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As of 4 p.m. ET

DJIA 22405.09 ▲ 0.11%

NIKKEI 20356.28 ▼ 0.03%

STOXX 600 388.16 ▲ 0.47%

BRENT 57.54 ▲ 0.23%

GOLD 1281.50 ▼ 0.31%

EURO 1.1808 ▲ 0.17%

DLR ¥112.68 ▲ 0.29%

What's News

Business & Finance

Hedge funds, written off less than a year ago as overpriced and underperforming, this year are making money and taking in new cash. A1

◆ China's central bank said it would free up funds for banks that boost lending to small businesses. A1

◆ Chinese households are diverting consumer loans toward real estate rather than cars and appliances. A4

◆ U.S. officials voted to remove federal oversight of AIG, one of the most tangible steps yet in the administration's push to re-evaluate financial regulations. B1

◆ Google is investigating whether Russian-linked entities used its ads or services to try to manipulate voters ahead of the U.S. election. B3

◆ Uber's ousted chief is appointing two new directors to the ride-hailing firm's board, a surprise move that would bolster his clout. B1

◆ Two Asian nations took contrasting measures tied to cryptocurrencies, with Japan giving exchanges the green light and South Korea joining the crackdown. B8

◆ Proxy-advisory firm ISS is recommending P&G shareholders put Nelson Peltz on the board. B2

◆ The Fed fined HSBC \$175 million for its foreign-exchange trading practices. B8

◆ The plunge in Axovant's stock price after its failed Alzheimer's drug has stung Wall Street investors. B7

World-Wide

◆ After Kim Jong Nam was killed, North Korean dissidents scrambled to get his mother and sister to safety, thwarting many attempts to interfere with the evacuation. A1

◆ The U.S. is in contact with North Korea, "probing" to see if Pyongyang is willing to engage in talks despite tensions. A4

◆ The Supreme Court begins a new term with a conservative majority and a docket filled with long-time conservative goals to go with it. A1

◆ Clashes between police and protesters erupted in Catalonia as voters tried to cast ballots in an independence referendum outlawed by Spain. A3

◆ Most Spaniards are against allowing Catalonia, or any of Spain's 16 regions, to secede. A3

◆ Myanmar's army launched a counterinsurgency in Rakhine, clearing villages inhabited by the Rohingya Muslim minority. A4

◆ Trump criticized San Juan's mayor in a series of tweets that also took aim at Puerto Ricans who "want everything to be done for them." A5

◆ Republicans are conflicted in how far their latest tax plan should go in reducing the amount paid by the rich. A7

◆ Died: Samuel Irving Newhouse Jr., 89, publishing magnate. B1

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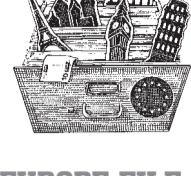
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WORLD NEWS

Migration Crisis Still Hangs Over Europe



EUROPE FILE

By Simon Nixon

In the eyes of some, Emmanuel Macron flunked it.

When the French president last week delivered a marathon speech outlining his vision of the European Union, many economists hoped this would include a radical plan for deeper eurozone fiscal integration.

Indeed, the expectation was that this would form the core of his speech. Yet Mr. Macron

didn't say anything about pooling eurozone debts and had little to say on the creation of a common eurozone budget. Instead, the most eye-catching parts of his speech concerned security and defense, where he proposed a far-reaching agenda to secure the EU's external borders, stabilize its neighborhood and establish a European Defence Force to be funded by a new tax on financial transactions.

But Mr. Macon's choice of priorities shouldn't have come as a surprise. It isn't just that the chances of the

EU reaching an agreement on fiscal integration look remote given opposition from several Northern European countries, not just Germany.

The reality is that there is no urgent need for the eurozone to pursue fiscal integration, particularly now that it is in a cyclical recovery. Sure, the eurozone remains vulnerable to shocks. But there is little the eurozone could do that would improve its ability to cope with a crisis in the Italian bond markets—widely perceived to be the biggest threat to eurozone stability—nor the risk that the crisis in Spain over Sunday's attempted referendum on Catalonia's independence spirals into a wider threat to financial stability.

For now, the key to strengthening the eurozone lies in policies that will raise potential growth through better functioning markets.

Europe's security challenges, on the other hand,

really do pose a present risk to the EU's survival.

Senior officials say that the closest the EU came to collapse was at the height of the migration crisis in 2015. The arrival of more than one million asylum seekers led to a collapse in public trust in the EU. The flow has since been slowed, with arrivals in Italy and Greece in recent months having diminished to a trickle. But the legacy of 2015 continues to cast a



France's Emmanuel Macron proposed a far-reaching agenda to secure the EU's external borders.

LUDOVIC MARIN/PRESS POOL

shadow over European politics, as shown by strong support for the anti-immigration Alternative für Deutschland party in last week's German elections. EU officials estimate around 200,000 people will attempt to enter the EU illegally this year, in line with the long-term average over the previous two decades, but even this may no longer be politically sustainable. To win back public trust, the EU needs to show it is in full control of its borders.

Its task is complicated by the fallout from past mistakes, in particular the EU Commission's 2015 decision

to drive through on a majority vote a controversial policy to ease the pressure on frontline states such as Greece and Italy by requiring the mandatory relocation of asylum seekers across the EU. This policy failed on its own terms, since only a fraction of the 70,000 required relocations have taken place and few have stayed in the countries to which they were relocated: Latvia, for example, has taken just 200 out of its quota of 700 and no longer knows where any of them are. But it has also fueled anger in countries such as Hungary and Poland that continue to oppose the

policy despite a recent European Court of Justice ruling that the commission acted lawfully.

The EU is now engaged in the delicate task of "trying to put the porcelain back together," in the words of one senior EU diplomat. The first task is to do whatever necessary to secure EU borders: The closure of the Southern Balkan route was the result of an EU deal with Turkey; the recent success in closing the central Mediterranean route is the result of deals struck by Italy with Libyan militias. The exact nature of these deals is unclear.

Mr. Macron's ideas—which

built on proposals laid out by commission president, Jean-Claude Juncker, in a speech in September—for an enhanced EU border force, swifter returns of failed asylum seekers, an EU budget to fund support for asylum seekers, and deeper engagement with the countries from which migrants are coming could all help to rebuild public trust.

But these ideas are secondary to the need to find a long-term solution to the relocation problem. The commission is due to come up with new proposals by the end of this year.

That could pit frontline states currently hosting large numbers of asylum seekers against those in central and eastern Europe hostile to immigration.

Several countries only went along with the 2015 policy because they were assured this was an emergency measure and would oppose any continuation of mandatory resettlement.

What's more, the poison from this debate may be fueling wider EU divisions with the Polish and Hungarian governments relying on increased euroskepticism to win public support for their clashes with the commission over alleged breaches of the rule of law.

In the eyes of some EU officials, these clashes may yet prove the biggest EU crisis of all.

PBOC

Continued from Page One
ued resilience in the economy. Those factors, many economists and analysts have said, give the central bank a window of opportunity to act.

But the central bank also must keep an eye on debt levels. As a result, many economists don't expect the central bank to conduct an across-the-board cut in reserve-requirement ratios soon.

The PBOC said it would maintain a 'prudent and neutral' monetary stance.

Saturday's targeted-easing policy doesn't change the overall tone of China's monetary policy, the central bank said, adding that it will continue to adopt a "prudent and neutral" monetary stance.

It is unclear how much additional money the PBOC will free up as a result of this move, analysts say. By opting for selective easing, China economist Larry Hu at Macquarie Securities said, "the central bank doesn't want to send strong easing signals that would run against the government's financial deleveraging effort."

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FUNDS

Continued from Page One
forming, and bets against retailers also paying off.

A year ago, things looked ugly for the industry.

Longtime managers like Richard Perry were shutting down, and many who remained were forced to negotiate their fees to satisfy disappointed backers. The pressure was compounded by a decade of nearly uninterrupted gains for the S&P 500, contributing to dramatic out-performance for low-cost, passive investment products.

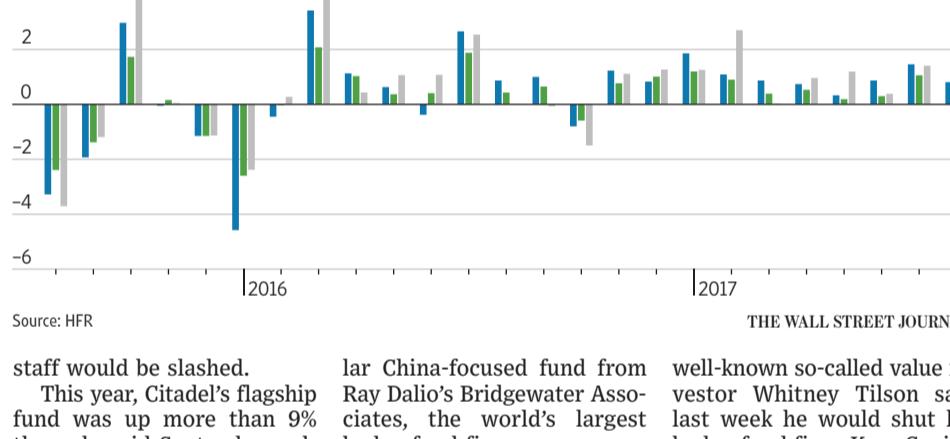
Sticking around seemed even less attractive as managers had to dip into their pockets to pay ever-rising salaries to dissuade staff from leaving for flush technological companies dangling seven-figure packages.

Earlier this year, for instance, billionaire Kenneth Griffin was so frustrated with investment performance at his \$27 billion hedge fund, Citadel LLC, that he sent the staff a mass letter that read in part, "I am disappointed that after years of leading our industry we failed to deliver," people familiar with the matter said. Citadel separately announced that compensation for some

Comeback

After lagging behind in recent years, hedge funds have kept closer pace with a mix of stocks and bonds in some recent months.

Monthly performance



staff would be slashed.

This year, Citadel's flagship fund was up more than 9% through mid-September, already eclipsing last year's total 5% gain. Last year was the fund's weakest mark in nearly a decade, the people said.

Hedge funds at large pulled in \$39 billion of new money this year, a reversal of \$112 billion in outflows last year, the researcher eVestment says. Industry executives expect the inflows to continue with several banner fund launches in the months ahead, including a multibillion-dollar

lar China-focused fund from Ray Dalio's Bridgewater Associates, the world's largest hedge-fund firm.

Few managers expect a return to the heyday of a decade ago, when every young trader with a pulse dreamed of a hedge fund of their own. Privately, many industry executives fret that the industry, which bets on and against markets world-wide, has been permanently left with an undesirable patina.

Fall is typically the season of hedge-fund shutdowns and this year is no exception. The

well-known so-called value investor Whitney Tilson said last week he would shut his hedge-fund firm, Kase Capital Management LLC, which had dwindled to \$50 million in assets under management and lost 8% so far this year.

Among hedge funds girding for a bumpy road ahead is GoldenTree Asset Management, a \$25 billion firm. GoldenTree recently warned investors in a private note reviewed by The Wall Street Journal that credit markets were "providing mid cycle pricing for late cycle risk." GoldenTree's main fund

is up 5% this year, the note indicates.

Within hedge funds, macroeconomic-focused managers, who try to get ahead of political and other broader trends, have mostly fallen short in predicting this year's major moves, particularly the weakening in the U.S. dollar, investors say. The average macro fund is roughly flat this year, according to HFR.

For now, the industry's gains are shared by managers large and small, including many who came into the year with something to prove.

One of the biggest rebounds is underway at Brahman Capital Corp., a hedge-fund firm that flew under the radar for more than three decades.

At its apex around two years ago, Brahman managed more than \$5 billion, as principals Mitchell Kuflik and Robert Sobel bet big on hedge-fund favorite Valeant Pharmaceuticals International Inc. When Valeant's stock plummeted from \$257 to \$14 a share, Brahman fell as the firm reported losses and investors pulled out their money.

Brahman sold Valeant stock last year and pivoted to new ideas like a stake in travel company Expedia, people close to the firm said. This year, Brahman's main fund is up 17%, the people said.

attacks, which cost his employer, South Africa-based Gold Fields Ltd., some \$210,000. During the past year, when he focused his flying in the morning, he has lost two—with two more close calls.

Mr. Parfitt, who began his drone business Aerial Image Works about three years ago, remains vigilant. Each of his last three jobs attracted an eagle attack. Other birds will "fly at the drone and they'll act in a very aggressive manner, but they don't actually touch you," he said. "I'm not scared of anything else attacking my drone except the wedge-tailed eagle."

CORRECTIONS & AMPLIFICATIONS

The U.S. Department of Commerce ruled in favor of a complaint from Boeing Co. over alleged price subsidies for the Bombardier Inc. CSeries jetliner. A Business News article Thursday about Bombardier incorrectly said the International Trade Commission made the ruling.

Student-loan debt in the U.S. can't be discharged in bankruptcy unless a borrower files a separate court action known as an adversary proceeding and is able to prove "undue hardship," a high le-

gal hurdle. A Property Report article Wednesday about a program that pays some student-loan debt for home buyers incorrectly said student loans can't be discharged in bankruptcy.

Spelman College's graduating students walk under an arch at commencement. A Journal Report article Wednesday about the top schools where students feel inspired by their peers incorrectly said Spelman College students walk under an arch when they enter school for the first time.

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

BIRDS

Continued from Page One

These highly territorial raptors, which eat kangaroos, have no interest in yielding their apex-predator status to the increasing number of drones flying around the bush. They've even been known to harass the occasional human in a hang glider.

Birds all over the world have attacked drones, but the wedge-tailed eagle is particularly eager to engage in dogfights, operators say. Some try to evade these avian enemies by sending their drones into loops or steep climbs, or just mashing the throttle to outrun them.

A long-term solution remains up in the air. Camouflage techniques, like putting fake eyes on the drones, don't appear to be fully effective, and some pilots

have even considered arming drones with pepper spray or noise devices to ward off eagles. They are the "ultimate angry birds," said James Rennie, who started a drone-mapping and inspection business in Melbourne called Australian UAV. He figures that 20% of drone flights in rural areas get attacked by the eagles. On one occasion, he was forced to evade nine birds all gunning for his machine.

The birds are considered bigger bullies than their more docile relatives, such as the bald and golden eagles in the U.S. Wedge-tailed eagles are the undisputed alpha birds in parts of Australia's interior but it's not entirely clear why they're so unusually aggressive toward drones. Scientists say they go after drones probably because they view them as potential prey or a new competitor.

The problem is growing



WORLD NEWS

Violence Erupts as Catalonia Tries to Vote

Spanish police force
Catalans from polling
stations in illegal ballot;
hundreds are hurt

BARCELONA—Sporadic clashes erupted between police and Catalan voters as they tried to cast ballots in an independence referendum outlawed by Spain, with authorities dragging people from polling stations and firing rubber pellets at crowds. Hundreds of people were injured, local authorities said.

By Jon Sindreu,
Pietro Lombardi
and Marina Force

Scenes of national police in riot gear battling civilians could fuel animosity in Catalonia and deepen a long secessionist struggle that has riven Spain and brought the country to the brink of a constitutional crisis.

A Spanish official said police fired "rubber pellets" in what the official described as an "isolated incident" when police felt threatened.

Pro-independence groups have defied the government of Spanish Prime Minister Mariano Rajoy, opening thousands of polling stations in schools and other local buildings for a ballot on whether Catalonia should break free from Spain.

According to the Barcelona mayor, more than 460 people were injured in the clashes,



ALBERTO ESTEVEZ/REX SHUTTERSTOCK/EUROPEAN PRESSPHOTO AGENCY

Police block Catalans seeking to vote in a referendum on secession in Barcelona, the capital of Catalonia. Spain has banned the vote.

some seriously. The Spanish Interior Ministry said 11 police officers also had been injured.

Starting Friday evening, thousands of referendum supporters—including families with small children—occupied at least 160 designated polling stations throughout Catalonia to avoid their closure for Sunday's vote.

Just before the opening of polls Sunday morning, several dozen officers from Spain's national police force, dressed in riot gear, removed two hundred people who had been occupying a polling station in

Sant Julià de Ramis, the small town where Catalan President Carles Puigdemont had been scheduled to vote.

They used hammers to break down the door and dragged people from the building, as helicopters flew overhead. Some of the people resisted when the police removed them from the station.

Similar scenes played out at a polling station in Barcelona, Catalonia's capital city, where police blocked people from entering and forced their way into the building and removed ballot boxes, pulling them from

the hands of officials, according to witnesses. People outside the building chanted, "We will vote."

In Tarragona, a small Catalan city, Maria Angeles, 75, was in a school with scores of other people to vote when police rushed in. She said one woman was bleeding after police were dragging her outside of the building. "They came in shouting at people and dragging them," she said. "It was a violent intervention."

Mr. Puigdemont, who traveled to a small town nearby and cast his ballot, said Spanish police used "rubber bullets" on the crowds. He didn't specify if the incident occurred or against whom. According to Marc Bataller, an official on health issues for the Catalan government, one person was struck in the eye with a "rubber bullet."

Spokesmen for the Spanish police didn't respond to requests for comment.

In recent days, the Rajoy government has sent thousands of extra officers to Catalonia's city, where they are billeted on large ferryboats.

In remarks made after cast-

ing his vote, Mr. Puigdemont denounced "police brutality" on the part of the national police.

"The unjustified, unchecked, irresponsible violence by the Spanish state today didn't just fail to stop Catalans' will to peacefully and democratically vote," he said. It also made clear "what is at stake for us."

Enric Millo, the central government's top official in Catalonia, said security forces had shown "exemplary action" in their efforts to uphold court orders. "It makes no sense to continue with this farce," he said in a televised press conference.

Long queues began forming before dawn at schools and other designated polling centers through the region in Spain's northeastern corner, hours before they were scheduled to open at 9 a.m. local time. Despite the fact that the central government has seized millions of ballots, workers in the polling stations had piles of blank ballots ready to give to those who arrived to vote.

"This is a lifelong dream come true for me," said Josep Navarro, a 37-year-old teacher, who turned up at 7 a.m. to vote at a polling station in Tarragona. "Casting the vote gave me a wonderful feeling.... Changes take time. It won't be tomorrow, next month or year, but in a few years we'll be independent."

—Jeannette Neumann and Oliver Griffin contributed to this article.

