within the U.S.—for Michigan, for Ohio, for Pennsylvania."

Mr. Trump's pressure on car companies could mount as midterm elections draw closer, especially because the auto sector has been a central focus in his effort to generate American factory jobs.

Last year, as Mr. Trump urged auto makers to shift manufacturing to the U.S., some committed to fresh U.S. investments collectively worth billions of dollars and thousands of jobs. But Detroit's car companies are more focused on the future, as U.S. sales have stalled. **General Motors** Co. and **Ford Motor** Co. have unused U.S. factory space and are steering more capital toward advanced technology such as driverless cars.

Mr. Trump lately has been putting more pressure on foreign auto makers. During Friday's session, he proposed a 20% tariff on imported autos, people briefed on the session said. He also raised the prospect of subjecting imported vehicles to Obama-era emissions standards while domestic vehicles would get more lax



General Motors CEO Mary Barra at the White House Friday. President Trump is seeking more automotive jobs in Rust Belt states.

standards, the people said.

The proposal rattled executives from European and Asian auto makers, including Germany's **Volkswagen AG**, **BMW AG** and **Daimler AG** and Japan's **Toyota Motor Corp.** and **Nissan Motor Co.**, according to people familiar with the matter. The session had been billed as a discussion of emissions rules but was dominated by trade talk, the people said.

"It was a reminder that his priority is manufacturing and jobs," said a person briefed on the meeting. "More job wins will continue to be the theme."

Mr. Trump is targeting foreign auto makers at the same time much of the growth in U.S. vehicle production is being fueled by factories built by Japanese and European car companies. In the past decade, Toyota, Nissan, Volkswagen, BMW, **Geely Holding Group** Co.'s Volvo Cars and others have opened or significantly expanded U.S. plants, or outlined plans to do so.

European auto makers are on pace to make one million vehicles in the U.S. this year, said Warren Browne, a consultant and former GM executive.

In the first quarter of 2018, foreign auto makers were expected to have matched American auto makers in U.S. production for the first time, according to WardsAuto.com.

In January, **Fiat Chrysler Automobiles NV** said it would relocate production of some trucks to a Detroit-area factory from a plant in Mexico, creating about 2,500 jobs.

During introductions at the meeting with auto executives, Mr. Trump interrupted to call out FCA Chief Executive Sergio Marchionne for "leaving Mexico, going to Michigan," even though FCA will continue to operate three plants south of the border. "He's my favorite man in the room," Mr. Trump said.

—Chester Dawson  
and Adrienne Roberts  
contributed to this article.

## Optimism Grows For Emissions Deal

Auto makers were walking a fine line on emissions regulations heading into last week's White House meeting with President Donald Trump, lobbying for a limited relaxation of rules that risked unraveling once administration officials began working on changes.

Most important, car companies wanted any rule changes to be acceptable to California, which has an Environmental Protection Agency waiver to set its own, tougher emissions standards that a dozen states follow. Auto makers want to avoid a patchwork of regulations across the U.S.

During Friday's meeting, Mr. Trump initially suggested engaging in a legal battle with California, a move that could prolong regulatory uncertainty

auto makers want to avoid. By meeting's end, he suggested EPA Administrator Scott Pruitt and Transportation Secretary Elaine Chao would be assigned the task of reaching a deal with California on emissions-rule changes.

Auto makers fear a rollback would force California and other states making up more than one-third of the U.S. car market to go their own way, resulting in conflicting regulations nationwide that could wreak havoc on vehicle designs and business plans mapped out years in advance.

Industry representatives left the meeting cautiously optimistic they could still achieve their nuanced goal of relaxing emissions regulations without antagonizing California. Mr. Trump was open to a deal with California during the meeting, according to a person familiar with the gathering.

—Mike Spector

# A Chinese Utility Bid Generates Scrutiny

BY BEN DUMMETT

**China Three Gorges Corp.** late Friday said it plans to launch a €9.07 billion (\$10.8 billion) offer for the almost 77% it doesn't already own of Portugal's main energy utility, a bold move to expand further into Europe's power sector that will likely attract scrutiny from the U.S. and other Western governments.

By consolidating its ownership of **Energias de Portugal SA**, or EDP, China Three Gorges, or CTG, would gain exposure to EDP's operations in other European countries, including Spain, France, Italy and the U.K. In the Americas, the Lisbon-based company is present in Brazil, Mexico and the U.S., where it operates wind farms.

As one of the world's largest sources of greenhouse gases, China has pushed construction of alternative energy sources, while adopting policies designed to drive the purchase of electric vehicles. CTG's interest in EDP underscores that effort.

CTG said it is offering €3.26 in cash for each EDP share it doesn't own, or a 5% premium to EDP's share price Friday.

The biggest challenge CTG could face may come from regulators in the U.S. and the European Union, which are scrutinizing acquisitions by foreigners in sectors such as energy infrastructure to guard against security breaches.

The Committee on Foreign Investment in the U.S., a multi-agency panel is required to rule on the proposed deal since EDP operates wind farms in that country. A simmering trade war between China and the U.S. could also complicate matters for CTG in winning regulatory approval in the U.S.

—Michael Wright in London contributed to this article.

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# WeWork Wants to Be Its Own Landlord

New investment fund aims to buy buildings where the company would be a tenant

BY ELIOT BROWN

In mid-2017, the giant landlord **Brookfield Property Partners** LP was in advanced talks to buy the Lord & Taylor department-store building in New York City for about \$700 million, when an unexpected buyer swooped in and sealed a deal, according to people familiar with the matter.

Behind the deal was **WeWork Cos.**, which put together the \$850 million purchase with a hefty premium, a surprising move for a firm that leases buildings and subleases the office space to other companies.

WeWork didn't put up the money. Instead, it came from a new real-estate fund co-managed by WeWork and one of its early shareholders, private-equity firm **Rhône Group**. The fund aims to raise tens of billions of dollars from investors in coming years to buy buildings where WeWork would become a tenant, people familiar with the fund said.

The unusual arrangement effectively makes WeWork its own landlord using other investors' money, raising questions about how it will make deals with itself as a tenant while co-managing the fund.

"There's huge potential for conflicts," said Nori Lietz, a lecturer at Harvard Business



WeWork assembled a deal for the retailer's New York address.

SCHOOL AND LONGTIME ADVISER TO INVESTORS IN REAL-ESTATE FUNDS. "THEY'RE USING OTHER PEOPLE'S MONEY, AND THEY'RE ON BOTH SIDES OF THE TRANSACTION AT THE END OF DAY."

WeWork has made these ties clear to investors in offering documents, and the fund has established some measures to mitigate conflicts of interest, people familiar with the matter say; specifics couldn't be learned. In other cases, real-estate funds might have outside groups negotiate certain issues to avoid conflicts.

WeWork's pitch to investors is that its role as both tenant and landlord could yield better investment returns than conventional real-estate funds. The fund largely aims to buy buildings that WeWork would then lease, at least in part, to itself. The value of a building

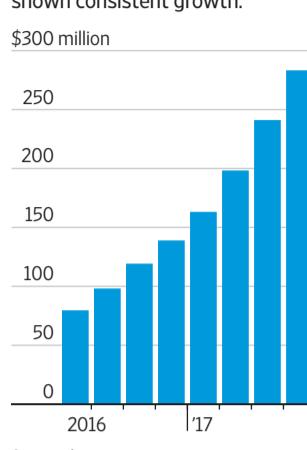
with a tenant in place tends to be significantly higher than an empty building.

WeWork rose from a tiny, one-office location in Manhattan to a global player in part by leasing property, rather than spending more to buy it. The company, valued at \$20 billion by investors, is under pressure to secure more real estate after pledging continuing rapid expansion. Last year, it formed WeWork Property Investors, which has disclosed raising \$400 million and has struck deals for at least four properties. It is seeking \$767 million in debt to fund the purchase and renovations of the Lord & Taylor building, and expects to complete the purchase by the fall.

WeWork has said it would make the Lord & Taylor building its headquarters and lease

## On the Rise

WeWork's quarterly revenue has shown consistent growth.



Source: the company  
THE WALL STREET JOURNAL.

some of the office space to customers. The company also secured the ability to lease some other department stores owned by Lord & Taylor's parent, **Hudson Bay Co.**

The fund has sought to raise money from wealthy clients of **Citigroup Inc.**, which circulated a presentation about the fund that stated a plan to "capitalize on the growing demand for flexible community-based office space," according to a copy reviewed by The Wall Street Journal.

The fund is run by WeWork and Rhône executives including WeWork Chief Executive Adam Neumann and Rhône Chairman and Co-founder Steven Langman, according to the Citigroup presentation.

Real-estate experts say WeWork's involvement raises concerns the fund could tilt

## Funds Try to Avoid Potential Conflicts

Investment funds in the real-estate world—like the property ownership arm of a casino or a senior living company—typically have management that is independent of the operating business, according to David De La Rosa, who is an adviser to real-estate investors for Green Street Advisors.

The layer of independence is meant to avoid conflicts that could hurt investors, he said.

Another well-funded private company, **Airbnb Inc.**, considered a similar concept to WeWork's fund last year.

Under then-financial chief Laurence Tosi, Airbnb planned to create a real-estate investment trust that would have rented its houses and apartments on Airbnb,

according to people familiar with the matter.

But unlike the WeWork fund, that plan called for the fund's management to report to an independent board, a measure meant to limit potential conflicts, the people said.

An Airbnb spokesman said the company isn't pursuing the fund plan.

WeWork appears to have benefited from the fund with a low-interest loan.

WeWork debt documents show it borrowed \$26 million at 1.52% annual interest from its real-estate fund last year.

It is uncommon for tenants to borrow millions from their landlords.

The debt documents didn't state the purpose of the loan.

WeWork faces higher interest rates on the private market: the company borrowed \$702 million at nearly 8% last month.

"expressly permitted" to engage in activities that may be "adverse" to the fund.

Rhône executives are meant to take the lead when some conflicts arise, according to a person familiar with the fund.

Rhône's Mr. Langman sits on WeWork's board, in a seat controlled by Mr. Neumann.

Entities tied to Mr. Langman and Rhône held 2.2 million shares of WeWork private stock worth over \$100 million, based on the latest valuation, according to documents from a bond offering made public last month.

Gary Marcus, a professor of psychology and neural science at New York University and the former head of Uber's AI lab.

AI is brittle because it can't carry over insights from one context to another, opaque because humans can't evaluate its neuron-like tangle of connections, and shallow because it's easy to fool. You can't just throw more deep learning at a problem and expect it to be as good as a human, says Dr. Marcus.

Alphabet's Waymo decided it was too dangerous to let drivers take control when needed, and skipped to a fully self-driving ride-share service, Waymo CEO John Krafcik has said. According to the company, a system that never asks a driver to take over is safer than making potentially tricky machine-human handoffs.

Tesla promised to release safety data on its self-driving technology starting next quarter. It isn't clear what kind of data it will release, but experts say public sharing of data, from all makers of autonomous vehicles, is the only way to ensure proper evaluation of the safety of these technologies.

Given that we already evaluate the safety of every other part of a motor vehicle in this way, it just makes sense.



Tesla displayed one of its Model S electric vehicles in Seoul last month. Over 200,000 of the company's vehicles are on the road.

such as the cars' crash-avoidance technology, rather than Autopilot.

After a fatal 2016 crash, which happened when Autopilot was engaged, Tesla cited a report by the National Highway Traffic Safety Administration as evidence that Autopilot mode makes Teslas 40% safer. NHTSA recently clarified the report was based on Tesla's own unaudited data, and NHTSA didn't take into account whether Autopilot was engaged. Complicating things

further, Tesla rolled out an auto-braking safety feature—which almost certainly reduced crashes shortly before it launched Autopilot.

There isn't enough data to independently verify that self-driving vehicles cause fewer accidents than human-driven ones. A Rand Corp. study concluded that traffic fatalities already occur at such relatively low rates—on the order of one per 100 million miles traveled—that determining whether self-driving cars

are safer than humans could take decades.

What we do have is evidence—acknowledged in Tesla's own user manuals—that Tesla's semiautonomous driving system is fooled by bright sunlight, faded lane markings or seams in the road. Researchers continue to document other ways to trick these systems, as well.

Tesla emphasizes its system is driver-assist technology, not full autonomy, and blamed the driver in the

most recent crash that occurred when the system was engaged. Yet Tesla drivers and news reports suggest that in some cases, the only thing keeping drivers from getting into Autopilot-related accidents is their own reflexes.

None of this surprises experts who understand the AI at the heart of autonomous driving systems. Deep learning—the so-called intelligent component of these systems—is "brittle, opaque and shallow," says

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# How Artificial Intelligence (AI) can help battle cyber threats

As cyber attacks increase in number and sophistication, how can companies stay one step ahead to protect their data? Join our informative live discussion as we explore the possibilities of AI as a potentially powerful cybersecurity solution.



**Jack Otter**, Associate Publisher at Dow Jones Media Group, will moderate a panel of cybersecurity professionals.

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President and Managing Partner, Liberty Group Ventures



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## BUSINESS &amp; FINANCE

# Dollar Reign Faces Threat

BY CHERYL DULANEY  
AND JOSHUA ZUMBRUN

Trade friction is emerging as the latest threat to the dollar's position at the heart of the global financial system.

For decades, central banks have held the bulk of their foreign-exchange reserves in the dollar, reflecting the dominant role the U.S. and its currency have played in global trade. As the U.S. pulls back from partnerships while countries like Mexico and Japan strike their own trade deals, the dollar's dominance could be undermined, investors and analysts said. That dominance has been referred to as an "exorbitant privilege," allowing the U.S. to borrow cheaply and run persistent deficits.