Majority in Spain Oppose Region's Independence Bid

BY JEANNETTE NEUMANN

BARCELONA—David Arias, a 49-year-old lawyer in Madrid, watched with alarm as a crisis unfolded in September in the Spanish region of Catalonia, whose leaders have pledged to hold a referendum on independence on Sunday.

Earlier this week, Mr. Arias hung the yellow and red Spanish flag from the balcony of his law offices in central Madrid. "We've flown the flag that represents everyone," said Mr. Arias, who regards the referendum as "sedition." "The nation is facing a dangerous time."

As Catalan leaders defy Spanish authorities in their attempt to stage a vote on whether to break away from Spain, most Spaniards are against allowing Catalonia, or any of Spain's 16 other regions, to secede. Spain's 1978 constitution pledges to uphold the country's "indissoluble unity," and a top court has ruled a number of times that Catalonia and other Spanish regions cannot hold a vote on independence.

Nationally, only one in 10 Spaniards supports granting Catalonia and other regions the possibility of becoming independent, according to a July survey by the Center for Sociological Research, Spain's state-owned survey agency, in the most recent available poll.

Around 15,000 pro-union protesters gathered in Barcelona, waving Spanish flags, to protest the referendum on Saturday, according to the central government's delegation in Catalonia. Thousands more gathered throughout Spain.

Pro-union supporters disagree with the claim by some Catalan separatists that Spain has oppressed their language and culture and worry that Catalonia's push for secession has deeply divided Spain, and Catalonia itself.

According to a poll by Catalonia's regional government survey agency in June, 35% of Catalans support full-fledged independence, down from a peak in 2013 of around 50%. Some pro-independence media in Catalonia put support for secession as high as 70% among those who are planning

to vote on Sunday. Many of those who oppose independence from Spain, or who don't want to participate in what they consider an illegitimate vote, have pledged to boycott the referendum; that is likely to skew the results in favor of a "yes" to independence.

Josep Félix Ballesteros, the mayor of Tarragona, one of Catalonia's larger cities, is against independence. Separatists have called him a "traitor" during recent public speeches and on social media. "It hurts," he said, because he has a deep attachment to the region. "I get emotional during the [Catalan] anthem," added Mr. Ballesteros, who also gives speeches in Catalan.

Nearly 70% of Spaniards want Spain's regions to have the same or less autonomy than they already have, according to the Center for Sociological Research. Spaniards who oppose Catalonia's inde-

pendence emphasize that Spain is already one of the most decentralized countries in the European Union. Catalonia controls its school and health-care systems and has its own police force.

"Of all the countries that have allowed their own regional cultures to develop, it's been Spain," said Jaime Carvaljal, chief executive of a Madrid-based investment bank and head of the foundation Juntos Sumamos, which means "better together." "How can they say they are repressed? They are in charge."

Separatists say that Catalonia, one of Spain's wealthiest regions, would be better off on its own, sending fewer funds to the central government in Madrid. They are particularly bitter about a 2010 court decision to strike down part of a statute that would have granted Catalonia greater autonomy. Catalans approved that statute in a referendum and saw the court's move as politically motivated.

"There are first-class Spanish and second-class Spanish people," Catalan President

Carles Puigdemont, who has lead the referendum push, said. Catalans "are considered and treated as second-class Spaniards, in terms of identity, culture and language, and in economic, investment and infrastructure terms, [and] in terms of the possibility of unleashing what we want to be."

Unionists point to the messy process that has followed the U.K.'s vote last year to leave the European Union as undermining separatists' claims that secession from Spain would be a seamless transition. "It's very easy to promise things to people," said Jorge Torrus, a Barcelona taxi driver who is against independence. "But the reality would be very different."

Spain's two major political parties, the center-right Popular Party and the center-left Socialists, as well as the centrist Ciudadanos, have decried the planned vote and called on their supporters in Catalonia to boycott it. After some equivocation, far-left Podemos, and some of its allied parties, decided to withhold their support.



PABLO BLAZQUEZ DOMINGUEZ/GTY IMAGES

Pro-union supporters demonstrated in Barcelona against the vote.

WORLD WATCH

AFGHANISTAN

U.S. Weighs Shutting Down Taliban in Qatar

The Trump administration is crafting plans to shutter the Taliban political office in Qatar, a move that triggered an unusual internal protest from State Department officials who said it would undermine U.S. interests in Afghanistan, according to current and former U.S. officials.

A group of State Department specialists on South Asia filed a rare internal "dissent channel cable" on Friday to urge that the U.S. keep the Taliban office open and launch more intensive talks to end the 16-year-old war in Afghanistan, according to people familiar with the move.

The internal memo was signed by a handful of officials, the people said, including some longtime State Department employees whose contracts with the department expired on Friday and weren't renewed.

Before leaving their posts, the South Asia experts crafted their unclassified dissent memo to top State Department leaders that urged them to rethink an evolving strategy that is sending nearly 4,000 more U.S. forces into Afghanistan to try and break a battlefield stalemate with the Taliban.

In the internal memo, the experts said that closing the Taliban office in Qatar would undermine President Donald Trump's

attempts to extricate the U.S. from a war that has claimed more than 3,500 American lives since 2001, according to people familiar with the move.

"Not having a line of effort with a clear focus on a political process seems contrary to his interests, as well as being bad policy," one former U.S. official said in an interview.

—Dion Nissenbaum

More Than 20 Killed In Mumbai Stampede

A stampede on a pedestrian overpass at a train station in India's financial capital killed more than 20 people.

At least 22 people died and more than 35 others were injured on Friday as a throng of commuters pushed its way through the narrow bridge and stairways of an overpass connecting Mumbai's busy Parel and Elphinstone Road train stations about 10:45 a.m., railway authorities said.

The two stations are among Mumbai's busiest. They sit in the middle of one of the most rapidly developing areas of the city. The neighborhood, once defined by bankrupt and abandoned textile mills, has in the past decade transformed into a business and entertainment hub full of office towers, high-end condominiums, malls, bars and restaurants.

As with most of the city and the country, public infrastructure

such as roads, sidewalks and train stations has struggled to keep up with the demand that has sprouted up in small pockets of new wealth.

—Corinne Abrams and Vibhuti Agarwal

IRAQ

Baghdad Imposes Flight Ban on Kurds

Iraq imposed a flight ban on its semi-autonomous Kurdish region, retaliating against a landmark referendum last week in which the Kurds voted over-

whelmingly to secede from the rest of the country.

Prime Minister Haider al-Abadi's office said the ban was aimed at reimposing federal government authority there after the referendum, not at blocking the region.

The Kurdish government refused to comply with the ban. But it wasn't clear what practical measures Kurdish officials could take. Baghdad controls the airspace around the Kurdish region's airports and international airlines already canceled flights to the regional capital of Erbil at Baghdad's request.

The ban doesn't apply to domestic flights.

The flight ban is the first concrete retaliatory measure against the referendum after Baghdad threatened to isolate and economically cripple the Kurdish region in response to what it called a threat to the country's stability.

Monday's vote didn't automatically confer statehood. Kurdish leaders now claim a mandate to start negotiations with Baghdad and neighboring countries to form an independent nation.

—Isabel Coles and Ghassan Adnan

CUBA

U.S. to Reduce Embassy Staffing

The State Department is cutting more than half of its staff from the U.S. Embassy in Havana and warning Americans against traveling to Cuba, as Washington investigates a mysterious rash of illnesses that has left more than 20 diplomats with dizziness, concussions, hearing loss and other symptoms.

The embassy cut comes as investigators scramble to figure out what and who is behind what officials are describing as "targeted attacks" in hotels and residences that have affected the health of at least 21 U.S. government employees. The U.S. hasn't blamed Cuba for the illnesses.

—Felicia Schwartz

FRANCE

Terror Probe Opened In Marseille Attack

French authorities Sunday opened a terror investigation after a man stabbed two women to death around a train station in the center of Marseille.

French soldiers patrolling the area shot and killed the man after his rampage in the area of the Saint-Charles rail station, said a spokeswoman for the Paris prosecutor's office, which handles terrorism investigations.

—Matthew Dalton



CHRISTOPHE SIMON/AGENCE FRANCE PRESSE/GETTY IMAGES

CATWALK: Celebrities, including actor Jane Fonda (above) took to the runway as the Champs Elysees got a makeover as a giant runway in an event that coincided with Paris Fashion Week.

WORLD NEWS



Why Chinese Are Diverting Their Loans to Real Estate

BEIJING—China's government hoped more household borrowing would help the economy become more consumer-oriented. But instead of shopping, many Chinese are spending the money on real estate, undermining Beijing's efforts to cool that market.

Chinese banks, encouraged by policy makers, have recently been lending more to households as companies sink perilously deep into debt. At first banks did this with mortgages; this year they have stepped up short-term consumer loans.

But signs are emerging that such loans, rather than funding such middle-class trappings as cars, household appliances or gadgets, are instead flowing to China's stubbornly hot property market, padding home purchases when mortgage loans aren't enough.

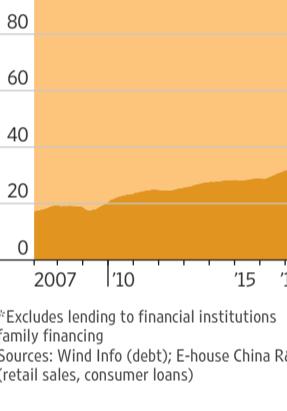
Last month, a Beijing homeowner who provided only her surname, Zhu, took out a one-year loan of 100,000 yuan (around \$15,000) from Bank of China, a commercial lender. She used it toward the down payment on a two-bedroom apartment—despite rules forbidding such borrowing.

Ms. Zhu, who works for a state-owned financial company, said she had little choice after the city government tightened down-payment requirements in March and they had borrowed all they could from family. "Consumer loans were our only option," she said.

Borrowing, Not Shopping

Household loans are becoming a bigger share of Chinese debt, but soaring consumer credit hasn't prompted a rise in consumption.

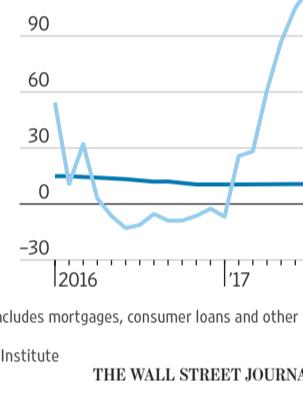
Debt as share of total bank loans*



*Excludes lending to financial institutions. †Includes mortgages, consumer loans and other family financing.

Sources: Wind Info (debt); E-house China R&D Institute (retail sales, consumer loans)

Annualized growth, seasonally adjusted



THE WALL STREET JOURNAL.

In the past few weeks, local branches of the central bank and the China Banking Regulatory Commission have urged banks to check how borrowers are using short-term consumer loans.

Banks have stepped up marketing of such loans. At some banks, applicants can get approved within minutes.

China Merchants Bank, for example, has a "lightning-loan" service, where customers can borrow as much as 300,000 yuan (\$45,540) by filling out an application on the bank's mobile app. The lender can quickly review the applicant's credit record, income and fi-

nancial assets via an online system, then send an approval by text.

The bank's representatives have also taken to cold-calling to market their consumer loans.

Eswar Prasad, a former top China hand at the International Monetary Fund and now professor at Cornell University, said strong consumer lending can be good both for households and the broader economy.

"People should be consuming out of their higher future income," he said. "That's what a financial system is supposed to do." But in China, "it doesn't look like that's happening."

With few investment options—domestic stocks are volatile and considered too risky, and China strictly controls capital moving out of the country—consumers see property as a fail-safe avenue for storing their wealth.

The Chinese government has encouraged a rebalancing of debt away from the corporate sector toward households. In the years since the global financial crisis when property prices in China took off, buyers increasingly turned to banks for mortgages.

Mortgages form the lion's share of household debt, which now accounts for the equivalent of 46% of China's gross domestic product, compared with 17% in 2008, and 33% of outstanding bank credit, up from 18% a decade earlier.

—Grace Zhu and Chao Deng

good connections with foreign governments. "They moved very quickly and were verified at the highest level," he said. Two Western diplomats said Cheollima was trusted to help defectors.

"Cheollima" is a mythological winged horse, a North Korean symbol for rapid progress that is seen on stamps and statues in the country.

The Cheollima representative said the family of Kim Jong Nam contacted the group directly soon after his killing.

Three weeks later, on March 7, the group released a video that showed Kim Han Sol displaying his passport and confirming he was safe with his mother and sister. Cheollima declined to connect the Journal to Kim Han Sol or his family.

Kim Jong Nam was almost certainly killed by North Korean agents, U.S. and South Korean officials said. Pyongyang denies involvement.

On Monday, the trial will begin in Malaysia of two women charged with murdering Kim Jong Nam by smearing his face with VX, a nerve agent. Four North Koreans who left Malaysia soon after the incident have also been named as suspects in the case.

Mr. Kim's family had been living outside of North Korea for many years but said they felt under threat in their well-known Macau home. Kim Han Sol had been critical of the North Korean government in a 2012 Finnish television interview.

"I've always dreamed that one day I will go back and

make things better," Kim Han Sol said in the interview. He spoke fluent English with a British accent, and said he was interested in the revolution the previous year in Libya, as related to him by his Libyan roommate.

At the time Mr. Kim was studying at an international college in Bosnia. He has also been educated in France. In photos, Mr. Kim has sometimes appeared with a spiky hairstyle, hooded tops and jeans more suited to the streets of Seoul than Pyongyang.

Kim Jong Un has eliminated potential challengers as he has consolidated power in recent years, including members of his own family. In 2013, he executed his uncle, allegedly for building a rival power base. South Korean and U.S. officials said Kim Jong Nam was likely killed under orders from Kim Jong Un.

"North Korea stresses the Kim bloodline for leadership, making estranged family members potentially threatening as a theoretical replacement for Kim Jong Un," said Patrick McEachern, an expert on North Korea and fellow at the Wilson Center in Washington.

As Kim Jong Un continues a crackdown on defections, Cheollima said it would continue to provide assistance to those seeking to leave the country and look for foreign assistance.

"To those good nations of the world, stand on the right side of history," the Cheollima representative said. "Our compatriots and the world will remember."



Kim Han Sol, the son of slain North Korean Kim Jong Nam.

or aiding an escape risks severe punishment, including the death penalty.

The number of North Koreans who reached South Korea between January and August this year was down almost 13% from last year to 780, data from the Seoul government show.

"We came to meet an urgent need by North Koreans for protection of those in danger," the Cheollima representative said of the group's mission.

The Journal spoke to diplomats, a high-level defector and a European human-rights worker who helped Cheollima evacuate the family to learn more about the group.

The defector, who isn't part of the group, said Cheollima is a small but well-connected organization that had helped North Koreans escape their country through China and into Southeast Asia.

The human-rights worker confirmed the group consisted of North Koreans and had

Myanmar's Refugees Tell Tales of Slaughter

By SYED ZAIN AL-MAHMOOD

TEKNAF, Bangladesh—Twelve-year-old Sukhutara said she watched her family's final moments from a hiding place in the bushes.

She had just finished taking the cows to pasture that morning when soldiers in olive-green uniform stormed her village in Myanmar's Rakhine state. She said her absence saved her life.

"The military shot my father, and then as he lay on the ground a soldier cut his throat," she said.

In a refugee camp on the border, Sukhutara, who goes by one name, sobbed as she described how troops dragged her mother and several other women into a hut. She heard screams from inside. Then the soldiers came out and set the hut ablaze.

In recent weeks, Myanmar's army has launched a counter-insurgency in Rakhine, clearing villages inhabited by the Rohingya Muslim minority and prompting at least 500,000 people to flee into Bangladesh, the United Nations said Thursday. The military and army-backed militias have killed about 3,000 people, according to Bangladesh's government and rights groups.



mar's border affairs minister, said in an interview.

Reports of atrocities have pressured Ms. Suu Kyi, who in a speech last week defended Myanmar's treatment of Rohing-

ya. Ms. Suu Kyi serves as state counselor but the military controls certain ministries, including defense. A spokesman for Ms. Suu Kyi said the military had conducted "clearance operations" in accordance with its code of conduct and rules of engagement. Anyone who wished to file a case against the military could do so and it would be investigated in accordance with the law, he said.

Sukhutara's account was verified by other survivors from her village who spoke to The Wall Street Journal. Human Rights Watch and Amnesty International say there is evidence of such atrocities. The United Nations' human-rights chief has described the army's clearances as "ethnic cleansing."

Close observers of Myanmar say the army's operation was modeled on the "Four Cuts" strategy former dictator Gen. Ne Win employed against rebels in the 1970s: targeting civilian areas to deny insurgents food, funds, recruits and information.

"The army didn't want to be bogged down in a counter-insurgency in Rakhine, taking casualties over a number of years," said Richard Horsey, an independent political analyst in Myanmar. "They were perfectly willing to destroy entire villages to deny safe haven to the fighters of ARSA."

Tulatoli, the village where Sukhutara lived, was home to between 4,000 and 5,000 people before the massacre. It was victim to among the worst violence in the military's campaign, with witnesses saying that at least several hundred people were killed. Sukhutara said she lost eight close relatives: her parents, grandparents and four brothers.

—Myo Myo in Yangon and Yantoulu Ngui in Kuala Lumpur contributed to this article.

ESCAPE

Continued from Page One
the rescue, and the Netherlands and U.S. declined to comment.

Other nations refused to give assistance. Among them was Canada, a decision that reflected its sensitive negotiations to free a Canadian pastor imprisoned in North Korea, according to a person familiar with the decision.

Canada declined to comment on the refusal, and said that the release of Rev. Lim Hyeon-soo was the result of diplomatic engagement. The pastor's release came as tensions ramped up between North Korea and the U.S. over Pyongyang's nuclear weapons and missile development.

The family first flew to Taipei, a person familiar with the relocation said. There they spent a tense 30 hours in the airport trying to confirm travel and visas for a final destination, this person said. Cheollima declined to confirm the evacuation route and hasn't said where the family went.

Cheollima is one of several groups that help those seeking to escape the Kim Jong Un regime. The representative said it consists of North Koreans both outside and, unusually, within the country.

North Koreans are barred from leaving the country without government permission. The country has tightened border controls in recent years, and anyone attempting

good connections with foreign governments. "They moved very quickly and were verified at the highest level," he said. Two Western diplomats said Cheollima was trusted to help defectors.

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Tillerson Says U.S. Is Talking to North Korea

By CHARLES HUTZLER

BEIJING—The U.S. is in direct contact with North Korea, "probing" to see if Pyongyang is willing to engage in talks despite tensions that remain overheated, Secretary of State Rex Tillerson said.