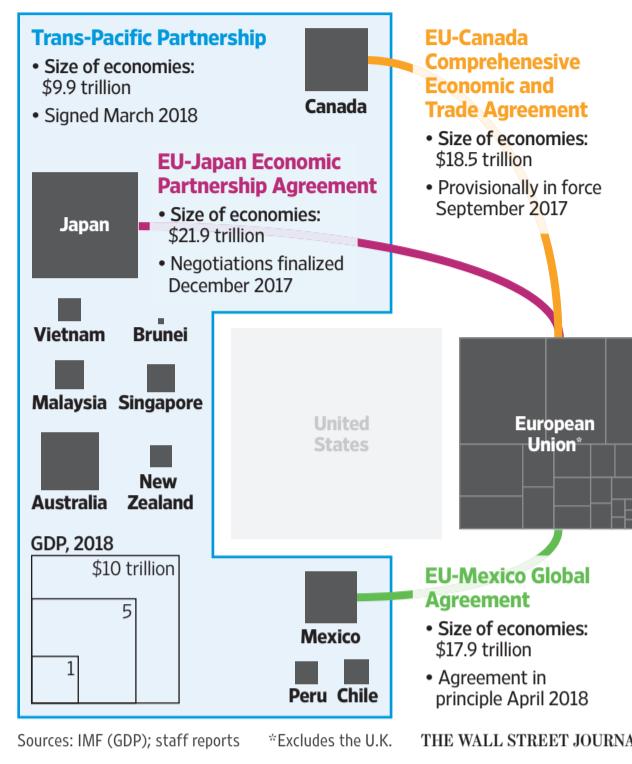
Though a less U.S.-centric trade system would take years to fully evolve, it would have significant implications for global central bankers charged with allocating some \$11 trillion in reserves. Many are now ramping up investment in such currencies as the euro and Chinese yuan, reflecting the effects of such moves as the U.S. retreat from the North American Free Trade Agreement and Trans-Pacific Partnership.

While the U.S. and Mexico remain in negotiations over Nafta, which could come to a head in the coming days as House Speaker Paul Ryan, R., Wis., has set a Thursday deadline to receive paperwork, Mexico has struck major trade deals in recent months with the European Union and the group of Pacific Rim nations that make up the TPP.

Alejandro Diaz de Leon, governor of Mexico's central bank, said that while the U.S. remains Mexico's most important trade partner, he expects the euro to play a bigger role in the country's foreign-exchange holdings in coming years as the balance of the na-

## Trade Blocks

As the U.S.'s trade rhetoric has intensified, other countries have worked to build alternative trade relationships.



head of central banks for HSBC. "As trade becomes more denominated in euros [and yuan], they'll need to have currencies to match."

Central banks have long been encouraged to hold enough foreign currency in reserve to cover a few months of imports, and often debt obligations, in case money stopped flowing into the country. Changes to the currencies those imports are denominated in would encourage reserve managers to reshuffle their allocations, while analysts say a recent uptick in debt issued in currencies such as the euro could amplify the need for more diversified reserves.

That comes as investors worry that the global economy has become too closely tied to the U.S. economy and its currency. Roughly 40% of all global trade is invoiced in dollars, according to a 2015 paper from Harvard University economist Gita Gopinath, and many countries have borrowed heavily in the currency in recent years.

The risks of the dollar's dominance have come into focus in recent weeks as a modest dollar rally raised concerns about the ability of some emerging-market nations to service their dollar debt and pay for imports. Argentina, whose currency has fallen to record lows against the dollar, is seeking a credit line from the International Monetary Fund to help stabilize its economy.

While the dollar's biggest competitors remain plagued by economic and structural questions—including the long-term viability of the euro system and the economic risks of China's debt-fueled growth and aging society—analysts believe both the euro and yuan could benefit from recent shifts in global trade.

tion's bilateral trade shifts in that direction.

"It is Mexico's conviction to be a very open economy, open to trade and financial flows," Mr. Diaz de Leon said. Trade deals with Europe "will definitely at the margin continue to diversify our external accounts and increase the relevance of the euro."

Jens Nordvig, chief executive of analytics firm Exante Data, estimates global central banks could shift \$200 billion to \$300 billion in reserves into the yuan, euro and a handful of other foreign currencies this year as a result of trade changes. His estimate is based on central banks' increased buying of Chinese bonds in the first few months this year.

While he cautions that cen-

tral bankers tend to adjust reserves slowly, "the flows that potentially come out of this are really big."

Few are calling for an immediate end to the dollar's reign as the world's primary reserve currency.

Central banks held about 63% of their reserves in dollars at the end of last year, the lowest level in four years, according to data from the International Monetary Fund. Meanwhile, allocations to the euro rose to 20% and reserves held in the Japanese yen rose to 4.9%.

"What's sure is that over the long term, if trade relations change, it will have an implication on the currency makeup of the reserves," said Christian Deseglise, global

spectacularly when home prices crashed and overextended flippers couldn't sell them.

Following the meltdown, big investors gobbled up non-performing loans and foreclosed homes. Some of the houses were spruced up and sold while others were turned into rentals. In recent years, flippers have shifted from homes in financial distress to those suffering physical deterioration.

Renovations can be as simple as replacing worn flooring or as involved as adding entire new floors, from replacing outdated kitchens in suburban homes to gutting inner-city brownstones and converting them into small apartment buildings.

Historically fix-and-flip jobs have been funded by regional investors, known as "hard money lenders." Toorak Chief Executive John Beacham said that left open an opportunity to institutionalize the business. He took a similar approach to the rental-home business as a senior banker at Deutsche Bank AG's commercial real-estate lending business.

"The market has been local lenders, usually not banks, lending inefficiently," he said.

# In China, P.F. Chang's Serves Up Chinese Food American-Style

BY WAYNE MA  
AND LIZA LIN

SHANGHAI—P.F. Chang's may be seen as an upscale Chinese-food restaurant in the U.S. But the chain is calling its debut location in China "an American bistro"—which is exactly how its early customers there see it.

"The food looks similar,

but you eat the food and you know instantly it's not Chi-

nese," said Zhang Ji, 35 years old, who works in finance.

The restaurant had a soft opening last month in a high-rise shopping mall in a tourist area here. On a recent Saturday night, fewer than half the tables were occupied, and no one was mistaking the Mongolian Beef or Dynamite Shrimp for the Real McCoy.

Animation designer Zhang Xue said she came because P.F. Chang's got a shoutout on "The Big Bang Theory," the U.S. sit-com popular in China.

"In U.S. films and TV shows, everyone is eating American Chinese takeout," she said. "They eat noodles out of these paper cartons, slurp the noodles down with chopsticks, and look like they are enjoying themselves very much...it made me wonder what Chinese American food was like."