Mr. Tillerson said Saturday that the U.S. has "a couple, three" channels through which it directly engages with the North Korean government to see if substantive discussions are possible.

"We are probing. Stay tuned," Mr. Tillerson said in Beijing after meeting with China's president and senior officials.

While U.S. officials have said the government has direct contacts with North Korea despite no formal diplomatic ties, Mr. Tillerson's comments were a rare high-level acknowledgement. He didn't provide details but said ridding North Korea of nuclear weapons remains the goal of U.S. policy.

U.S. President Donald Trump on Sunday expressed skepticism over hopes for talks with North Korea, tweeting he had told Mr. Tillerson "that he is wasting his time trying to negotiate with Little Rocket Man," a term the president has used to refer to North Korean leader Kim Jong Un.

The two governments are known to have held talks via North Korea's United Nations mission. A State Department of

ficial met with a North Korean diplomat in Norway as part of efforts to negotiate the release of Otto Warmbier, an American college student who was imprisoned in North Korea for more than a year before being medically evacuated in June in a coma. He died shortly thereafter.

Mr. Tillerson's acknowledgment of the open channels, in response to a question from a reporter, came after a half day of discussions in Beijing with President Xi Jinping and top

The two governments have held talks via North Korea's United Nations mission.

foreign-policy officials. Their talks, Mr. Tillerson said, focused on North Korea and preparations for a November summit in Beijing between Mr. Xi and Mr. Trump.

Beijing has urged the U.S. to negotiate with Pyongyang directly and the recent rise in tensions since North Korea's latest nuclear test, its sixth, in early September and the threatening rhetoric traded by Messrs. Trump and Kim.

—Eva Dou contributed to this article.

U.S. NEWS

Trump Lashes Out at Puerto Rico Mayor

Series of tweets took aim at Puerto Ricans who 'want everything to be done for them'

By MICHAEL C. BENDER

President Donald Trump over the weekend criticized San Juan's mayor in a series of Twitter posts that also took aim at Puerto Ricans who "want everything to be done for them."

"Such poor leadership ability by the mayor of San Juan, and others in Puerto Rico, who are not able to get their workers to help," Mr. Trump said Saturday. "They want everything to be done for them when it should be a community effort."

Mr. Trump accused San Juan Mayor Carmen Yulin Cruz of politicizing a storm that he said day earlier had caused "total destruction" on the island. Ms. Cruz has accused the Trump administration of "killing us with the inefficiency" and asked to "make sure somebody is in charge that is up to the task of saving lives."

The tweets appeared to have been deleted Saturday afternoon.

Several hours after the first round of posts, Mr. Trump thanked Puerto Rico Gov. Ricardo Rosselló and congresswoman Jenniffer González-Colón, along with Gov. Kenneth Mapp of the U.S. Virgin Islands, in another series of tweets for their work following the disaster. On Sunday morning he praised "the amazing work" done by federal emergency management personnel and the military, and again thanked the island's governor for working with first responders.



San Juan Mayor Carmen Yulin Cruz spoke to the media Saturday as she arrived at a temporary government center.

The president, who spent the weekend at his golf club in New Jersey, is scheduled to visit Puerto Rico Tuesday.

On Friday, Mr. Trump said the federal government was "fully engaged in the disaster and the response and recovery effort."

"We have done an incredible job considering there's absolutely nothing to work with," he said, adding that Puerto Rico is "totally unable" to respond to the catastrophe.

"They are working so hard, but there's nothing left," he said. "It's been wiped out."

Still, Mr. Trump said Puerto Rico will have to shoulder

much of the burden of rebuilding.

"Ultimately the government of Puerto Rico will have to work with us to determine how this massive rebuilding effort—it will end up being one of the biggest ever—will be funded and organized, and what we will do with the tremendous amount of existing debt already on the island," he said. "We will not rest, however, until the people of Puerto Rico are safe."

Hurricane Maria, the strongest storm to hit Puerto Rico in nearly a century, destroyed the island's electricity infrastructure and left many

without phone connections. Workers and volunteers have worked to get relief supplies from cargo ships in San Juan's port to families throughout the island.

The Federal Emergency Management Agency has been sending diesel fuel to hospitals that are depending on generators that are powering limited operations. Puerto Rico Gov. Ricardo Rosselló said Friday that a little more than half of the island's 69 hospitals were functioning by then, with the number slowly growing.

According to the Federal Communications Commission, 89% of Puerto Rico's cellphone

sites were offline Friday, mostly because of electricity blackouts across the island. The same high winds that ripped down power lines also took out copper and fiber-optic lines linking cell towers to the outside world, which could make restoring service especially hard in the days ahead.

About three-quarters of cell sites were offline in San Juan, home to about 350,000 of Puerto Rico's 3.4 million residents. Several telecommunications carriers said a shortage of power generators were complicating efforts to power the cell towers still able to broadcast.

New York Sends Emergency Workers To Help With Relief

New York emergency workers spent last week in Puerto Rico rebuilding infrastructure, delivering resources to families and aiding volunteers.

New York Gov. Andrew Cuomo on Friday said he dispatched more than 70 Port Authority workers and more than 50 state troopers to help with relief efforts. The state previously sent 245 state military personnel to the island to aid local law enforcement and help with debris removal and set up donation drop-off locations throughout the U.S. territory.

A total of 147 city workers have traveled to the island on the city's behalf, including 30 members of the fire department and New York Police Department to help with search and rescue missions.

Other workers are helping manage recovery operations and set up a distribution center in San Juan, according to city officials.

Speaking about the recovery efforts days after the hurricane hit the island, Mayor Bill de Blasio said thousands of New Yorkers have a personal connection to Puerto Rico.

"People are struggling for electricity, for food, for water, for all the basics," Mr. de Blasio said to a crowd at a fire station in Brooklyn. "And the 700,000 New Yorkers who are proud Puerto Ricans, we will not forget what Puerto Rico is going through."

—Zolan Kanno-Youngs

Trump-Kushner Meetings Upset White House Counsel

WASHINGTON—White House Counsel Don McGahn this summer was so frustrated about the lack of protocols surrounding meetings between President Donald Trump and Jared Kushner

the conversations. One person characterized Mr. McGahn's frustration as, "Fine, you're not taking my advice? Why stay?"

Mr. McGahn stayed, reassured in part by the White House's hiring of a legal team specifically to manage the response to the probe of Russian meddling in the 2016 election. Attorney Ty Cobb was hired to lead that group.

A White House official said Mr. McGahn "did not consider resigning, and he was not concerned about any one individual. He was focused on implementing the proper processes and structures to protect the White House and its staff, including Jared."

Mr. McGahn's concerns illustrate the tension that special counsel Robert Mueller's probe is causing in the West Wing and how the White House's legal strategy has evolved to respond to the probe.

Mr. Mueller is examining U.S. intelligence agencies' findings of Russian interference in the

2016 U.S. presidential election and whether Trump associates colluded in that effort. Mr. Trump has called the probe a "witch hunt," and both he and Mr. Kushner have said they didn't collude with Russia. Moscow has denied meddling in the election.

Some members of Mr. Trump's legal team in June concluded Mr. Kushner should step down and aired their concerns to the president, The Wall Street Journal has reported. Their concern was that if Mr. Kushner were to speak to the president or White House colleagues about the Russia investigation, Mr. Mueller could seek testimony about what was said.

Mr. Kushner's role has caused particular concern among some White House officials as federal investigators examine meetings he held with Russian officials and businesspeople during the campaign and transition, said people familiar with the matter.

Federal investigators are ex-



Jared Kushner, right, Donald Trump's son-in-law, attended a White House meeting last week.

amining a meeting during the transition that included Mr. Kushner and the Russian ambassador, and another one that he held with the head of a Russian-run bank that has faced U.S. sanctions.

Mr. Mueller is also probing a June 2016 meeting at Trump Tower with a Russian lawyer tied to the Kremlin, which was attended by Mr. Kushner and other campaign aides, according to people familiar with the matter.

The fallout from the probe continues to reverberate in the White House. Mr. Trump has also spoken to aides about his concern about the effect the investigation is having on Mr. Kushner; Mr. Trump's questions about Mr. Kushner spring partly

from family considerations, said people familiar with the conversations.

Newly installed Chief of Staff John Kelly has tightened access to the president, requiring aides, including Mr. Kushner, to schedule appointments in order to meet with Mr. Trump.

—Brody Mullins contributed to this article.

Trial of Alleged Benghazi Attack Mastermind to Begin

BY DEL QUENTIN WILBER

On a moonlit night in June 2014, a Federal Bureau of Investigation agent and seven Navy SEALs landed on a rocky coast and trekked to a villa in Benghazi, Libya, the city where almost two years earlier four Americans, including the U.S. ambassador, had been killed in a terrorist attack.

Their mission: to arrest Ahmed Abu Khattalah, an alleged ringleader of that assault, and to spirit him to a Navy ship in the Mediterranean, according to court testimony and Federal Bureau of Investigation reports.

When Mr. Khattalah, lured by an informant, arrived at the villa, the special operators pounced. Handcuffed and gagged, Mr. Khattalah was marched to inflatable boats, which whisked him to the USS New York for the long voyage to the U.S. and a trial in a federal courtroom. That trial is scheduled to begin Monday in Washington.

Mr. Khattalah faces 18 federal charges related to the

Benghazi attacks, including the alleged murders of Ambassador Christopher Stevens; State Department Information Management Officer Sean Smith; and two Central Intelligence Agency contract security officers, Tyrone Snowdon Woods and Glen Anthony Doherty.

Mr. Khattalah could be sentenced to life in prison if convicted of the most serious charges. His trial is expected to last more than a month and include testimony from FBI agents, U.S. personnel who survived the attacks and Libyans who participated in it.

His defense team says he played no role in the assault.

"The evidence will show that Mr. Khattalah was not the mastermind of any attack and that he was wrongly abducted and brought to the United States to stand trial for murders he did not commit," said Eric Lewis, one of Mr. Khattalah's lawyers.

Mr. Khattalah was a leader of the extremist brigade Ubaydah Bin Jarrah, which participated in the assaults that began on the night of Sept. 11,

2012, federal prosecutors allege. In the days before the attacks, Mr. Khattalah had voiced concerns and opposition to the American presence in Benghazi, which included a State Department special mission and a CIA facility known as the annex. Mr. Stevens was in Benghazi on Sept. 11 to attend a ribbon-cutting at a school and to touch base with locals.

At about 9:45 p.m., dozens of armed men breached the gates of the U.S. special mission where Mr. Stevens was staying, according to the indictment.

The assailants rampaged through the mission, stealing property and setting the fires that took the lives of Messrs. Stevens and Smith, prosecutors said. Diplomatic security staff-

ers escaped the onslaught and found their way to the annex, about a mile away, but that annex soon came under assault from extremists that resulted in the deaths of Messrs. Woods and Doherty.

Mr. Khattalah is accused of coordinating the assailants' efforts, taking part in the mission attack and plundering materials that included sensitive documents.

The Benghazi attack became a heated political issue in the months leading up to the 2016 presidential campaign, as some Republicans accused Hillary Clinton, who was secretary of state in 2012 and would become the Democratic presidential nominee, of being insufficiently attentive to security and misleading the public on the issue.

Mrs. Clinton and her supporters said she performed her job well and didn't intentionally mislead anyone, and they decried a lengthy Republican-led congressional investigation as politically motivated.

The mission to capture Mr. Khattalah took a year of planning and involved an elaborate double interrogation aboard the USS New York, with two separate pods used for questioning.

The first interrogation was intelligence-oriented, and it didn't include advising Mr. Khattalah of his rights. It was carried out by members of the U.S. High-Value Detainee Interrogation Group, focused on gathering information that might provide insights about Mr. Khattalah's associates and prevent future attacks.

The second interrogation, conducted after Mr. Khattalah was advised of his rights, sought to gather information prosecutors could introduce at trial. In that second session, according to FBI reports, Mr. Khattalah placed himself at the scene of the attacks and admitted to turning away police vehicles responding to the assault.

Defense lawyers failed to convince a judge during a lengthy set of hearings that the dual interrogations violated Mr. Khattalah's rights.



Mr. Khattalah is seen on a U.S. Navy ship after his capture in 2014.

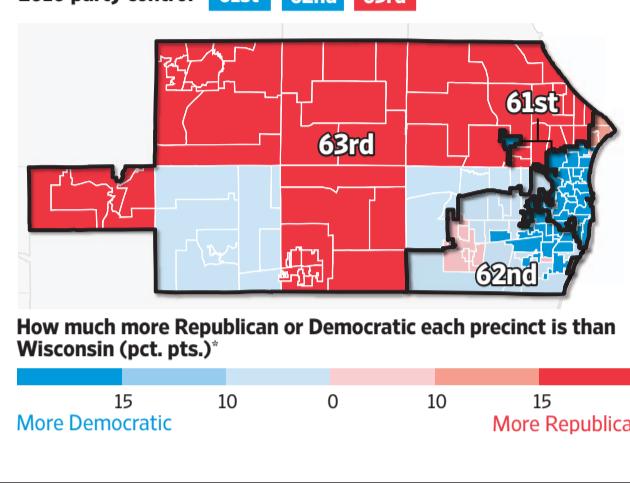
IN DEPTH

Gerrymandering Faces a Reckoning

Contorted voting maps drawn by Republicans and Democrats to cement power might finally have gone too far. The Supreme Court will hear arguments Tuesday in a case that could force both parties to restrain their partisan motives.

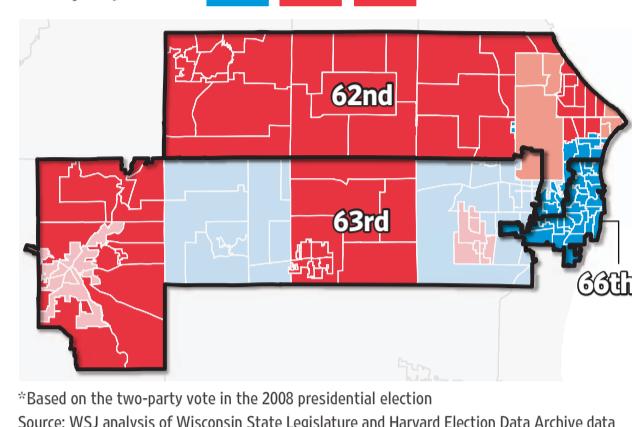
By Brent Kendall
and Jess Bravin
Graphics by Renée Ridgon,
Brian McGill, Max Rust
and Angela Calderon

Democrat Cory Mason won a seat in the Wisconsin Assembly by fewer than 1,000 votes in 2006. District 62 was sandwiched between one heavily Democratic district and another that strongly favored Republicans. The districts are outlined in black in the map to the right.



In 2010, a nationwide Republican wave swept the GOP into the Wisconsin governor's mansion and legislature, giving the party the power to redraw the state's electoral map for the first time in half a century.

The new District 62 separated Mr. Mason from most of his old constituents in Racine, Wis., and swept in rural and conservative precincts. He was stuck in a red district. To stay in office, Mr. Mason moved to District 66, a new island of Democratic strength, shown at far right.



Republicans engineered similar moves across Wisconsin, erecting a firewall that helped protect the GOP's majority of 60 seats in the 99-member Assembly. The new lines withstood a shift of more than 400,000 votes to Democrats in the 2012 state elections.

What happened to Mr. Mason is now part of a Supreme Court case that will decide the future of political gerrymandering, a phenomenon with a rich, bipartisan tradition. Since the founding of the republic, Democrats

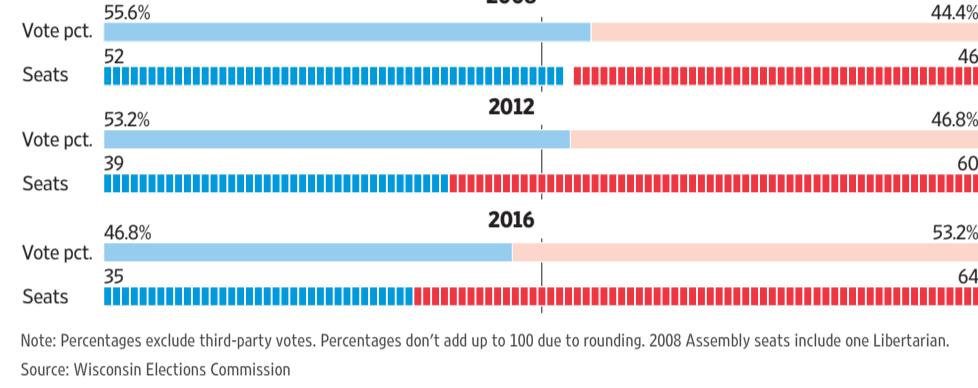
and Republicans have sought to redraw maps that increase their party's electoral clout, largely by creating a greater number of winnable seats.

The Supreme Court is in a position, if it chooses, to create the first nationwide definition of how much partisanship in redistricting is too much. The high court has never found a partisan gerrymander unconstitutional, partly because the justices haven't been able to agree on a method to determine what too much looks like.

Lately, most of the gains nationally from redistricting have gone to Republicans due to their election successes in 2010. The rise of computer-powered voter analysis, which allows electoral maps to be redrawn with more precision than ever, has supercharged both parties' efforts.

In Wisconsin, nearly two-thirds of state assembly seats were won by Republicans last year when the party won 53% of votes statewide. There was almost no such gap in 2008, as these charts show.

Voting for the Wisconsin State Assembly



In November, federal judges in Madison, Wis., ruled the new maps unconstitutional and "intended to burden the representative rights of Democratic voters...by impeding their ability to translate their votes into legislative seats."

Wisconsin appealed, and the Supreme Court is scheduled to hear arguments in the case Tuesday. A ruling against Wisconsin could lead to major changes in how political maps are drawn, forcing both parties to restrain their partisan motives. Much of the impact would be felt in the next round of redistricting after the 2020 census, a process that will shape the balance of power in federal, state and local districts across the country.

Wisconsin's Republican attorney general, Brad Schimel, says GOP lawmakers followed traditional practices in producing the current map, such as making districts compact, tidy and with normal-looking shapes.

The November ruling cited evidence Republican leaders were presented with

several options and chose the one that was the most partisan. "That's their prerogative," Mr. Schimel said. "It's a political process."