After sampling the food, Ms. Zhang's curiosity was sated.

"I don't think this is Chinese food," she said. "I think it's what Americans think Chinese food should taste like."

Executives at P.F. Chang's China Bistro headquarters in Scottsdale, Ariz., aren't arguing—which is why they came up with the idea to call the restaurant, the first of several they are planning here, an American bistro.

"We did focus groups, and what we learned was, don't pretend to be something you're not," said Kristen Briege, head of the restaurant's international business.

With a rising affluent middle class, China has plenty of people able to pay for pricey, protein-rich dishes, said P.F. Chang's Chief Executive Michael Osanloo.

"We're taking advantage of

the law of large numbers," he said. "I don't need adoption by 10% of China's consumers; I just need 2% to like my

food."

Although the restaurant wasn't busy on a recent visit, traffic might pick up after the grand opening on May 17.

Like many upscale restaurants in China, the restaurant is in a shopping mall. There is a prominent white P.F. Chang's sign on the 8th-floor entrance, but the company wasn't able to secure permission for the terra cotta horse that is a fixture at its U.S. outlets.

Inside, the décor looks like a mix of old Shanghai meets American diner, with booths and tables. A large mural of a Chinese woman wearing a traditional cheongsam smiles down on customers.

P.F. Chang's created 10 new dishes for Shanghai customers, including Dusk 'Til Dawn Honey Chicken and Scallion Pancake, an Asian take on chicken and waffles that puts crispy chicken on top of a buttermilk pancake. The Duck Spring Roll features mozzarella, something a Chinese chef might consider sacri-

'I think it's what Americans think Chinese food should taste like.'

lege.

Prices are on par with the U.S., although portion sizes are smaller, so Chinese customers can order more dishes and share them. Diners bring home leftovers in white take-out boxes, which aren't a thing in China.

Jennifer 8 Lee, an author and producer of "The Search for General Tso," a documentary about Chinese-American food, thinks the big question is P.F. Chang's staying power in China.

"Chinese people might try it for the novelty, but I don't know if they would embrace it," she said. "Sweet, fried and chicken. Those are things that Americans love."

Industry professionals say P.F. Chang's American bistro might appeal to Chinese people who have sampled its fare overseas, including the hundreds of thousands of those who return each year after studying abroad.



Diners in Shanghai at the first China outlet of P.F. Chang's

## KKR

Continued from page B1  
First Round Capital, respectively.

These loans command juicy interest rates of 8% to 12% and often have maturities of around 12 months, though many borrowers repay earlier. A one-year U.S. Treasury, by comparison, yields, around 2.27%.

But flip loans come with risks. If a renovated property doesn't sell for a higher price or the borrower can't refinance, the lender may wind up owning a house. That can happen if the housing market sours mid-flip, if remodelers misjudge their costs or the tastes of potential buyers, or if appraisals value properties too richly at the onset.

Because home prices have risen steadily since 2012 and new construction hasn't flooded the market with inventory, flippers haven't had much trouble repaying loans in recent years.

So far defaults have been few. Window Rock Capital Partners LLC, a private investment firm that focuses on real-estate-backed credit, took

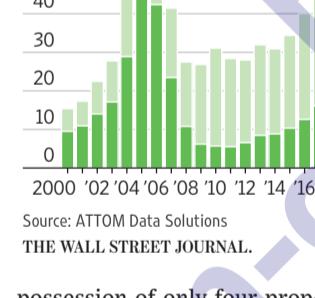
## Sweat Equity

Many homes bought to be renovated and promptly resold, or flipped, are paid for with all cash.

### Amount spent on U.S. flip homes

■ Financed purchases ■ Rest

\$80 billion



THE WALL STREET JOURNAL.

meet the demands of a huge generation starting families and buyers whose credit has recently recovered from the foreclosure crisis. They also reason that there are plenty of house hunters who would struggle to get a loan to remodel or repair an older home on top of a mortgage.

The wager by KKR and other big investors also depends on the continued demographic shift to big cities, where houses tend to be older and more in need of upgrades than those in suburbs and swaths of the Sun Belt.

In 2017, Memphis, Tenn., was the U.S. city with the highest proportion of sales involving a flipped house at 12.8%, compared with a national average of about 6%, according to ATTOM Data Solutions.

Flipping activity also peaked last year in Cleveland, three Wisconsin cities and along the Interstate 35 corridor in Texas, according to ATTOM.

In the years leading up to 2007's crash, speculators flipped droves of homes. They often took on second and third mortgages to buy them while doing little more than pounding for-sale signs into the lawns. That strategy backfired

spectacularly when home prices crashed and overextended flippers couldn't sell them.

Following the meltdown, big investors gobbled up non-performing loans and foreclosed homes. Some of the houses were spruced up and sold while others were turned into rentals. In recent years, flippers have shifted from homes in financial distress to those suffering physical deterioration.

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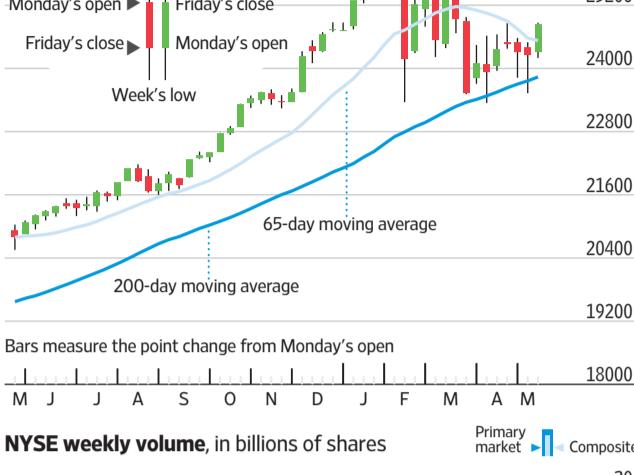
## MARKETS DIGEST

## Dow Jones Industrial Average

**24831.17** ▲ 568.66, or 2.34% last week  
High, low, open and close for each of the past 52 weeks

Trailing P/E ratio 24.44 20.38  
P/E estimate \* 16.41 17.72  
Dividend yield 2.14 2.35  
All-time high 26616.71, 01/26/18

Current divisor 0.14523396877348



Bars measure the point change from Monday's open

M J J A S O N D J F M A M

NYSE weekly volume, in billions of shares Primary market Composite



\*Weekly P/E data based on as-reported earnings from Binyi Associates Inc.

## S&amp;P 500 Index

**2727.72** ▲ 64.30, or 2.41% last week  
High, low, open and close for each of the past 52 weeks

Trailing P/E ratio \* 24.28 23.83  
P/E estimate \* 17.05 18.45  
Dividend yield 1.91 1.97  
All-time high 2872.87, 01/26/18



Financial Flashback

The Wall Street Journal, Monday, May 14, 2014

Pimco reported net outflows of \$21.7 billion for the first three months of year after earlier management reshuffle resulted in departure of CEO Mohamed El-Erian.