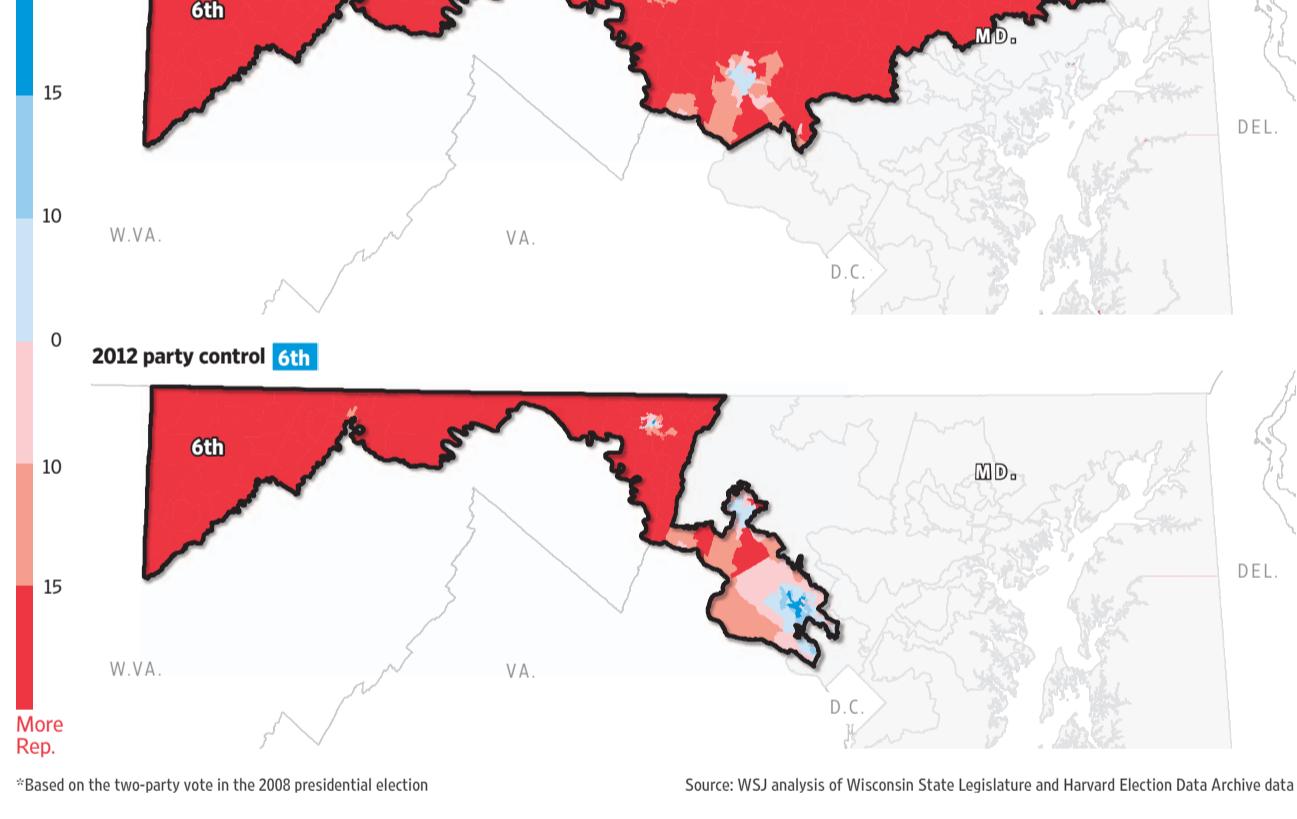
Mr. Schimel says using the challengers' legal arguments as a constitutional test nationwide would invalidate a third of the legislative maps drawn in the past 45 years.

Running alongside the Wisconsin case is one from Maryland involving House districts. Two years ago, the Supreme Court ordered a three-judge panel to consider whether a 2011 redistricting drafted by Gov. Martin O'Malley, a Democrat, disenfranchised Republicans.

The map resulted in Democratic majorities in seven of Maryland's eight congressional districts and helped cost Republicans one of their two House seats. The case is on hold until the Supreme Court decides the Wisconsin case.

Before the redistricting, Maryland's Sixth Congressional District was anchored by rural, western Republican strongholds that, as the top map shows, stretched across the West Virginia border.

How much more Republican or Democratic each precinct is than Maryland (pct. pts.)*



The impact was clear in the 2014 election, says Sharon Strine, a seventh-generation Wolfsville resident and one of the Republican plaintiffs. She ran the campaign of GOP challenger Dan Bongino.

"We were ahead on election night, when every precinct was in except for three precincts in Montgomery County," a heavily Democratic suburb of Washington, she says. When those votes were counted, Mr. Bongino lost by less than 3,000 out of a total of 190,000.

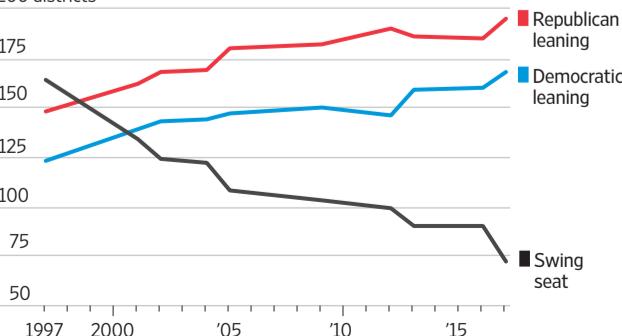
Ms. Strine says the district's western end is "just a different breed of people" from those tacked onto the district by Mr. O'Malley.

Mr. O'Malley, who left office in 2015, said in a deposition he acted "constitutionally and legally" under the system he inherited. Still, he

added, "Let me state unequivocally, categorically. I believe that our whole country needs to develop a better process for congressional redistricting."

The case against gerrymandering contends the process violates the idea that voters should get to choose their representatives, rather than the other way around. Redrawing the lines to maximize partisan gains, the argument goes, allows parties to win seats in numbers that disproportionately reflect their popular support and can turn voters into voiceless minorities.

The increasing homogeneity can be seen in the decline of competitive House districts. Such districts are defined in the chart below as "swing seats" that vote roughly in line with the U.S. as a whole.



The Supreme Court has been reluctant to interfere in the process. It wasn't until 1962, faced with districts not revised in decades, that the court ruled political maps could be challenged in court. The court has struck down maps designed to disenfranchise African-Americans and other minorities, but hasn't ruled against either party for using redistricting power to undermine the other.

In 2004, conservative Supreme Court justices came one vote short of closing the door to challenges of partisan gerrymandering. The pivotal vote belonged to Justice Anthony Kennedy, who rejected the claim against Pennsylvania's congressional map but left open the possibility that voters might bring a successful claim someday.

Some historians credit the first congressional gerrymandering to Patrick Henry for drawing Virginia's Fifth District in 1788 to hurt James Madison's election chances. Mr. Madison won anyway. The term comes from a salamander-shaped Massachusetts state Senate district approved in 1812 by Gov. Elbridge Gerry.

Political scientists Bernard Grofman and Ronald Keith Gaddie told the Supreme Court in a brief filed in the Wisconsin case there is "compelling evidence that the 2010 redistricting cycle yielded partisan gerrymandering."

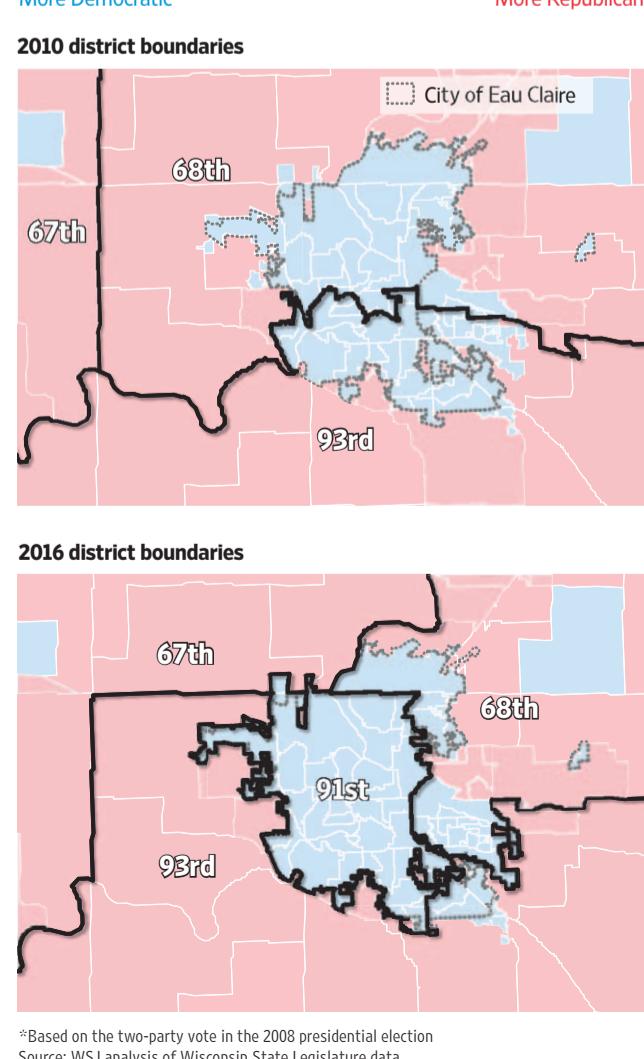
There are two common redistricting strategies. "Packing" crams the minority party's voters in one district to weaken their influence in other districts nearby. Parts of Eau Claire used to be in two competitive districts with a mix of GOP and Democratic voters, shown in the top map on the right.

Since 2011, Eau Claire has been largely lumped into one Assembly district, marked as the 91st in the bottom map and filled with Democrats. All the districts around it are now Republican.

"Cracking" divides the minority party's voters into more than one district to dilute their voting power. In Sheboygan, about 250 miles from Eau Claire, a new line along Superior Avenue split the city into two new districts, held by Republicans.

Mr. Mason, the Democrat who moved to stay in office, says he had trouble working with Republicans to accomplish much beyond small issues. In 2013, he made a successful proposal to name the kringle the official state pastry of Wisconsin. After seven years in the minority, he decided to run for Racine mayor instead. "I'd like to try governing," he says.

How much more Republican or Democratic each precinct is than Wisconsin (pct. pts.)*



U.S. NEWS

THE OUTLOOK | By Kate Davidson

Link Between Growth and Tax Cuts Is Tenuous



The Trump administration and congressional Republicans are counting on an overhaul of the U.S. tax code to rev up U.S. economic growth. History suggests that isn't a sure outcome.

John F. Kennedy, a Democrat, in 1963 proposed and Lyndon Johnson, also a Democrat, in 1964 signed into a law a cut in the top tax rate from 91% to 70% and a slightly lower corporate tax rate. Economic output expanded at a swift 4.7% rate for the rest of the decade. Republican Ronald Reagan signed a tax cut into law in 1981 and later reduced the corporate tax rate, and economic output expanded at 3.8% for the rest of the decade.

Those examples suggest a strong connection between tax cuts and growth. Other examples cut the other way.

George H.W. Bush, a Republican, and then Bill Clinton, a Democrat, advanced increases in the top tax rate that became effective in 1991 and 1993, and U.S. output nevertheless expanded at a robust 4.1% annual rate for the rest of the 1990s. George W. Bush, a Republican, cut taxes in 2001 and 2003, and

growth expanded at an anemic 1.7% rate for the rest of the decade. And back in the 1950s, a top rate of 91% prevailed, and the economy nevertheless expanded at a steaming 4.5% annual rate.

Joel Slemrod, a University of Michigan economics professor and co-author of the book, "Taxing Ourselves," a study of tax-policy changes over time, looked all the way back to the 1870s and found a tenuous connection between economic growth rates and taxes.

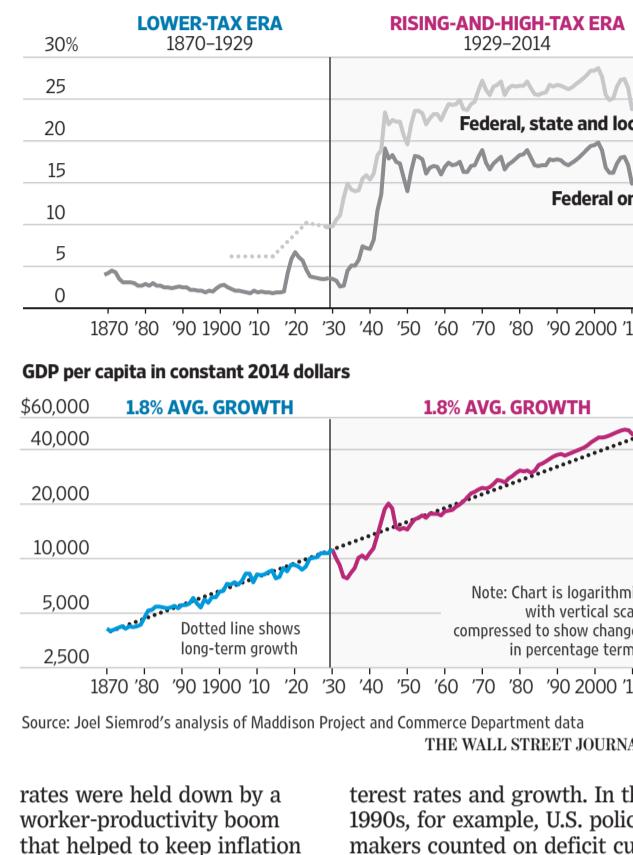
He also found tenuous connections when comparing tax and growth between countries. For example, output per person in Sweden, a high-tax country, grew faster between 1970 and 2012, than in Switzerland, a relatively low-tax country.

"It's really hard to just look at countries' growth rates over time, relate that to what their tax rates and structures are, and say, 'Ah, here's the silver bullet,'" said Mr. Slemrod.

One complicating factor is the interplay between taxes, interest rates and growth. The U.S. economy boomed in the 1980s in part because the Federal Reserve beat down inflation with high interest rates and then, after a deep recession, cut interest rates aggressively. In the 1990s, interest

Tax Trajectories

In the (very) long run, the relationship between low taxes and high GDP growth isn't cut and dried.



Source: Joel Slemrod's analysis of Maddison Project and Commerce Department data

THE WALL STREET JOURNAL.

rates were held down by a worker-productivity boom that helped to keep inflation lower than the Fed expected.

Tax and deficit policies can directly affect the level of in-

terest rates and growth. In the 1990s, for example, U.S. policy makers counted on deficit cuts to keep interest rates low and spur economic growth. Some economists say big deficits, by

pushing up public debt, crowd out private investment and growth. Some warn that deficit increases now could spur the Fed to raise interest rates faster than expected, potentially offsetting some of the benefits of lower tax rates.

The Trump administration is aiming for a 3% growth rate, compared with the 1.9% growth rate that has prevailed since 2000.

Many factors impact a nation's economic growth rate. The productivity of the workforce—driven not just by policy change in Washington but also by innovations like the internet and the education of workers—is critical.

Labor-force participation is also key. The 1970s, a decade marred by high inflation and slowing productivity, nevertheless produced a 3.4% growth rate, which was better than the 2000s, because baby boomers and women joined the workforce in droves.

The key to effective tax policy is thus whether it can drive productivity and labor-force participation higher.

Lower income-tax rates in theory should increase labor-market participation because it means individuals get a bigger after-tax payoff from working. That is offset to some degree because it means individuals also don't need to

work as many hours to keep their after-tax income and standard-of-living level stable.

The net effect of individual-tax-rate reductions on participation seems to be modestly positive. Raj Chetty, a Stanford University professor, found that a 10% increase in after-tax wages led to a 4% increase in hours worked.

Matthew Shapiro, another Michigan economic professor, said tax-policy changes can have important short-run effects on business investment as well, but the effects tended to fade over time.

"Most changes are fairly temporary, and there's a big incentive to take advantage of those temporary changes," he said.

The Trump administration's proposals are meant to boost labor supply by lowering individual rates and boost business investment by reducing corporate taxes and incentivizing investment, Kevin Hassett, the recently confirmed chairman of the Council of Economic Advisers, said in an interview.

A permanent increase in the growth rate is "very, very difficult," he acknowledged. But even a temporary increase in the growth rate would raise standards of living.

Impact on the Rich Is a Test for GOP

BY RICHARD RUBIN

Republicans, long champions of tax cuts for higher earners, are conflicted in just how far their latest plan should go in reducing the amount paid by the rich.

The party's tax-plan framework, unveiled last week, jettisoned some tax cuts Republicans have long supported for high-income households, leaving rates on capital gains and dividends untouched. The party also has shown an openness to keep the top tax rate for individuals near its present level of 39.6% and has proposed to cut deductions on state and local taxes that could leave some wealthy households paying more. President Donald Trump, for his part, has said the party's tax plan wouldn't benefit the wealthy, including himself.

Those moves would all help the GOP defend itself against attacks that its tax policy tilts toward the top of the income scale. The problem, so far, is that core features of the plan do just that. As the party turns that outline into legislation over the next few months, it will be repeatedly confronted with the challenge of reconciling Republicans' desire for rate cuts with their claims about who should pay less.

Under the framework, the top 1% of households would

reap significant benefits from the plan, including the proposed repeal of the estate tax, the elimination of the alternative minimum tax and lower tax rates on corporations and businesses that pay taxes through their owners' individual returns.

There are benefits for the middle class, too, but they are less specific and subject to change because of details Republicans haven't announced yet. Many households, especially in the upper middle class, may end up experiencing tax increases.

The top 1% of households would get an average tax cut of \$129,030 in 2018, boosting their after-tax incomes by 8.5% and lowering the share of U.S. taxes they would pay, according to an analysis released Friday by the Tax Policy Center. Overall, Americans would get a 2.1% increase in after-tax income.

"The top income groups will receive the biggest tax cuts," said Eric Toder, co-director of the center.

Republicans called the analysis speculative because it didn't consider the pieces of the plan that legislators haven't written yet, including the income thresholds where the tax brackets hit and the size of the child tax credit. Those decisions will shape the impact of the plan. Under Friday's assumptions,

the plan would raise taxes on 12% of households in 2018, with the biggest concentration of losers in the upper middle class.

Among Americans in the top fifth of the income distribution, 32% would see a tax increase, according to the analysis. Among the top 1%, 10.7% would see a tax increase.

That is in part because of the elimination of the state and local tax deduction and per-

sonal exemptions. Households in the bottom half of the income scale—who often pay payroll taxes used to fund Social Security and Medicare but little or no income tax—would get average tax cuts under \$1,000.

Republicans argue that cutting top marginal income-tax rates has the biggest benefit, creating greater incentives for people to work, save and invest.