## New to the Market

## Public Offerings of Stock

## IPOs in the U.S. Market

Initial public offerings of stock expected this week; might include some offerings, U.S. and foreign, open to institutional investors only via the Rule 144a market; deal amounts are for the U.S. market only

Expected pricing date	Filed	Issuer/business	Symbol/ primary exchange	Shares Nq	Pricing Range(\$) Low/H	Pricing Range(\$) High/L	Bookrunner(s)
5/16	4/16	Pluralsight Develops a cloud-based technology learning platform.	PS	20.7	10.00/ MS, JPM, 12.00	Barclays, BofA ML	

## Lockup Expirations

Below, companies whose officers and other insiders will become eligible to sell shares in their newly public companies for the first time. Such sales can move the stock's price.

Lockup expiration	Issue date	Issuer	Symbol	Offer price(\$)	Offer amt (\$ mil.)	Through Friday (%)	Lockup provision
May 14	Nov. 15, 17	Arsanis	ASNS	10.00	46.0	113.8	180 days
	Nov. 15, 17	Jianpu Technology	JT	8.00	180.0	-26.9	180 days
May 15	Nov. 16, 17	Legacy Acquisition	LGC.U	10.00	300.0	...	180 days
	Nov. 16, 17	SailPoint Technologies Holdings	SAIL	12.00	276.0	93.9	180 days
Nov. 16, 17	Nov. 16, 17	scPharmaceuticals	SCPH	14.00	102.1	0.5	180 days
	Nov. 16, 17	Sterling Bancorp	SBT	12.00	207.0	13.8	180 days
Nov. 16, 17	Nov. 16, 17	Stitch Fix	SFIX	15.00	137.6	54.1	180 days
	Nov. 17, 17	Bluegreen Vacations	BXG	14.00	104.6	44.9	180 days

Sources: Dealogic; WSJ Market Data Group

## IPO Scorecard

Performance of IPOs, most-recent listed first

Company SYMBOL	IPO date/Offer price	Friday's close (\$)	% Chg From	Company SYMBOL	IPO date/Offer price	Friday's close (\$)	% Chg From	
HUYA	16.06	33.8	...	Carbon Black	23.44	23.4	-2.1	
<b>HUYA</b>	May 11/\$12.00	21.39	7.0	<b>CBLK</b>	May 4/\$19.00	12.03	0.2	-0.6
AXA Equitable Hldgs	21.39	7.0	5.2	Construction Ptrs	...	...	...	
<b>EQH</b>	May 10/\$20.00	19.95	2.0	<b>ROAD</b>	May 4/\$12.00	12.03	0.2	-0.6
Evelo Biosciences	16.00	...	-1.5	Spirit of Texas Bancshares	21.38	1.8	-2.2	
<b>EVLO</b>	May 9/\$16.00	19.52	2.0	<b>STXB</b>	May 4/\$21.00	21.38	1.8	-2.2
Origin Bancorp	37.16	9.3	-0.9	Inspire Med Sys	26.74	67.1	7.0	
<b>OBNK</b>	May 9/\$34.00	19.52	2.0	<b>INSP</b>	May 3/\$16.00	15.49	-8.9	-7.0
ASLAN Pharmaceuticals	6.50	-7.5	15.9	Unity Biotechnology	15.49	-8.9	-7.0	
<b>ASLN</b>	May 4/\$7.03	19.52	2.0	<b>UBX</b>	May 3/\$17.00	15.49	-8.9	-7.0

Sources: WSJ Market Data Group; FactSet Research Systems

## Other Stock Offerings

Secondaries and follow-ons expected this week in the U.S. market

Symbol/ Primary exchange	Amount (\$ mil.)	Friday's price(\$)	Bookrunner(s)
EvoFem Biosciences	Nq	35.7	RBC Cptl Mkts, Cantor Fitzgerald & Co
<b>Nemaura Medical</b>	Nq	3.10	Roth Cptl Ptnrs
Taiwan Liposome	Nq	35.0	Cantor Fitzgerald & Co

Sources: WSJ Market Data Group; FactSet Research Systems

## Off the Shelf

"Shelf registrations" allow a company to prepare a stock or bond for sale, without selling the whole issue at once. Corporations sell as conditions become favorable. Here are the shelf sales, or takedowns, over the last week:

Issuer/Industry	Takedown date/ Registration date	Deal value (\$ mil.)	Registration (mil.)	Bookrunner(s)
Inivo	May 11 Sept. 1/17	\$2.0	\$15.0	Roth Cptl Ptnrs

## Public and Private Borrowing

## Treasuries

Monday, April 7 Auction of 13 and 26 week bills; announced on May 10, settles on May 17

Thursday, April 17 Auction of 10-year TIPS; announced on May 10, settles on May 31

## Public and Municipal Finance

Deals of \$150 million or more expected this week

Final Sale maturity	Issuer	Total (\$ mil.)	Rating	Bookrunner/ S&P Bond Counsel(s)
May 15	May 1, 2038 Boston City-Massachusetts	150.0	N.R.	N.R. Preliminary/ Locke Lord LLP
May 15	NYC Transitional Finance Auth.	250.0	N.R.	N.R. Preliminary/Norton Rose Fulbright
May 15	NYC Transitional Finance Auth.	850.0	N.R.	N.R. Preliminary/Norton Rose Fulbright
May 15	March 1, 2039 Pennsylvania	1,247.0	N.R.	N.R. Preliminary/Ballard Spahr LLP/Turner Law PC
May 18	Grand Parkway Transport	1,521.9	N.R.	N.R. Goldman & Co
May 18	Northampton Gen Purpose Auth	150.0	N.R.	N.R. BoA Merrill

Source: Thomson Reuters/Ipreo

Closed-End Funds | [WSJ.com/funds](http://WSJ.com/funds)

Fund (SYM)	Prem	Ttl	NAV Close/Disc	Ret
Tri-Continental TY	29.80	26.64	-10.6	16.7
<b>Specialized Equity Funds</b>				
Adams Natural Rsrcs Fd PEO	23.39	19.61	-16.2	8.8
AllnZG NJ Div Interest NFJ	14.44	12.73	-11.8	5.0
AlpnGlbP Prop AWPF	7.07	6.43	-9.1	18.8
BirkR Enh Cap Incp CI	16.64	15.93	-4.3	4.1
BirkR Enh Cptl Tr BDJ	9.52	8.96	-5.9	9.3
BlackRock Enh Gv Div Tr BOE	12.03	11.30	-6.1	2.8
BirkR Int'l Grwth&Glnco BGT	6.52	6.01	-7.8	5.3
BlackRock Science & Tech BST	29.70	31.50	+6.1	51.6
BlackRock Utilities Infr BIF	20.56	20.02	-2.6	4.0
CBREClaronGlbRstcmk IGR	8.47	7.41	-12.5	5.3
Sprott Physical Gold CEF	NA	13.27	NA	9.0
CohrSteer Opprtunity Fd FO	13.45	12.58	-6.5	4.6
Cornerstone Strategic CLM	12.74	15.83	+24.3	16.7
Cornerstone TR Fd CRF	12.38	15.80	+27.6	16.5
EtnVnc TaxAdv ETV	22.79	22.21	-2.5	9.4
Gabelli Dividend & Incm GDV	23.80	21.97	-17.8	13.6
Gabelli Equity Trust GAB	6.22	6.10	-1.9	10.5
Genl American Investors GAM				



# HEARD ON THE STREET

FINANCIAL ANALYSIS &amp; COMMENTARY

WSJ.com/Heard

## What French Car Makers Risk in Iran

Once bitten, twice shy—unless you are a French car maker.

**Peugeot** and **Renault** are among the few companies that have bet on Iran since the 2015 nuclear deal. Their history risks repeating itself.

Peugeot has been a big brand in Iran for decades, but it quit the country in 2012 under pressure from General Motors. The U.S. manufacturer had bought a 7% stake in its French peer with a view to sharing costs but sold it in 2013.

Peugeot's aggrieved local partner Iran Khodro kept making cars under the French brand; Peugeot just didn't count them. That explains its speedy return after sanctions lifted and it patched things up with Iran Khodro. Last year it sold 444,600 vehicles in the country, some 30% of the market. Peugeot's French rival Renault, which never left Iran, sold 162,000.

Both have committed big sums to new joint ventures. Renault wants to roughly double sales in the country by 2022.

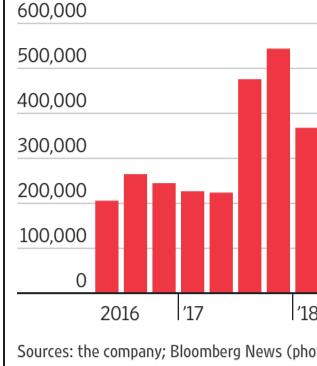
President Donald Trump's decision to reimpose sanctions raises the risk of impairments, though much of the money committed won't have been spent yet.

The European Union may yet succeed in persuading Iran to stick with the 2015 deal, but early signs aren't promising. Even if it does, though, the outlook is hardly sunny. The country's economic recovery is under threat, calling bullish growth plans into question. Peugeot also will have to rethink its U.S. expansion—a market it quit in 1991 but wants to get back into. Meanwhile, Renault will have to hope its tightening global alliance with Nissan doesn't threaten the latter's valuable U.S. business.

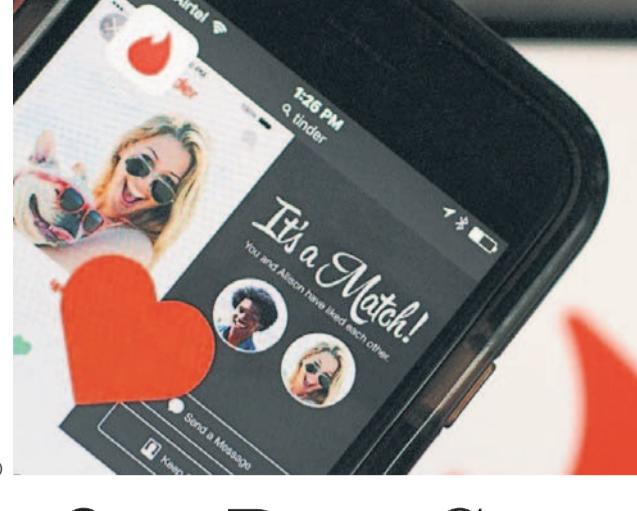
—Stephen Wilmot

### Match-Making

Tinder subscriber additions, quarterly



Sources: the company; Bloomberg News (photo)



## Room for 2 in Date Game

The search for a soul mate has become a big business. In the U.S., one in three dates now begins online. The global market for online dating services—about 500 million people—is expected to reach 672 million by 2019, according to research by Jef-

fries. The business has been lucrative for the biggest player, **InterActiveCorp** and its listed subsidiary, **Match Group**, which owns Tinder, OkCupid and Match.com. That explains why shares of IAC and Match nose-dived 20% and 25%, respectively, when Mark Zuckerberg said Facebook would enter the dating scene.

IAC and Match just offered a strong retort, posting first-quarter earnings that beat analysts' expectations. IAC, which owns 22% of Match and brands including ANGI Homeservices and Vimeo, reported revenue of \$995 million, topping estimates for \$922 million. Match Group, its largest subsidiary, grew by 36% year over year to \$407 million, notching the highest quarterly revenue growth since it went public in November 2015. Tinder, which added 1.6 million subscribers since the same period last year, is now at 3.5 million.

The good news boosted their shares—IAC is up nearly 15% from its post-

Facebook low. But both re-

main well below where they were before the social network's May 1 announcement. The conventional wisdom among investors is that Facebook can do to IAC and Match what it did to Snapchat when it began Instagram Stories. There certainly are risks, but Facebook has a tougher task in the dating business.

Facebook, like Snapchat, is all about sharing. But not everyone wants to share details of their love life, especially with friends and family on

### 3.5M

Number of subscribers to Tinder dating app

their news feed. (Facebook has promised to keep them separate.) Facebook also needs to win users' trust—no minor feat given its recent privacy and data scandals.

There is already evidence to suggest users don't like to mix Facebook and dating: Signing up for Tinder was initially only possible through a Facebook account. But two months after Tinder started offering an alternative, non-Facebook sign-up, 75% of new users opted not to sign up through Facebook.

"Users quickly and decisively separated Facebook from their dating experience," said Mandy Ginsberg, CEO of Match.

Many young people are also using Facebook less frequently. And even if they do look for dates on Facebook, that doesn't mean they will leave Tinder.

The biggest risk for Match may be the erosion of its pricing power. On Tinder, users can swipe free of charge but they can also pay to "boost" their profile or "super-like" potential mates. Facebook has said its service will be free. After strong rallies in the past couple of years, shares of IAC and Match, while not wildly overvalued, could be vulnerable to a downturn.

Still, IAC has a huge headstart on Facebook, and it plans to use it. One response could be to consolidate by making further acquisitions.

"What the market is saying is that scale really matters," said Anthony DiClemente, an analyst at Evercore ISI. IAC's management team, led by Chairman Barry Diller, has the financial flexibility right now to make a new move.

Investors shouldn't be so quick to jump ship on IAC. If anything, Facebook's interest in dating confirms that it is an industry worth watching.