"It is the highest rates that

cause the most damage," said Chris Edwards of the libertarian Cato Institute. "Flatter tax rates, flatter tax structures are more efficient, period."

The challenge for Republicans is that politically, tax cuts at the top are unpopular. In a Wall Street Journal/NBC News poll this month, just 12% of Americans said they wanted to cut taxes on the wealthy, while 62% favored higher taxes on that group. That is a point Mr.

Trump's speeches reflect. The heirs of Mr. Trump, who says his net worth exceeds \$10 billion, would benefit from estate-tax repeal. The president, as the owner of numerous pass-through businesses, would also likely gain from the 25% top rate on those firms, down from 39.6%. Unlike past presidents, Mr. Trump has refused to release his tax returns, making even a rough calculation challenging.

COURT

Continued from Page One

No one expects that the court will turn left, as it likely would have had the Republican-led Senate not blocked Obama nominee Judge Merrick Garland last year. Many of the issues being considered have been percolating for years on their way to the high court, said Prof. David Pozen of Columbia Law School. "There will be strong, classic partisan pressures on the court, and it will be difficult for the chief to manage the ideological division," he said.

Still, "there may be some interesting cases this term that will yield something other than a pure 5 to 4 split," he said. One to watch, he said, questions whether police must obtain a warrant to seize cell-phone records revealing a suspect's movements over a period of months.

So far, the centrist bloc that coalesced around the chief justice—including Justices Kennedy, Stephen Breyer and Elena Kagan—has remained influential even after the arrival of Justice Gorsuch toward the end of last term.

Justice Kennedy, a maverick conservative, for years has

Some Major Cases Worth Watching

Epic Systems Corp. v. Lewis, Oct. 2:

A conflict between two federal statutes, one that makes arbitration clauses nearly ironclad, another providing workers the right to take collective action. Lower courts are split over whether employers can block group claims in employment disputes with an arbitration clause.

Gill v. Whitford, Oct. 3: For the first time in a decade, the court will consider whether there is a constitutional principle that can mitigate partisan gerrymandering of electoral districts.

Masterpiece Cakeshop Ltd. v. Colorado Civil Rights Commission, unscheduled: In light of the 2015 ruling extending marriage rights to same-sex partners, the court weighs

whether the First Amendment entitles a baker to refuse to supply a wedding cake to a gay couple.

Carpenter v. U.S., unscheduled: The court will consider whether old precedents allowing police to see telephone company call records without a warrant also permit authorities to seize without probable cause cellphone location data tracking a suspect's movements over several months.

Janus v. American Federation of State, County and Municipal Employees, Council 31, unscheduled: A state employee contends he has a First Amendment right to refuse to pay union dues used for collective bargaining, despite a labor contract requiring his contribution.

The case is the culmination of a campaign by conservative groups to overturn a 1977 precedent authorizing public agencies to impose such charges.

—Jess Bravin

group—sometimes joined by either Justices Ruth Bader Ginsburg and Sonia Sotomayor on the left, or Justices Clarence Thomas and Samuel Alito along with Justice Gorsuch on the right—has steered the court.

Recently the centrist

issued a series of unsigned opinions finding middle ground in the dispute over President Donald Trump's temporary ban on travel to the U.S. by people from certain countries. In contrast to lower courts, which almost universally ruled against the administration, sometimes questioning the president's motives, the Supreme Court's decisions avoided provocative rhetoric and were divided.

Justices Thomas, Alito and Gorsuch made clear they would have given the administration all it wanted. They also found themselves in the minority last Tuesday, when they dissented from an unsigned order stopping Georgia from executing a black inmate with a pending appeal alleging bias because a juror called African-Americans "n—s."

In other cases, the conventional ideological split has continued to prevail. The court in September temporarily blocked a lower-court order requiring the Texas legislature to redraw a congressional map found to discriminate against black and Hispanic citizens. The court's four liberals publicly dissented from the unsigned order.

Some analysts believe the aggressive style of the Trump administration may affect the chief justice's approach. In addition to the travel-ban case—currently on hold after the president revised the order and made it permanent—the administration is embroiled in litigation over its environmental, immigration, criminal-justice and other policies, all issues that could reach the Supreme Court.

In addition, the White House itself remains under an unusual degree of legal scrutiny. A special counsel, Robert Mueller, is investigating allegations related to the Trump campaign's possible ties to the Russian government, which both Moscow and the president have denied.

Should the Supreme Court have to hear any such cases, the institution's reputation for independence and fairness could be tested before a polarized and skeptical public.

"We're in a distinctive moment in the development of constitutional law, with a president who is shattering norms left and right," Columbia's Mr. Pozen said. "People are expecting that might lead to a confrontation where the court becomes newly aggressive about checking executive power."



The U.S. Supreme Court begins a new term on Monday.

CHUCK MYERS/ZUMA PRESS

LIFE & ARTS

BY RAY A. SMITH

AS THE FASHION industry scrambles to find hit trends, some designers appear to be throwing everything at the wall in the hope that something grabs consumers.

Labels including Marc Jacobs, Coach, Prada, Marni and Gucci, whom many credit with sparking this trend, have been sending models down the runways in recent weeks wearing jackets over jackets and skirts and dresses over pants and carrying several bags and scarfs. Coco Chanel's famous maxim—"Before you leave the house, look in the mirror and take at least one thing off"—doesn't apply to these Spring 2018 collections.

Runways, of course, often showcase extreme styles and stores eventually sell toned-down versions. But the pile-on approach gives stores more options, increasing the chances that women will see something they covet when the styles arrive on racks and shelves in a few months.

FASHION

The Kitchen Sink Approach to Style

Designers pile on multiple bags, coats, skirts, pants; Will something stick?

Marni's collection had a "treasure hunt" theme, in which women "scavenge into trunks full of objects, finding items that belong to different individuals and carry different stories," according to the program for the show held during Milan Fashion Week. Looks included 1950s-style bathing suits layered over a top and pant combo, as well as dresses worn over skirts.

Trend-forecasting firm WGSN refers to the eclectic, pile-on aes-

thetic as "magpie opulence." It was apparent at fashion weeks in New York, London, Milan and Paris, which ends Tuesday.

A lot of credit—or blame, depending how you feel about the trend—can be placed on Gucci. Creative director Alessandro Michele has turned the once-moribund fashion house into one of fashion's top-selling brands since his January 2015 appointment with a feverishly rococo aesthetic that spans thrift stores, grandma's

closet, nerd chic, "Grey Gardens," Walt Disney cartoons, the botanical and psychedelia.

Sometimes a trend takes getting used to. Women who swore by their skinny jeans, snug pencil skirts and fitted dresses and moto jackets two years ago eventually took to the roomier and slouchy looks being worn today.

From a sales perspective, layers of clothing, bags or jewelry in one ensemble mean more merchandising opportunities. Some consum-

ers will buy the whole look including the accessories. Some may say no to the dress but yes to the bag. Or both bags.

At Coach, the layering was about personalization, creative director Stuart Vevers said in an email. Some of the layering was inspired by trans actress Hari Nef, "who at one of our parties, as the night went on, took the top layer of her prairie dress off and carried on partying in the slip."

With women relying less on fashion magazines to dictate trends to them, the magpie trend can address women who take a DIY approach to dressing.

"It gives you multiple choices," says Lizzy Bowring, catwalks director at WGSN, who predicted "magpie opulence" would be a trend at the shows. "There is big audience for that, it doesn't just stop with Gucci." The trend can be about expressing individuality. "Every outfit you can pull apart and take one piece and that is really relevant to the way that we dress now. For me that is key, individuality."

A Skirt With A Dress
A model at Marni's show in Milan, where the theme was 'treasure hunt,' carries two bags while wearing an oversized dress over a long silk skirt.

◀ Gloves With A Watch

A model at Marc Jacobs show in New York carries two bags, a sport fanny pack and a sport sling, while loading up on accessories including a fringe boa, turban, brooch, gloves, necklace, and a watch.

Five Bags
A model at Maison Margiela's show in Paris wears five bags, including a backpack and small bag on her back.

Two Coats
A model at Burberry's recent show in London wears a vintage check gabardine jacket over a hooded coat.



◀ Two Bags

A model in Milan at Gucci carries two bags, while wearing a jacket with a skirt and slip. Gucci is credited with helping spark this trend.



GETTY IMAGES (5)

PLAYLIST: Alice McDermott

COURAGE FROM 'CATS'

Alice McDermott, 64, is a novelist and winner of the American Book Award and National Book Award. A three-time Pulitzer Prize finalist, she is the author of eight novels, including her latest, "The Ninth Hour" (Farrar, Straus and Giroux). She spoke with Marc Myers.



I published my first novel in the spring of 1982. Though "A Bigamist's Daughter" received some nice, prominent reviews, it wasn't a big seller. My husband and I were still broke, living in the suburbs of New York. "MEMORY" from "Cats" helped me push forward as a novelist.

In the summer of '82, my parents rented a house in East Hampton, N.Y. The house allowed my husband, who was then a

postdoctoral fellow at Albert Einstein College of Medicine, and me to enjoy a string of cheap weekends.

In the evenings, we went to the Hunting Inn and nursed a beer or two. "Cats" hadn't opened yet on Broadway, but the London production had, and Chris, the bar's piano player, sang "Memory" at least once every set.

I was pretty glum about my prospects of making a living as a novelist. Every time Chris got to the line, "I must think of a new life," I imagined that Chris and everyone else there was looking at me with pained sympathy.

In all fairness, the ballad was musically pleasant. It was still new then, before the song became associated with an actor in a cat costume: "I must wait for

the sunrise / I must think of a new life / And I mustn't give in / when the dawn comes."

My parents didn't really understand the whole writing-literary-novels thing. I think they hoped I'd soon be ready for law school, teachers college or motherhood.

Over that summer, the lyric line haunted me so much that I wrote it in a notebook along with the pros and cons of going to law school. Deep down, I was determined to be a writer.

I kept working on my second novel, "That Night," which eventually was published in 1987. It sold well, and from then on, my career picked up.

I did go to see "Cats" with friends in the mid-1980s, but "Memory" didn't have the same emotional impact on me during the show. The theater wasn't as intimate as the Hunting Inn. Or maybe it was the lousy seats.



ELAINE PAIGE in 'Cats,' 1981.

LIFE & ARTS

ART REVIEW

Cosmopolitan Korea

Drawn from some 600 holdings, the exhibition reveals a rich global tradition

BY LEE LAWRENCE

Brooklyn, N.Y.

AFTER FOUR YEARS of renovations, the Brooklyn Museum is gradually reintroducing its Asian and Islamic art collections to the public, starting with "The Arts of Korea." It draws on some 600 Korean holdings, considered one of the largest and most varied museum collections of its kind in the U.S. And it is finally getting its due. Thanks to grants from the National Museum of Korea (part of a longstanding effort by South Korea's government to showcase the country's cultural heritage), the museum has more than tripled the size of its Korean installation and assigned it a prominent location: at the top of an open staircase with glass risers that connects the Great Hall off the main entrance to what will be, once completed, the new suite of Asian galleries.

Joan Cummins and Susan L. Bennington, the museum's senior and assistant curators of Asian art, have used the boost in real estate to great effect. With about 80 works, judiciously selected and thoughtfully displayed, they bring out distinctive aspects of the collection and Korean art generally.

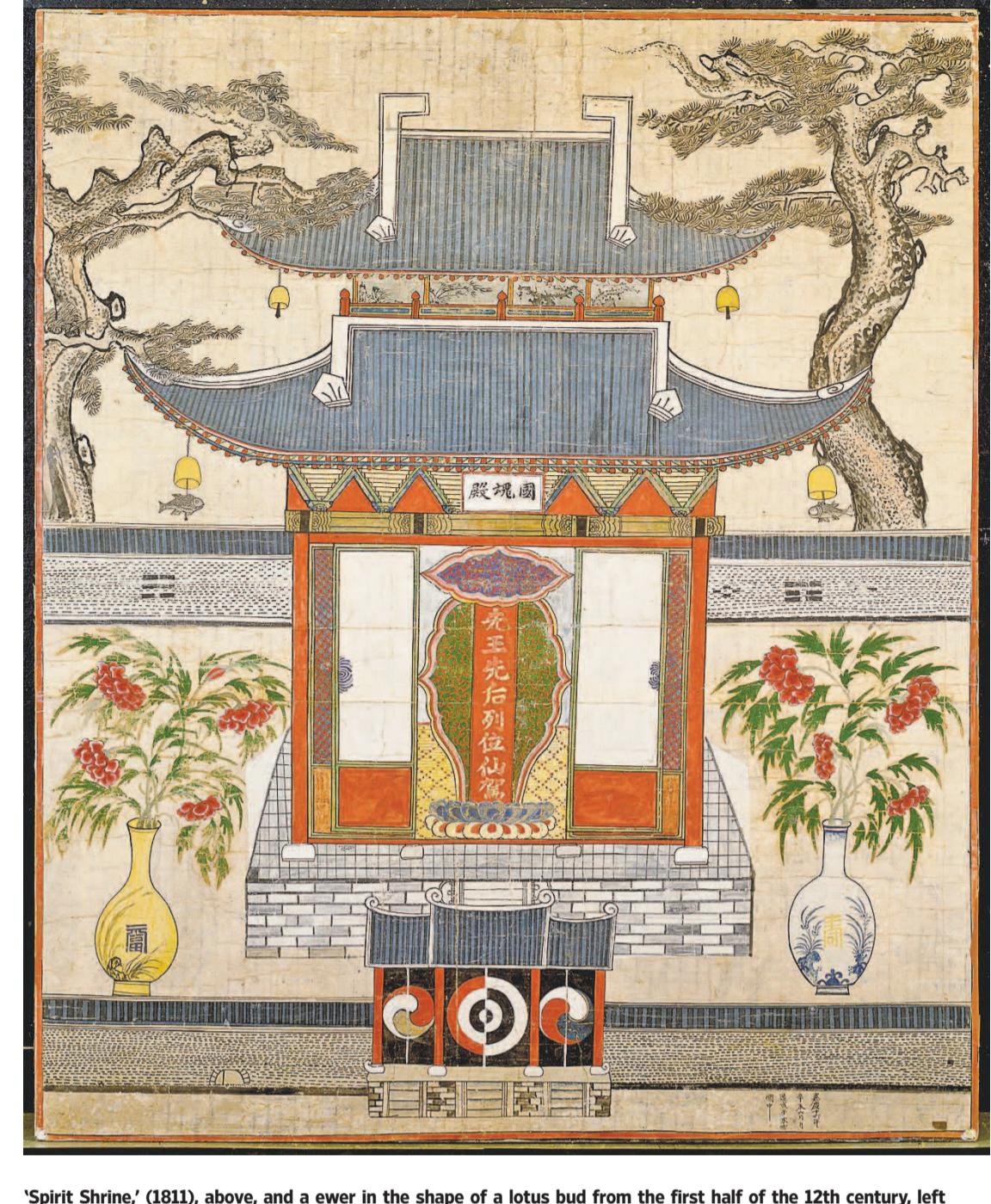
While the adjoining galleries are still being reinstalled, we have to walk to the opposite end to find the start of the chronological sequence. Many of the fifth- and sixth-century works establish that the Korean peninsula was not isolated. Thus, reliefs adorning a bronze mirror emulate Chinese models; the makers of gold earrings used a granulation technique that traveled from the Mediterranean along the Silk Road. But most of the inaugural display primarily stresses Korean originality. There are, for example, none of the collection's Chinese-

style or Buddhist paintings (the latter will feature in a future gallery on Buddhism). What we see instead are the portrait of an 18th-century official wearing distinctive Korean garb and an 1811 depiction of a spirit shrine that speaks of the predominance of Confucianism during the Joseon dynasty (1392-1910).

Ancestor worship was widespread in Asia, and Koreans who could not afford to build a shrine used small paintings as stand-ins, with a blank space in the center where family members affixed the name of the ancestor they were honoring. The work here, however, is 5 1/2 by 4 1/2 feet and bears a permanent dedication to the king and queen, leading scholars to believe it hung in a government office—one of many ways rulers encouraged good Confucian behavior.

In a similar vein, a lavishly embroidered bridal robe tells of 19th-century women passing down the ceremonial garment, each time making repairs and covering the sleeves with clean paper. It is one of the objects on display acquired by Stewart Culin, Brooklyn's first curator of Asian art. An ethnologist with a keen appreciation for what objects reveal about culture, he

established the institution's Asian department in 1903, traveled to Korea in 1913, and created the



'Spirit Shrine,' (1811), above, and a ewer in the shape of a lotus bud from the first half of the 12th century, left

first installation of Korean works in 1916.

A century later, his successors highlight Korea's distinctiveness by giving ceramics pride of place.

One display, for example, traces the ingenuity of 12th-century potters. We start with the problem: The cloud motifs on one celadon vase are so fluid they border on messy, illustrating the inability to produce crisp lines with a watery clay or slip. Potters had already learned from Chinese counterparts that, when they incised a design, the glaze pooled, creating the subtle differences in shade we see in a nearby gourd-shaped ewer. So, under the patronage of the Goryeo dynasty (918-1392), they experimented and hit upon a solution: Fill incised designs with white or black clay, wipe off the excess, buff the surface, then cover it with transparent celadon

glaze. As a grouping of Goryeo ceramics shows, the range of designs exploded.

As tastes changed, so did the techniques. We are treated to, among others, 15th- and 16th-century buncheong ceramics with floral motifs made by applying a slip then scratching it off in places (a technique called *sgraffito*); the freewheeling drawing of a dragon on a 17th-century pot; a late 18th-century or early 19th-century example of the beloved, off-kilter white moon-jar; and a number of blue-and-white porcelains that borrow Chinese motifs but render them with a lighter, airier touch. (To get a sense of this, compare these with the porcelains in the exhibition at the bottom of the staircase, "Infinite Blue.")

Finally, pause at the entrance to the gallery to study one of the collection's prize possessions: an exquisite 10-inch-tall ewer from

the first half of the 12th century—the lid's detailed lotus, the luminosity of its celadon glaze, the white-dot highlighting of floral motifs, the torsion in the bamboo-like handle, the white porcelain cocoon and newly hatched butterfly. Making the point that Korean creativity lives on, contemporary works bookend the installation, and we see this masterpiece against the backdrop of "Ecriture No. 000308" (2000), an abstract painting in charcoal gray by Park Seo-Bo. The interplay between and within them brings out the dance of restraint and freedom, realism and abstraction that permeates this elegant presentation of Korean art.

Ms. Lawrence writes about Asian and Islamic art for the Journal.

The Arts of Korea
Brooklyn Museum

FILM

EARLY PRAISE FOR A TOUGH FILM ON CHILDHOOD

BY RICHARD TURNER

SEAN BAKER makes movies about poor people, a noble effort but sometimes a fraught one. Especially these days, filmmakers like him must pick their way through a political and cultural minefield—and set off the occasional explosion.

"I get attacked all the time," he says.

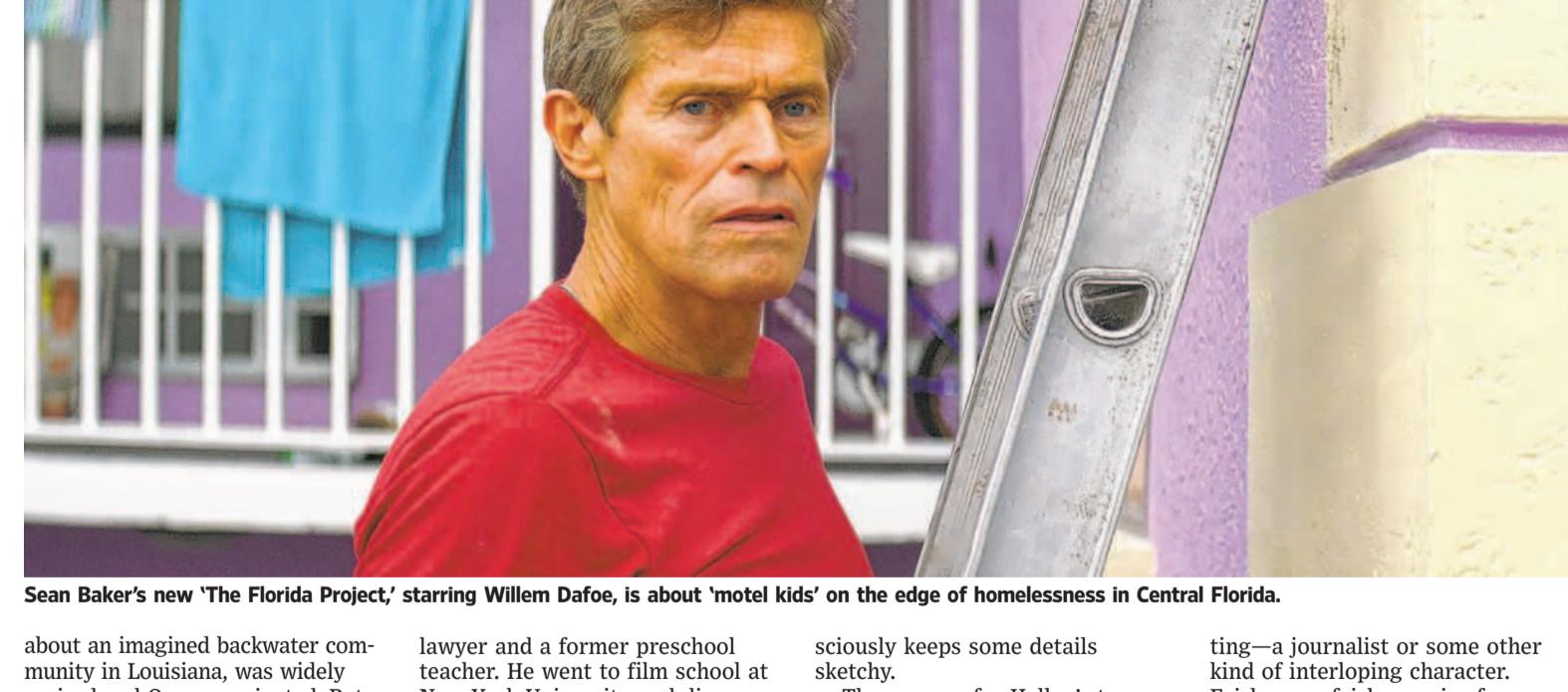
Mr. Baker isn't complaining. His latest independent film, "The Florida Project," about "motel kids" on the edge of homelessness in the shadow of Walt Disney World, won acclaim at the recent Cannes and Toronto film festivals. Early reviews have praised its warmth, realism and lack of stridency. It follows a flawed young mom, Halley, her daughter, Moonee, and her wild-child friends, scraping by in \$38-a-night single rooms along gaudy, rundown Route 192 in Kissimmee, Fla. The motel is close enough to the Magic Kingdom that they can see the fireworks show every night in the distance.

The new film mixes professional actors, notably Willem Dafoe, with first-timers, like the child who plays one of Moonee's pals, discovered at a Target store. Mr. Baker found Bria Vinaite, who plays Halley, on her weed-promoting, tattooed Instagram account.

Brooklyn Prince, who plays Moonee, had a short résumé: She was 6 when the film was shot. The movie is scripted but also improvised and filmed in documentary-like style. It opens Oct. 6.

Along with this attention comes scrutiny. Recent films about the poor have been called exploitative and sentimentalized, too gritty and not gritty enough.

"Beasts of the Southern Wild,"



Sean Baker's new 'The Florida Project,' starring Willem Dafoe, is about 'motel kids' on the edge of homelessness in Central Florida.

about an imagined backwater community in Louisiana, was widely praised and Oscar-nominated. But one critic called it "patronizing and borderline racist," adding: "It sentimentalizes poverty and glosses over neglect."

That was nearly five years ago. The climate is more highly charged today, amid raging debate about race, class, inequality, free speech and cultural elites.

"We're living in an age of the think piece," Mr. Baker says. "Most filmmakers, if not all, come from a place of privilege, if only because of the expense. Now you're being thought about in a different way. It's about who can tell these stories, who has ownership of certain topics."

Mr. Baker, 46, was born in Summit, N.J., the son of a trademark

lawyer and a former preschool teacher. He went to film school at New York University and discusses Italian neorealism as easily as crystal meth. His earlier movies have looked at transgender prostitutes in Hollywood ("Tangerine"), porn actresses in the San Fernando Valley ("Starlet") and undocumented immigrants and street hustlers in New York ("The Prince of Broadway" and "Take Out").

One review of "The Florida Project" complains that Mr. Baker, as a college-educated white male, is wary of assuming too much about his characters and "cannot fully fathom their inner lives."

Mr. Baker says he understands such criticism and has a few rules for trying to avoid it. Indeed, he doesn't want to assume too much about his characters, and he con-

siously keeps some details sketchy.

The reasons for Halley's troubled parenting aren't spelled out. It isn't clear why she is unemployed at the local theme parks, although the piercing and the resplendent tattoos may be a factor. Her own family appears to be out of the picture, and it isn't spelled out when she had Moonee, but one can deduce that she was 15. "Do the math," Mr. Baker says.

"I'm from outside most of these worlds I'm focusing on, and I feel there's an ethical approach to making these kinds of films. My biggest fear is that if you paint your characters in, you could be doing them wrong."

Films about overlooked communities often use a kind of guide to help the audience react to the set-

ting—a journalist or some other kind of interloping character. Fairly or unfairly, movies from "Dances With Wolves" to "The Help" have taken heat for featuring such "white saviors." Mr. Baker avoids them.

Mr. Dafoe's long-suffering motel manager Bobby, trying to pacify his tenants and collect their bills so he doesn't have to evict them, is a case in point. Mr. Baker and his writing partner Chris Bergoch met several such managers from the strip. One in particular helped Mr. Dafoe emphasize that Bobby is no saint, just a blue-collar guy with a job to do. If he's a father figure to the children sometimes, he's a reluctant one who keeps a professional distance. "Willem knew never to get melodramatic or cheesy," says the director.

OPINION

REVIEW & OUTLOOK

The GOP's First Reform Test

The Republican tax "framework" is attracting the perennial criticism from the left, but the bigger question is whether competing clans on the right can hang together to pass reform that grows the economy. The GOP is already showing cracks on eliminating the state and local tax deduction, but surrendering on this hoary carve-out could dilute the final product and compromise its growth impact.

Republican Rep. Pete King of New York tweeted this week that any tax package "must retain" the state and local deduction, which allows filers who itemize to deduct taxes paid to lower governments. The GOP framework didn't single out the state and local deduction for execution, though everyone knows the intention is to eliminate the special treatment and plow the more than \$1.25 trillion savings over 10 years into lower rates.

This is good tax policy. The deduction is a classic example of a tax preference that adds complexity to the code and subsidizes some Americans at the expense of others. The prime beneficiaries are folks who live in states with high tax burdens like California, New York and New Jersey—or, respectively, the 48th, 49th and 50th tax climates in the U.S. in the Tax Foundation rankings. Six states swallow more than half the cost, and the credit runs the federal fisc \$100 billion a year in lost revenue.

And zoom in closer: The credit tends to benefit the wealthiest people living in the most affluent parts of progressive outposts, not least because nine in 10 filers earning north of \$500,000 a year itemize. Some 88% of the benefits flowed in 2014 to households earning more than \$100,000, according to Congress's Joint Committee on Taxation. A puny 1% went to filers who earn less than \$50,000, as the Tax Foundation's Jared Walczak noted in a March paper.

In New York County, N.Y., home to Manhattan, the average deduction is more than \$24,000, according to Tax Foundation county analysis. In the Bay Area's San Mateo County the write-off tops \$15,000. Yet further inland in California's Merced County the average deduction plummets to less than \$1,700. Taxpayers in Florida, which doesn't inflict an income tax on residents, can take a typically much smaller write-off for their sales tax payments.

Mr. King said in his tweet that "hard working New Yorkers must not be taxed twice," but state and federal budgets are distinct. Federal taxes pay for the military, for example, while state and local taxes finance public education—or in New York and California's case, teachers unions and public-pension liabilities.

That's why Democrats like Minority Leader

Paying for Standing Rock

The Standing Rock protests ended seven months ago, but the saga is far from over. On Monday North Dakota's Department of Emergency Services announced that taxpayers will have to pay about \$43 million in expenses accrued as the state struggled to respond to protesters.

Between 8,000 and 10,000 people camped out to protest the Dakota Access Pipeline, many from outside the state. Locals frequently reported protesters who had trespassed on their land or stolen property. At state offices the phones rang off the hook; throughout the 233-day protests almost 90,000 people called to discuss the pipeline. A large portion of these calls were hostile or abusive, and state employees had to listen, screening for threats.

The Morton County Sheriff's Department recounted how rioters threw stones, feces and Molotov cocktails at cops, obstructed roads, set fires and even rode on horseback behind a herd of bison, "attempting to stampede them toward law enforcement." Protesters significantly outnumbered local authorities, who had to sum-

Chuck Schumer have been on a tour of rhetorical excess about preserving the state and local deduction. They fear the wealthy, including many of their campaign donors, would suddenly feel the full pain of what they owe.

That exposure could make state tax increases more difficult to pass and blowout spending less sustainable.

Some of Mr. Schumer's benefactors may decamp for Florida, but the hope is that states would be forced to confront their spending addictions. Call it a last-ditch effort to save New Jersey.

The press has noted that 33 House Republicans hail from the top nine states for the deduction as a share of income, but not all of them are as parochial as Mr. King. Devin Nunes on the tax-writing Ways and Means Committee represents parts of California's Central Valley, where the average deduction is much lower than in L.A. or San Francisco. Mr. Nunes's constituents like taxpayers everywhere would benefit far more from lower rates and faster economic growth.

The reality is that Republicans cannot preserve the deduction and pass pro-growth reform that satisfies the arcane procedural requirements of Congress. The GOP is looking to pay for cuts by streamlining preferences, and the \$1.25 trillion over 10 years from eliminating the state and local deduction would finance a more than 10-point cut in the corporate rate.

No other loophole would save as much money. Killing or capping the mortgage-interest deduction would bring in a good haul, but that sop to the housing lobby has been classified as politically untouchable. The GOP will also have to buy off conservative redistributionists like Utah Senator Mike Lee, whose King Size child tax credit could cost another \$1 trillion.

If the GOP can't kill the entire state and local deduction, perhaps a compromise is possible. Since the deduction so overwhelmingly flows to the affluent, Republicans could work up a solution that produced most of the revenue while protecting low and middle-income taxpayers on some portion of their property taxes.

* * *

All of this gives the GOP an opening to turn the class-war argument in their favor: Since when do Mr. Schumer and Elizabeth Warren oppose raising taxes on the 1%? But more important, Republicans must eliminate the deduction if the party wants to deliver on its stated goals of simplifying the code and unleashing growth. The alternative is a limp tax cut that doesn't lift the economy. The state and local fight is a crucial test of the GOP's political sincerity.

Dakota Access Pipeline protesters cost taxpayers \$43 million.

mon law enforcement from 11 states for backup. More than 750 protesters were arrested, and at least 107 of those charged have pleaded guilty or been found guilty, some on multiple counts.

North Dakota's state court administrator said the number of criminal cases filed in Morton County surged by some 14%, at a time when the clerk of court's office was already understaffed.

To this date 323 protest-related cases are still open and pending. The state had to put aside \$2.4 million to provide public defenders for protesters, though not all of that money has been spent.

All of this undermines the Standing Rock protesters' claims that they were "peaceful and prayerful." The left threatens democracy when it embraces violence and vandalism, and the government has to spend money to keep rogues under control. North Dakotans will cover most of these costs, but the Department of Justice also provided the state with a \$10 million grant, leaving taxpayers nationwide on the hook for these criminal antics.

Trump's Latest Casualty

Loyalty for Donald Trump too often is a one-way escalator—up but not down—and the latest to discover this is Tom Price, who resigned late Friday as Health and Human Services Secretary. Mr. Trump had all but run him out Friday afternoon by saying "I'm disappointed in him" and that he would determine Mr. Price's fate "sometime tonight." The cabinet member took the message and got out before he could hear "you're fired."

Mr. Price has been taking media heat for flying on private jets, and he surely should have known better than to give his enemies a sword. Yet Mr. Price had said he would reimburse the government for the cost of his private air travel, cutting a check for nearly \$52,000. Mr. Trump shoved him out the aircraft door anyway, saying "I was disappointed because I didn't like it cosmetically or otherwise."

Perhaps the President thinks dumping Mr. Price will send a populist message, but we wonder. Mr. Price is merely a political appetizer. His resignation is motivation for the swamp denizens to go after others in the Trump Administration on whatever issue they can find. Mr. Trump can expect to be answering questions soon about how this or that cabinet travel differs from Mr. Price's.

The President doesn't like cabinet members who get bad press.

And if taking private jets is a firing offense, there will soon be many empty first-class seats in Washington. A 2013 Government Accountability Office report found that then Attorney General Eric Holder and FBI Director Robert Mueller used government jets to take personal trips, which they reimbursed at a rate comparable to commercial flight prices.

Our guess is that Mr. Trump was sore at Mr. Price over the failure of ObamaCare repeal, and he saw the travel flap as an excuse to send him packing. Mr. Price was recommended to Mr. Trump as a veteran of the House who could maneuver repeal through Congress. Repeal did pass the House, only to fail in the Senate.

Now Mr. Trump will have to find a replacement even as HHS faces crucial regulatory decisions on ObamaCare. Mr. Price knows the law and had invested nine months trying to figure out the bureaucratic traps. Mr. Trump in particular will need a nominee who already understands the waiver power that the executive branch has under the Affordable Care Act.

Perhaps he can coax former Oklahoma Senator and medical doctor Tom Coburn to take the job. But if Mr. Trump keeps treating his cabinet officers like "The Apprentice" cast, he might find that no one wants to work for him.

So long to low tax rates if Congress blinks on the state tax deduction.

well-paid older employees to retire early, creating opportunities for younger employees. Perhaps the authors should write their congressmen and suggest they make "retiree medical" part of their new health-care plan.

KRISTI DINSMORE
Centerville, Ohio

The authors propose to encourage the employment of younger people by implementing mandatory retirement ages. The good professors would be well advised to consult with their university's economics department, where they would learn that the "lump of labor" theory that forms the premise to their argument is widely regarded as a fallacy by economists.

If workers in their 60s are truly less productive, as the authors suggest, then the answer is simple: adjust their pay and responsibilities as appropriate. Let's focus on policies that create jobs, rather than policies that trade one worker for another under the dubious assumption that employment is a zero-sum game.

RAYMOND KUBIAK
Boston

I am in the same age group as our recent presidential candidates, and I am fighting to work as an educator, attorney or at anything else I can find that uses my skills from those prior careers. Please don't tell me to retire or threaten me with Social Security reform. I want to work.

EILEEN FERRIS
Newington, Conn.

*

As an older worker who has recently been hired, I can tell you that the notion that older workers start at a high salary and are guaranteed both continued employment and regular increases is nonsense. The market determines starting pay, and results determine any increases and continued employment—as with anyone else.

Corporate America has mastered the art of getting rid of older workers who aren't as sharp or don't justify their pay, no matter what age-discrimination laws there are. I'm not saying that is right or wrong, it just is.

KIRK SCHLUP
Woodbury, Conn.

Abbas Shows No Sign of Wanting Real Peace

In their op-ed "How Do Palestinians Define 'Terrorism'?" (Sept. 12), Jonathan Schanzer and Grant Rumley call on the Palestinian Authority to define terrorism as a first step toward discouraging it and complying with the soon-to-be-enacted Taylor Force Act.

*

The flaw in their proposal is that it presumes "moderate" Palestinian Authority President Mahmoud Abbas actually wants to rein in terrorism. Yet it was Mr. Abbas, himself, who incited the current wave of deadly Palestinian stabbings and car ramming of Israelis, Americans and others that included the murder of Taylor Force. On Sept. 16, 2015, during that year's Jewish High Holy Days, Mr. Abbas declared:

"We welcome every drop of blood spilled in Jerusalem. . . . With the help of Allah, every shaheed [martyr] will be in heaven, and every wounded will get his reward." This was an unabashed endorsement of terrorism. He also dehumanized Jews in his address, saying that the Temple Mount, the Church of the Holy Sepulcher and "everything [in Jerusalem] is ours, all ours," and Jews "have no right to desecrate them with their filthy feet and we won't allow them to."

And lest one forget, Mr. Abbas's history of supporting terrorism goes back decades.

STEPHEN A. SILVER
San Francisco

The Truth Is Ever Green, but Not at Evergreen

Regarding Jillian Kay Melchior's "Inside the Madness at Evergreen State" (op-ed, Sept. 22): I'm unable to understand how our government institutions became incubators of hate, but after reading the commentaries about Evergreen College and "bourgeois norms," I can't escape that conclusion.