—Elizabeth Winkler

## Venezuela's Oil Meltdown Worsens

Death spiral is an overused term, but it is justified when describing Venezuela's oil industry now. Energy consumers and investors should pay attention.

Though production at national oil company Petrôleos de Venezuela SA has been falling fast, investors have assumed the company could keep global markets supplied and hard currency flowing to the country. Those assumptions are starting to unravel.

ConocoPhillips has moved to take control of PdVSA facilities in the Caribbean after winning a \$2 billion legal judgment tied to Venezuela's seizure of its assets in 2007. That move alone hurts Venezuela because that storage and refining infrastructure is needed to blend the country's heavy crude with lighter varieties and make it suitable for sale abroad.

Energy economist Philip Verleger estimates the issue could cut off exports of as much as 500,000 barrels a day out of the 1.4 million Venezuela produces. Coupled with renewed sanctions on Iran, the cutback could push oil prices above the current multiyear highs.

Now Conoco's gambit has set off a rush by others to seize the assets that PdVSA holds outside of Venezuela, including tankers and oil cargoes. Canadian gold mining firm Rusoro, for example, is going after Citgo Holding, the Venezuelan-owned U.S. refiner. Citgo is a vital link to the U.S. market for Venezuela and one of its only assets not shielded by being physically within its borders.

While the legality of seizing these assets is questionable, the uncertainty is already affecting operations. PdVSA representatives couldn't be reached for comment, but a Reuters report cites nine

vessels that appeared to be headed to the PdVSA facilities in the Caribbean but were diverted to Venezuelan or Cuban waters in the past week, probably to avoid having their cargoes seized.

PdVSA has a much bigger creditor than ConocoPhillips. China has lent the company roughly \$50 billion and a grace period on repayment of some loans was agreed to in 2016 when oil prices were around half of today's level. Should China demand that payments resume, the company would have to send it nearly a quarter of the oil it produces, cutting the amount of revenue it gets from exporting oil.

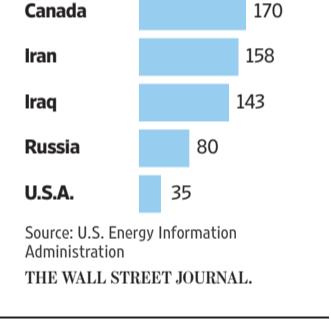
Even without a further push from China or from possible U.S. sanctions to protest the May 20 presidential election, the latest woes are choking off the regime's already scarce foreign currency earnings and increasing the odds of more serious domestic unrest.

Reports about Venezuela's oil output put it at multidecade lows with the exception of a strike in 2002-2003 that sent world oil prices surging. A repeat of that episode is looking more likely.

—Spencer Jakab

### Stuck in the Ground

Proved oil reserves, billion barrels



Source: U.S. Energy Information Administration

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## MARKETS

### THE TICKER | Market events coming this week

#### Monday

Earnings expected\*  
Estimate/Year Ago(\$)

Agilent Technologies  
**0.64/0.58**

Invitation Homes **0.03/0.14**

#### Tuesday

Business Inventories

Feb., previous up 0.6%

March, expected up 0.2%

Empire Manufacturing

April, previous 15.8

May, expected 14.9

Retail sales

March, previous up 0.6%

April, expected up 0.3%

Retail sales ex autos

March, previous up 0.2%

April, expected up 0.5%

Earnings expected\*

Estimate/Year Ago(\$)

Eagle Materials **1.05/0.88**

Home Depot **2.06/1.67**

Wednesday

Mort. bankers indexes

Purch., previous down 0.2%

Refinan., prev. down 1%

EIA status report

Previous change in stocks in millions of barrels

Crude oil down 2.2

Gasoline down 2.2

Distillates down 3.8

Housing starts

March, previous 1.319 mil.

April, expected 1.32 mil.

Industrial production

March, previous up 0.5%

April, expected up 0.6%

Building permits

March, previous 1.354 mil.

April, expected 1.35 mil.

Capacity Utilization

March, previous 78.0%

April, expected 78.4%



Macy's is expected to report earnings Wednesday.

EIA report: natural gas

Previous change in stocks in billions of cubic feet

up 89

Leading indicators

March, previous up 0.3%

April, expected up 0.4%

Philadelphia Fed survey

April, previous 23.2

May, expected 20.5

Earnings expected\*

Estimate/Year Ago(\$)

Applied Materials **1.14/0.79**

Nordstrom **0.43/0.37**

Walmart **1.12/1.00**

Initial jobless claims

Previous 211,000

Expected 215,000

Campbell Soup **0.61/0.59**

Deere & Co. **3.30/2.49**

### Currencies

U.S.-dollar foreign-exchange rates in late New York trading

Country/currency	Fri in US\$	Fri per US\$	YTD chg (%)
<b>Americas</b>			
Argentina peso	.0435	23.0120	<b>23.7</b>
Brazil real	.2778	3.6002	<b>8.7</b>
Canada dollar	.7815	1.2797	<b>1.8</b>
Chile peso	.001614	619.60	<b>0.7</b>
Ecuador US dollar	1	1	<b>unch</b>
Mexico peso	.0515	19.4224	<b>-1.3</b>
Uruguay peso	.0349	28.9900	<b>0.7</b>
Venezuela b.fuerte	.00001469900.0001</		

## MARKETS

## Stocks Regain Calm After Bout of Turbulence

Volatility is falling again after weeks of tumult

By Gunjan Banerji and Peter Santilli

Wall Street's fear gauge has been getting less scary by the week.

The Cboe Volatility Index, or VIX, closed below its 200-day moving average last Wednesday for the first time since January and has remained there since.

The VVIX, a measure of how volatile the VIX itself is, dipped under its average weeks ago. The VVIX, also known as "the VIX of the VIX," is based on options prices on the volatility index.

The fear gauge has fallen in each of the past five weeks, the longest streak since a six-week stretch in the summer of 2016, according to The Wall Street Journal's Market Data Group.

The VIX tends to fall when stocks rise. It uses options on the S&P 500 index to spit out a measure of expected stock swings over the next month.

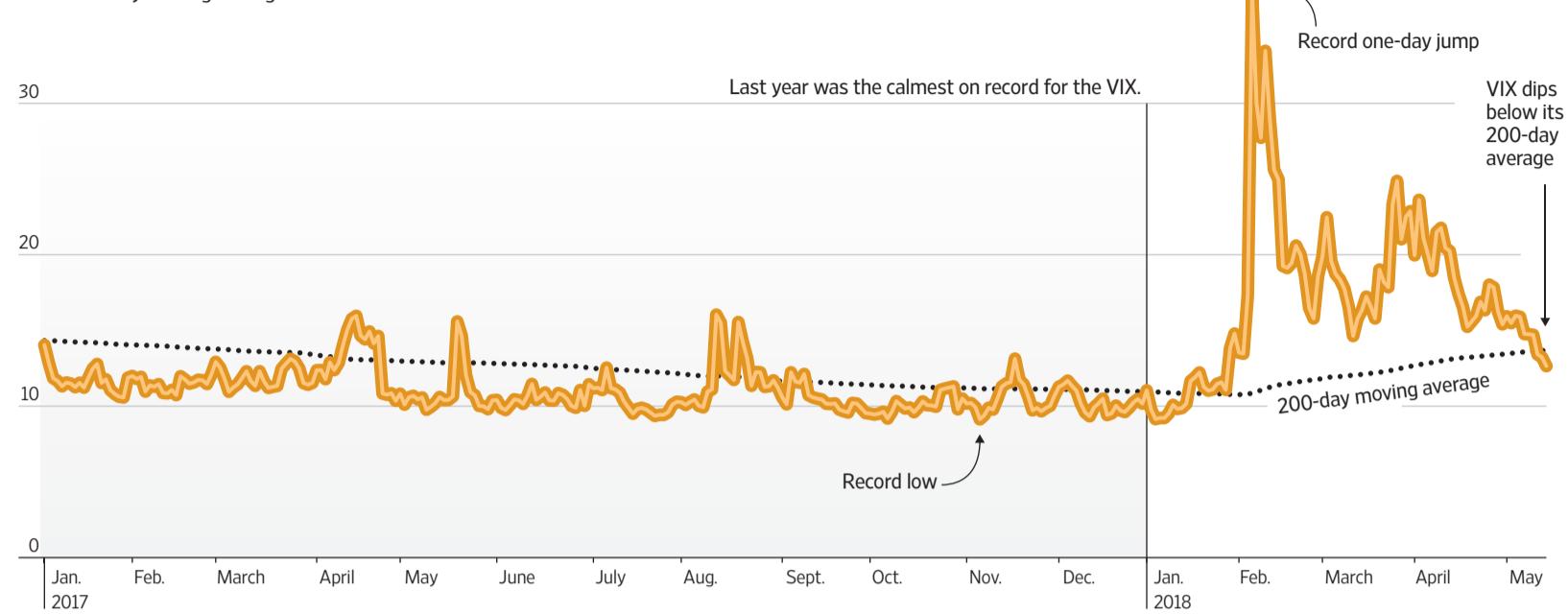
The prospect of calm in markets marks a sharp reversal from the weeks of turbulence that followed a spike in volatility in early February that sent the VIX on its biggest one-day move ever and U.S. stocks into correction territory.

Despite the recent drop, volatility remains elevated across sectors from year-ago levels.

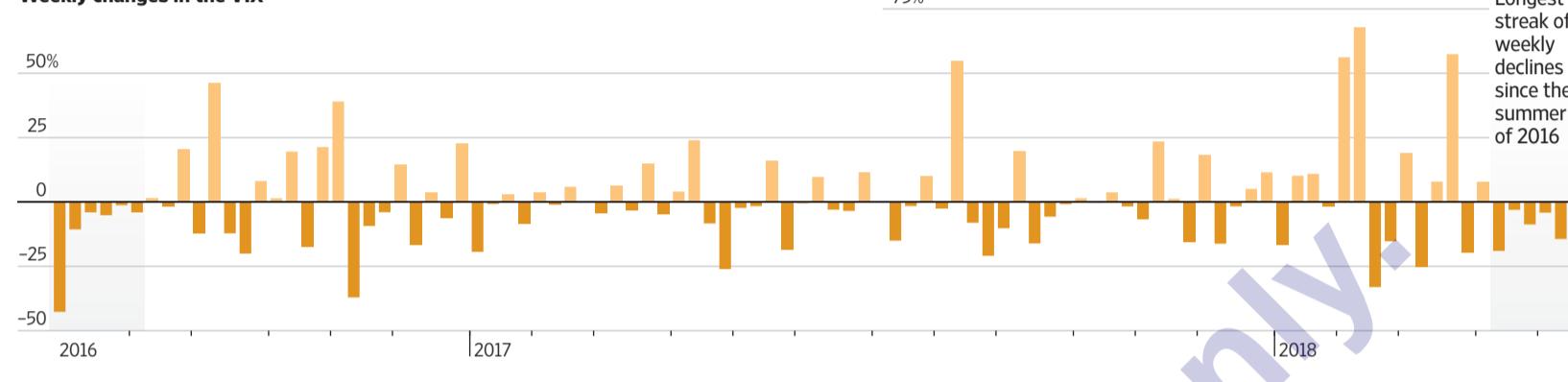
Some say that the current expectations for future volatility are too low, after the S&P 500's gyrations this year. The equity index has gained or lost at least 1% this year 32 times, the most since 2009.

Time will tell whether the recent calm will persist.

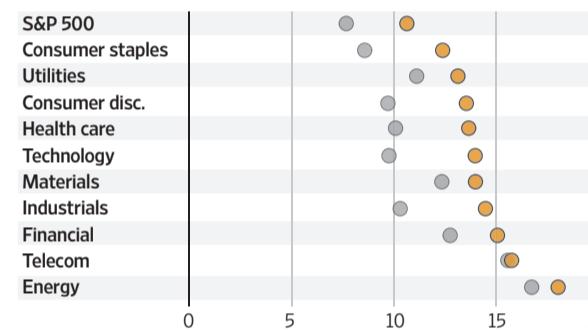
Cboe Volatility Index  
With 200-day moving average



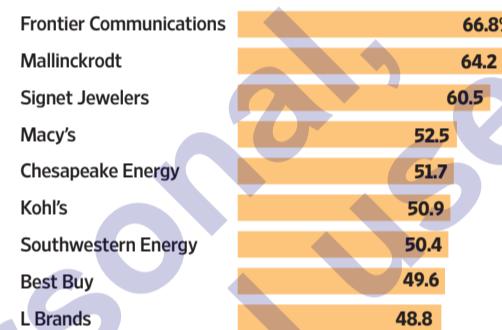
Weekly changes in the VIX



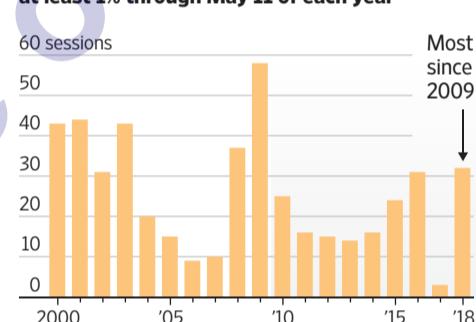
Expected volatility by sector\* ● May 10, 2017 ● May 10, 2018



Expected volatility, next 30 days†



Number of S&P 500 daily moves of at least 1% through May 11 of each year



\*Based on corresponding sector ETFs †As of May 10

Sources: WSJ Market Data Group (VIX, daily moves); FactSet (VVIX, VIX weekly changes); Trade Alert (expected volatility)

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