When someone speaks the inconvenient truth that people are generally more successful if they follow a pattern of education, marry before having children and avoid drugs and crime, one wouldn't expect it to generate a hysterical backlash about racism, bias and white supremacy. These markers of success apply universally.

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OPINION

Partisanship Is Breaking Both Parties



DECLARATIONS
By Peggy Noonan

The subject is realism. It involves seeing clearly your moment in time and where you are within it. We have a heck of a time with this. Our dreams, hungers and illusions get in the way.

But I've never seen such a lack of reality among our two great political parties in Congress.

Their own survival as parties requires bipartisanship—concrete achievements and progress. They have to work together and produce! Nobody likes them. The biggest "party" in America is those who call themselves independent. Gallup has

Republicans fail again on health care, while Democrats refuse to get serious about taxes.

the Democrats' and Republicans' favorability each at about 40%. Both parties are internally riven, warring and ideologically divided. Neither is as sure as it's been in the past of its philosophical reason for being. Both have to prove they have a *purpose*. Otherwise they will in time go down, and it may not take that long.

Both parties go forward as if they are operating in a pre-2016 reality. But the election, now almost a year ago, should have changed so many assumptions. For instance, when the Republican nominee promised not to cut entitlements, his crowds—Republicans, Democrats and independents—cheered.

Health-care reform this week went down, again. The Republicans did not have the votes in the Senate, again.

How they tried to get the bills through suggests they are living in a dream. The dream was that once they held the House, the Senate and the White House, they would be able to call the shots, crush the foe, bully their way through. They thought they would finally be able to do what the Democrats did when President Obama and the Democratic Congress bullied through Obamacare.

That was a mistake. What the Democrats did shouldn't be emulated.

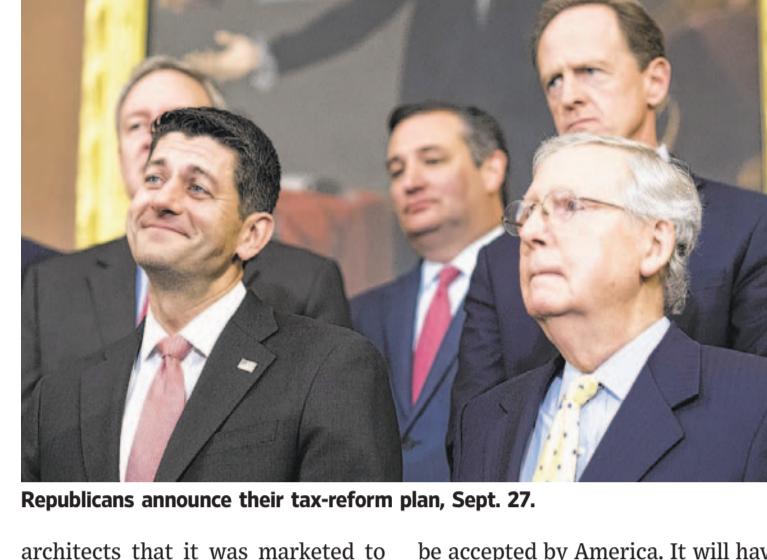
Sen. John McCain, who basically killed the two Republican bills, did it based on a central insight as to the facts of the moment and the issue: The path to a new health-care law runs through the Democrats. The path to a bill better than ObamaCare—and it would have to be bad indeed to be worse than ObamaCare—runs through the Democrats. Changing one-sixth of the American economy cannot be successfully done without them. The American people will never accept a health-care law that is not backed by both parties. That means regular order—hearings, debate, negotiations—as Mr. McCain has said.

The Republicans failed because they tried to do what Mr. Obama, Speaker Nancy Pelosi and Majority Leader Harry Reid did, passing ObamaCare on a party-line vote. But bills that make great changes in how Americans live, such as Social Security and Medicare, must always have broad, two-party support. The Democrats pushed ObamaCare without fully understanding what the bill even contained. "We have to pass the bill so that you can find out what is in it," said Mrs. Pelosi, mindlessly and in a way accurately: They were content to let regulators and administrators figure out the implications of everything.

But fierce pushback followed—the tea party uprising grew; the Democrats lost the House in 2010. Then came the failure in 2013 of the website on which the entire program depended, the admission by one of its

architects that it was marketed to take advantage of "the stupidity of the American voter," and the revelation that the central promise—"If you like your doctor you can keep your doctor"—was a lie.

The bill failed on its own terms, and it is still the law of the land.



Republicans announce their tax-reform plan, Sept. 27.

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architects that it was marketed to take advantage of "the stupidity of the American voter," and the revelation that the central promise—"If you like your doctor you can keep your doctor"—was a lie.

The bill failed on its own terms, and it is still the law of the land. When Republicans tried to replace it, they tried to do just what the Democrats did—hold party-line votes on bills that few in the electorate fully understood. The difference is the electorate had previously been scalded. They're not in a trusting mood.

Health care is experienced now as a fully national issue, and there are signs America is tilting left on it. (A bipartisan health-care bill might help blunt the coming movement for single payer.)

Democrats have to be part of fixing ObamaCare. And though they should be in a weak position, having lost the congressional majorities and the White House, they're holding strong cards. The Republicans have crashed and burned twice, and there's no reason to think they'll magically succeed next time.

Health-care reform will have to come from both parties or it will not

be accepted by America. It will have to be a compromise that comes from both parties or it will not pass the Kimmel test, the nonsensical but powerful showbiz bar such a bill must now clear. That means it will be more liberal than the Republicans want, and more expensive.

The Democrats will be hellish in negotiations. They will not call it "repeal and replace"; they'll call it "repair and reinforce." They'll be demanding. And this is unjust. They caused the problem in the first place! They should be feeling chastened; they should be desperate to create a fix. Instead they've been amusing themselves watching the hapless Republicans blow it again. They should amuse themselves less.

Now the Republicans turn to tax reform. Again they move from a weakened position. They're going forward without the momentum of victory, without the confidence of recently demonstrated skill. As he unveiled the plan this week, Speaker Paul Ryan wore a weirdly triumphant smile. "Today," he said, "we are taking the next step to liberate Americans from our broken tax code." He compared this moment to 1986, when Ronald Reagan won tax reform.

But that was another world—a broadly popular president, both parties strong, each working, however reluctantly, with the other.

As strange as Mr. Ryan's enacting of a happy warrior's joy was the Democrats' response. They reverted to their own antique playbook, taking potshots, being unserious. The Republican plan is "a massive windfall for the wealthiest Americans," said Minority Leader Chuck Schumer. "It seems that President Trump and Republicans have designed their plan to be cheered in the country clubs and the corporate boardrooms." It should be called "wealth-fare." Sen. Bernie Sanders said the plan is "morally repugnant and bad economic policy."

But the tax code is too big and too complicated, as Mr. Ryan said. It would do the country good to see it improved.

Both parties are breaking and broken. They *both* need a win. They could recover some of their standing with a bipartisan victory. It would show America the two-party system itself can win and produce something needed. This would reinforce the position of both parties. It would suggest *they're* needed! If they can't produce something big together, more Americans will become certain they are not.

Meanwhile, thousands of K Street tax lobbyists will be crawling the halls trying to affect the shape of the bill for their clients.

Everyone is acting as if they don't know what time it is, or what position they themselves are in.

America is in trouble, with huge problems. The people need improvements in health care, in the tax code. They're desperate for a sense that improvement is actually possible.

This is no time for Democrats to be small, tatty and cheap, to do the old class warfare, to issue one-liners instead of thoughts. They should wake up and get serious.

It's weird to see everyone going through the old motions, dream-like.

A Yankee Visits Charlottesville, Where Gen. Lee Is Under Cover

By Allen C. Guelzo

Charlottesville, Va.

This city seems to be in mourning. On the campus where Thomas Jefferson planted the "academical village" that grew up to be the University of Virginia, the university's statue of Jefferson was briefly swathed in black plastic. In nearby Emancipation Park, a 26-foot-high equestrian statue of Robert E. Lee remains swathed in black, mostly to prevent defacement. In the wake of the Aug. 12 riot between fanatics of the neo-Nazi right and the new Red Guards of the Antifa left, an uneasy atmosphere prevails throughout Charlottesville, as if awaiting, like Pompeii, yet another eruption.

Image-smashing undoubtedly has its satisfactions, but they tend to be short-lived.

As a Yankee I find it a little difficult to grasp why monuments to Lee are here in the first place. He lost, and if there is one sin American culture still prefers to bury from sight, it's losing. Worse, Lee committed treason against the flag and the Constitution. And behind that is the ugly truth that the Confederate cause was, when all the rhetorical chaff is swept away, designed to protect chattel slavery, the singular birth defect of the American republic.

But statues of Lee don't baffle me more than the Whiskey Rebellion statue in Washington, Pa., or the Dorr Rebellion Museum in Chepachet, R.I., or the bust of Aaron Burr in the U.S. Senate Chamber. They all remember treasons committed in the past, but I pass them by with a shrug. Time has rendered them harmless.

Monuments can also be deceptive.

Because the Charlottesville Lee went up in 1924, at the apex of Jim Crow, it is easy to suppose that it was designed to reinforce white supremacy. But the dedication ceremonies featured high-school bands, cadets from the Virginia Military Institute, university faculty and the American Legion—not the Ku Klux Klan.

One of the dedication speeches celebrated Lee for surrendering at Appomattox and averting "scattered guerrilla warfare for many years" and for pointing Southerners "in the shadows of the defeat of war" toward "the star of hope with its radiant promise and prophecy of the triumphs of peace." Those words came from the Rev. M. Ashby Jones, a Baptist minister whose opposition to lynching made him a target of the Klan. The pedestal read only "Robert Edward Lee," and the statue itself was sculpted by Italian-born Leo Lentelli and cast in Brooklyn, N.Y.

There is a difference between monuments and memorials. Monuments invite us to see exemplars. Memorials are simply remembrances that something happened in this place. Often memorials are statements of mourning, occasionally of repentance, but they are not about power or approval. That's why we don't take the Donner Party Monument in Donner Memorial State Park as an incitement to cannibalism.

The line between memorials and monuments is not always clear. The Union statuary that populates the Gettysburg battlefield was originally intended as a monument to the righteousness of the Union cause. At the dedication of the monument to the 84th Pennsylvania Infantry in 1889, the speaker described the Civil War as "the greatest of rebellions against the grandest of governments." By the middle of the 20th century, visitors were more inclined to regard the monuments as memorials of a great and tragic sacrifice. Today they are mostly used by tourists and history

buffs as markers of unit positions during the battle.

Image-smashing undoubtedly has its satisfactions, but they tend to be short-lived. Pulling down statues of George III, Stalin and Saddam Hussein was understandable when done by those who actually lived through their outrages. Otherwise, we look with shudders on past iconoclasts—the ones who burned the Library of Alexandria, or who smashed religious statues during the Protestant Reformation—as puritanical idiots.

David Rieff, in his book "In Praise of Forgetting," suggested that "a decent measure of communal forgetting" about historical offenses may be "the sine qua non of a peaceful and decent society." Sometimes the best revenge is living well. Hitler's refuge in the Obersalzberg today functions as a tea

room, and Berlin's Olympic Stadium, which the Nazis used as a propaganda theater in 1936, has survived to host the World Cup—all without much more notice than the occasional historical footnote.

There have been times and places

where monuments really were assertions of white Southern defiance, like the cemetery obelisk in Colfax, La., celebrating the perpetrators of the 1873 Colfax Massacre who were "fighting for white supremacy," as the monument proclaims unashamedly.

But does the Lee monument serve the same purpose? The answer would be yes only if we believed that 1865 and 1873 were yesterday, and that everything about the past is a statement of power (or a clever concealment of power) in the present. This is what links the monument-smashers

to the campus deniers of free-speech: They understand monuments and speech solely as manifestations of power, which only can be confronted and silenced by power.

On a recent humid evening in Charlottesville, I walked past the Lee statue, huddled in its improvised burga. He fought for a cause that rankles me to the soles of my abolitionist boots. But the armies that marched at his orders also melted away at his orders a long time ago; and the statue is immobilized, solitary, powerless. As Jefferson once said about the religious dissenter, he neither picks my pocket nor breaks my leg. So with Lee. I can let him alone.

Mr. Guelzo is a visiting professor at Princeton's James Madison Program in American Ideals and Institutions.

Trump Bullies the NFL Because It's Easy



BUSINESS WORLD
By Holman W. Jenkins, Jr.

Many worry that Donald Trump's tweets might inflame the North Korea conflict. Maybe his critics should step back with renewed admiration for the man and his subtle arts. Just notice how thoroughly his tweets have reduced the mighty NFL to impotence.

Indeed, a bystander wonders with what whimsical malice this aged man-child, blessed with superpowers, decided the league should be the newest target to be emasculated and confounded by his 140-character missiles.

Actually one doesn't wonder: It was Roger Goodell. Mr. Trump knows weakness when he smells it.

Mr. Trump landed a smart bomb on Tuesday with his tweeted suggestion that the league should ban protests during the national anthem—thereby making it impossible for Mr. Goodell to enact such a ban and thus reverse the league's plummet toward the abyss.

Mr. Goodell could have fairly said, It's time to get back to football. Everyone had their say last Sunday. The Cowboys knelt before the anthem and then stood, the Steelers and Seahawks chose to stay off the field, etc.

Players have every right to express their opinions in all the venues open to them, *but not here*. This league cannot afford to become an obligatory weekly stage for the divisive political cause of the moment.

A different NFL commissioner, with a less embarrassing history, might have been able to play this role without appearing to trounce to the Twitter-bully of the White House. As it is, NFL players would do the league a favor by informally

agreeing among themselves to end the politicization of the anthem. Let the anthem go back to being a non-event.

Alas, Sports Illustrated this week supplied a metaphor for the league's hopelessly search for the right political correctness to make its problems go away. Its "unity" cover only provoked criticism—for the presence of Mr. Goodell, the absence of Colin Kaepernick, a dearth of females, an excess of whites.

Ditto Aaron Rodgers's invitation to Green Bay fans on Thursday night to link arms in the stands. It fell almost as flat as an Odell Beckham Jr. end-zone antic.

Mr. Trump is disdained for low cunning, but low cunning beats no cunning. Mr. Trump said nothing at his Alabama rally or in his tweets about race or police shootings.

He said only that football players should stand for the anthem, a sentiment widely supported in polls. First Amendment rights also apply to the league and team owners. They are under no obligation to subsidize a platform for player political expression. It is not censorship. The NBA requires its players to stand respectfully for the anthem.

Mr. Trump wins this argument hands down, which is why critics resort to attacking straw men. "Yes, Trump's True Aim Is to Inflate Racial Tensions," insists the headline over an Al Hunt column at Bloomberg.

CNN reporter Coy Wire, himself a former NFL player, claimed on-air (emphasis added): "President Trump urged NFL owners to fire or suspend any NFL player who kneeled during the anthem *in protest of racial injustice*."

In order to get the better of Donald Trump, they must put words in his mouth.

Black Americans may have reason

to fear the police, but the issue is complicated. Reconcile these statements: Blacks are nearly three times as likely as whites to be killed by police, yet a white homicide victim is 2.6 times as likely as a black homicide victim to have been killed by police.

The explanation: A black person is so much more likely to be a homicide victim in the U.S.—nearly seven times as likely—that police shootings are a smaller proportion of black homicides than white homicides.

Not that the politics of race relations is a special competence of the NFL—any more than North Korea policy or health-care policy, though players have opinions on these matters too.

The most deadly omen for the league, however, the one that should strike fear in Mr. Goodell, owners and players alike, was an article by Roxanne Jones, a founding editor of ESPN magazine and former vice president of the ESPN network. She declared, "I found a reason to feel good about watching football again," as if the salvation of the game lies in picking political fights with large chunks of its fan base.

A mystery without an answer, of course, is how this Trumpian sally actually advances any national interest that Mr. Trump was elected to advance. A president referring to fellow citizens as SOBs in a televised speech is also a new low that hopefully won't soon be surpassed.

Still, with trepidation, the world awaits to see which power or principality the colossus of the White House Twitter account decides to confound and humiliate next. We begin to feel sorry for Kim Jong Un.

* * *

A version of Wednesday's column confused Douglas Durst with his brother Robert. Apologies for the error.

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LIFE & ARTS

WHAT'S YOUR WORKOUT? | By Jen Murphy

Yoga Too Easy? Try It on Water

An Oakland food executive stays centered with morning yoga sessions on her paddleboard on San Francisco Bay

WHILE LISA CURTIS was getting her food startup off the ground in 2013, she learned two important lessons: She needed to find balance and she couldn't be scared to take risks. Stand-up paddleboarding seemed like the perfect workout to reinforce both.

"Paddling is like a metaphor for life," says Ms. Curtis, who is 29 years old. "It teaches you to find your center even amidst the waves. And the worst that happens is you fall in the water. It's good to do something that keeps you a bit on the edge."

Ms. Curtis's company, Kuli Kuli, makes bars, powders and teas made from moringa, a nutrient-dense plant she discovered during her time working in Niger for the Peace Corps. As Ms. Curtis went through rounds of fundraising, she found her time for workouts shrinking.

Rather than choose between yoga and stand-up paddleboarding, she combined her two fitness passions. Ms. Curtis lives a 10-minute walk from the San Francisco Bay near Oakland's Jack London Square. "It was the perfect break from the stress of getting a startup off the ground, and way more exciting than running," she says. "Trying to do downward-facing dog or side plank on a board instantly erases any work thoughts."

Now that her company has grown to 10 people, she uses stand-up paddleboarding, also known as SUP, for team-building. "It's a fun team experience and a great confidence-builder," she says.

The Workout

Ms. Curtis likes to stand-up paddleboard in the morning, usually around 8 a.m., when the water is calm and there is less boat traffic. She starts with 15 to 20 minutes of paddling, which she says calms her mind and works her core. She then goes through a few yoga se-



Lisa Curtis performs tree pose on her paddleboard near her home in Oakland, Calif.

quencies.

"When you do yoga on a paddleboard, it's less about perfect form and more about feeling what is right for my body," she says. "I've practiced yoga since high school, and postures I thought I'd mastered, like warrior one and two, feel so difficult on the water."

She says mastering tree pose, where you balance on one leg while the opposite foot rests on the standing calf or inner thigh, is a new accomplishment. "If you think balancing on one foot on the ground is challenging, try it on the water," she says. "I've finally gotten used to kayakers snapping photos of me."

Ms. Curtis says practicing in the water requires her to be much more aware of her alignment and

body position. "You're always asking yourself, 'If I shift my weight, will it rock the board too much and cause me to fall into the water?'"

Ms. Curtis occasionally paddles with her husband, Trenton Arthur, who kayaks. "I like the core and leg engagement of SUP," she says. "Plus, you can see more standing on a paddleboard versus sitting. I'm always spotting cool birdlife and sometimes even seals."

She still tries to fit in yoga sessions on the mat. She has a yoga space in her home and tries to meditate or practice yoga for at least 10 minutes a day, or she streams classes from the website Yoga With Adriene.

Her new obsession is stand-up paddleboarding over white-water rapids. She first tried it on Idaho's

Salmon River in 2014 and now aims to do a white-water SUP trip three to four times a year. "The adrenaline rush is incomparable," she says.

The Diet

"I travel a lot, so it helps to be a creature of habit," Ms. Curtis says. In the morning, she makes oatmeal topped with a variety of toppings such as moringa, goji berries, chia seeds and almond or sunflower butter. Salads are her go-to lunch on the road. She likes to mix salads with bell pepper, tofu and nuts. Vegetable stir fries are a staple for dinner.

The Gear & Cost

"I'm a big Patagonia fan," she says. She likes Gaiam yoga mats, but says when it comes to ap-

The Scaredy Cat's Guide to SUP Yoga

If a backbend on land sounds intimidating, then getting upside down on a stand-up paddleboard over undulating waves probably sounds bonkers.

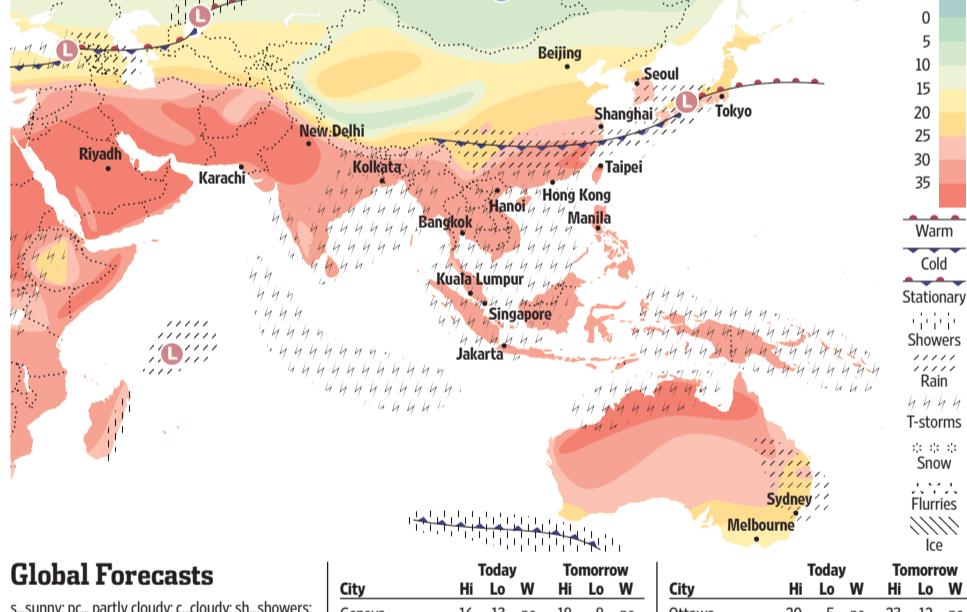
But the challenges you'll experience on the water will actually increase your strength, stability and focus in your mat-based practice, says Shannon Paige, a SUP yoga instructor and co-owner of Earth Yoga Studio in Boulder, Colo.

"Lower postures are steadier than taller postures," Ms. Paige says. "Practice seated poses for flexibility and get used to the movement of the board beneath you before you take the same shapes upward to your feet." The more points of contact you have on the board, the less likely you are to fall, she says. "A narrower stance will be more challenging, so start with wider feet to build confidence."

Ms. Paige says if you feel wobbly, set a point for your eyes to focus on. "A steady gaze is essential for balance," she says. The worst thing that can happen is losing your balance and ending up in the water. "Take the fear out of the unknown and practice jumping off and climbing back on the board. Once you do, the fear of falling will no longer distract your focus."

parel, she'd rather buy spandex at Costco than spend \$60 on a fancy yoga brand. She bought her Jimmy Styks stand-up paddleboard at Costco for \$200. Other than earphones, she prefers her workouts gadget-free. "People get so caught up in tracking steps and calories," she says. "I like my workouts to be more meditative and less gamified."

Weather



Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	17	12	r	15	11	r
Anchorage	11	8	r	11	8	r
Athens	23	16	pc	23	15	s
Atlanta	25	17	s	26	15	s
Bahrain	36	21	s	36	22	s
Baltimore	24	10	s	24	11	s
Bangkok	32	24	t	30	24	t
Beijing	17	7	r	20	9	pc
Berlin	16	11	r	15	9	r
Bogota	19	9	r	20	8	sh
Boise	16	3	pc	16	3	pc
Boston	18	11	s	19	11	s
Brussels	17	9	r	15	8	s
Buenos Aires	19	10	c	20	12	c
Cairo	34	22	s	30	21	s
Calgary	2	-5	sn	6	-3	pc
Caracas	31	25	pc	32	25	pc
Charlotte	23	12	s	25	12	s
Chicago	27	17	pc	29	19	s
Dallas	33	23	pc	30	22	t
Denver	15	4	pc	13	7	c
Detroit	24	13	s	26	17	s
Dubai	38	30	s	37	29	s
Dublin	15	8	pc	13	7	pc
Edinburgh	14	8	sh	13	8	pc
Frankfurt	18	10	c	17	7	sh

AccuWeather.com

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

City	Today	Hi	Lo	W	Tomorrow	Hi	Lo	W
Geneva	16	13	pc	18	8	pc		
Hanoi	32	25	c	31	25	c		
Havana	32	23	t	31	23	c		
Hong Kong	33	28	t	33	27	t		
Honolulu	32	24	sh	32	24	pc		
Houston	31	24	p	30	21	r		
Istanbul	20	15	p	20	15	pc		
Jakarta	32	24	t	32	25	t		
Johannesburg	22	11	t	25	13	s		
Kansas City	29	20	pc	27	17	t		
Kuala Lumpur	26	14	s	28	15	s		
Kolkata	20	16	pc	21	16	s		
Kuala Lumpur	17	9	r	16	8	s		
Laos	25	17	pc	24	14	pc		
Madrid	29	15	pc	29	15	s		
Manila	33	26	t	31	26	s		
Melbourne	18	7	pc	23	10	pc		
Mexico City	23	13	pc	21	14	pc		
Miami	30	26	t	31	25	t		
Milan	20	13	p	20	12	sh		
Minneapolis	22	19	t	22	10	sh		
Monterrey	30	21	pc	29	21	pc		
Montreal	19	7	s	23	13	c		
Moscow	7	2	c	9	2	c		
New Delhi	37	24	s	36	24	s		
New Orleans	29	24	r	30	23	t		
New York City	22	13	s	22	13	s		
Washington, D.C.	24	13	s	25	13	s		
Zurich	15	13	pc	29	22	s		

The WSJ Daily Crossword | Edited by Mike Shenk



MAKING THE BED | By Theresa Schmidt

Across

- 1 Does well on a hole
- 5 Soul mate?
- 9 Got together
- 14 Suit to __
- 15 Butter alternative
- 16 Rock concert venue
- 17 Carpet type
- 18 Rudey disturbs, perhaps
- 20 Burglars may escape under it
- 22 Unconcerned with ethics
- 23 Most embittered
- 27 "Ben-Hur" writer Wallace
- 31 "Acciol" and "Lumos!" in Harry Potter's world
- 32 Trusted adviser
- 34 In a frenzy
- 35 Winter wonderland feature
- 39 Unacceptable
- 40 Lisa Simpson wears them
- 41 Gut courses
- 44 Number between zwei and vier
- 45 Cat coat
- 48 Picked up the dinner tab
- 50 Los Angeles neighborhood near Bel Air
- 51 Desktop picture
- 52 Window makeup

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

- 33 Outburst of laughter
- 35 Sow's mate
- 36 Misplace
- 37 It ends when the parachute opens
- 38 David's weapon
- 39 Nonhuman member of the family
- 42 Acropolis setting
- 43 Taken in
- 45 Humiliating failure
- 46 Deal with, as a clogged drain
- 47 Violin bow applications
- 49 Sandwich shops
- 51 Assertion
- 53 London art museum
- 54 Simple toy train layout
- 55 Target of the feds
- 56 Count start
- 57 Whopper, for example</li

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Monday, October 2, 2017 | B1

Yen vs. Dollar 112.6770 ▲ 0.29%

Hang Seng 27554.30 ▲ 0.48%

Gold 1281.50 ▼ 0.31%

WTI crude 51.67 ▲ 0.21%

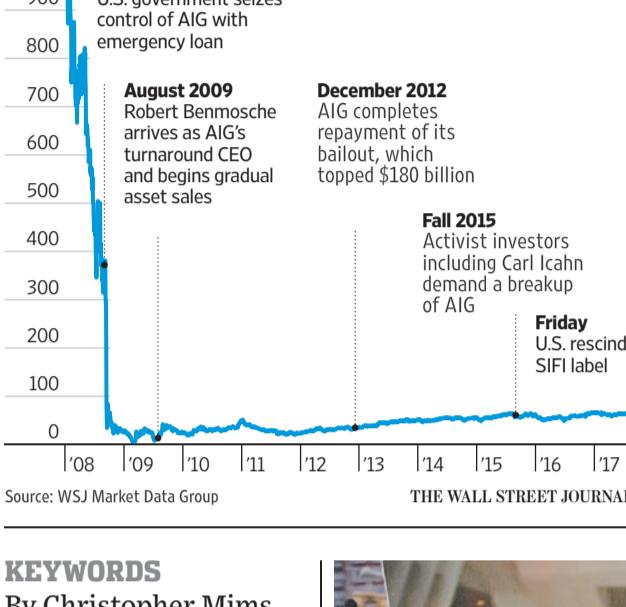
10-Year JGB yield 0.065%

10-Year Treasury yield 2.328%

U.S. Drops Federal Oversight of AIG

AIG's Path

After a near collapse, AIG has faced a bumpy road in its recovery.



BY LESLIE SCISM
AND RYAN TRACY

WASHINGTON—U.S. officials voted Friday to remove federal oversight of **American International Group Inc.**, an insurance company now about half the size it was when it was on the brink of collapse and became a poster child of the global financial crisis.

The move is one of the most tangible steps yet in the Trump administration's push to re-evaluate financial regulations, which has included a top-to-bottom review of rules put in place in response to the crisis. Friday's decision frees the insurance company of stricter oversight by the federal government, such as tighter capital rules, federal approval for large mergers and placement of government ex-

aminers at the firm.

The **Financial Stability Oversight Council**, a group of senior financial regulators, voted 6-3 to rescind the global insurer's designation as a "systemically important financial institution," indicating they no longer view AIG as a threat to the broader economy.

The action came earlier than many analysts expected. Although the Trump administration has recommended dozens of changes to financial rules, it has so far taken action incrementally, in part because of the slow pace of installing personnel at key regulators.

AIG Chief Executive Brian Duperreault said in a statement that the council's "decision reflects the substantial and successful de-risking that AIG's employees have achieved

since 2008. The company is committed to continued vigilant risk management and to working closely with our numerous regulators to enable a strong AIG to continue to serve our clients."

The practical impact of Friday's action was limited because many of the rules for insurance companies have yet to be written.

The council applied the label to AIG in July 2013 and previously had affirmed its findings annually. This year, regulators appointed by President Donald Trump reversed course, pushed along by new leaders at AIG who were more aggressive about disputing the systemically important tag.

"This action demonstrates our commitment to act decisively to remove any designation if a company does not

pose a threat to financial stability," Treasury Secretary Steven Mnuchin said in a statement.

Two Obama-era appointees, Fed Chairwoman Janet Yellen and Roy Woodall, the council's insurance expert, joined four Trump appointees in approving the action. Three Obama appointees opposed the move, and none commented on why. Securities and Exchange Commission Chairman Jay Clayton recused himself.

Ms. Yellen declined to comment through a spokesman.

AIG "has changed dramatically since the start of the financial crisis," said National Credit Union Administration Chairman Mark McWatters, a council member who voted in favor of removing the label. "It's time to let them go back

Please see AIG page B7

KEYWORDS

By Christopher Mims

Facebook Remains in Denial Amid Scrutiny

It's a good time to re-examine our relationship with Facebook Inc.

Over the past month, it has been revealed that Facebook hosted a Russian influence operation that might have reached between three million and 20 million people on the social network, and that Facebook could be used to micro-target users with hate speech. It took the U.S.-based company more than two weeks to agree to share what it knows with Congress.

Increased scrutiny of Facebook is healthy. What went mainstream as a friendly place for loved ones to swap baby pictures and cat videos has morphed into an opaque and poorly understood metropolis rife with influence peddlers determined to manipulate what we know and how we think. We have barely begun to understand how the massive social network shapes our world.

Unfortunately, Facebook itself seems just as mystified, providing a response to all of this that has left many unsatisfied.

What the company's leaders seem unable to reckon with is that its troubles are inherent in the design of its flagship social network, which prioritizes thrilling posts and ads over dull ones, and rewards cunning provocateurs over hapless users. No tweak to algorithms or processes can hope to fix a problem that seems enmeshed in the very fabric of Facebook.

On a network where article and video posts can be sponsored and distributed like ads, and ads themselves can go as viral as a wedding-fail video, there is hardly a difference between the two. And we now know that if an ad from one of Facebook's more than five million advertisers goes viral—by making us feel something, not just joy but also fear or outrage—it will cost less per impression to spread across Facebook.

In one example, described in a recent Wall Street Journal article, a "controversial" ad went viral, leading to a 30% drop in the cost to reach each user. Joe Yakuel, founder and chief executive of Agency Within, which manages \$100 million in digital ad purchases, told our reporter, "Even inadvertent controversy can cause a lot of engagement."

Keeping people sharing and clicking is essential to Facebook's all-important met-

Please see MIMS page B3



Ford CEO Jim Hackett at a symposium in San Francisco in August. Mr. Hackett is likely to push for quick action at the auto maker.

At Uber, Kalanick Pursues Power Play

By GREG BENINGER

Uber Technologies Inc.'s ousted chief executive, Travis Kalanick, is appointing two new directors to the ride-hailing firm's board, a surprise move that would bolster his clout as the company faces several critical decisions including a possible multibillion-dollar investment from **SoftBank Group Corp.**

Mr. Kalanick appointed former Xerox Corp. CEO Ursula Burns and former CIT Group Inc. CEO John Thain as the 10th and 11th Uber directors, effective Friday, according to a statement from him to The Wall Street Journal.

The Uber co-founder, who resigned as CEO in June, made the appointments without consulting the rest of the board. He was granted control of three board seats as part of \$3.5 billion investment from a Saudi wealth fund in 2016.

The appointments could serve as an effort to push back against one of Uber's largest investors, Benchmark, which is suing Mr. Kalanick over control of those two seats. The venture firm, which also holds a board seat and led an investor coup to push Mr. Kalanick out, has proposed a new voting structure for shareholders allowing them to vote based on the size of their stake, rather than the current system which rewards the earliest investors with greater voting power.

"I am appointing these seats now in light of a recent board proposal to dramatically restructure the board and significantly alter the company's voting rights," Mr. Kalanick said in the statement.

Benchmark sued Mr. Kalanick in August to return to board control the two seats he oversees and his own, arguing he reneged on an agreement to relinquish them when he stepped down in June.

Uber said in a statement that the appointments "came as a complete surprise," adding: "That is precisely why we are working to put in place world-class governance to ensure that we are building a company every employee and shareholder can be proud of."

A representative for Benchmark didn't respond to a request for comment.

Uber's board and new chief executive, Dara Khosrowshahi, are weighing an investment from a consortium led by Japanese tech investor SoftBank that could total \$10 billion, according to people familiar with the matter. SoftBank is seeking to obtain two board seats of its own, the people said.

A SoftBank spokesman declined to comment.

◆ CEO Khosrowshahi to plead his case in London..... B2

Ford's Chief Is Ready to Tinker

After a summer reviewing the auto maker, new boss Hackett prepares to lay out road forward

By CHRISTINA ROGERS

DETROIT—**Ford Motor Co.**'s new boss spent the summer touring the auto maker's global operations, brainstorming with his executives on new business concepts and even paying a visit to an electric-car maker in Silicon Valley that his predecessor had considered buying.

Now, he is ready to start tinkering under the hood. Jim Hackett was promoted in May to chief executive after the board ousted then-CEO Mark Fields, amid concern about the company's strategy. After spending several months asking questions and strategizing, the 62-year-old former office-furniture executive is set to provide an update on Ford's progress at an investor meeting Tuesday.

Mr. Hackett is expected to show how Ford is streamlining its core business while pursuing futuristic ideas. The 114-year-old company survived the recession last decade far bet-

ter than its Detroit competitors, but now feels growing pressure from tech companies and traditional rivals in the emerging era of self-driving cars and ride-sharing services.

Wall Street has yet to fully embrace Ford's leadership change at a time when U.S. car sales are softening. Ford's stock has risen 10% since Mr. Hackett took charge, but investors are still looking for a firmer strategic road map.

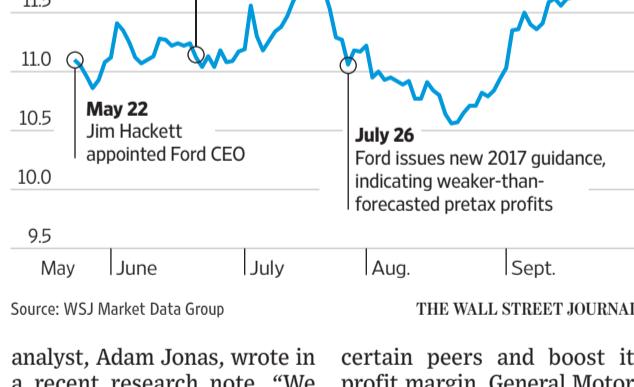
Under Mr. Hackett, the leadership team set up mini war rooms in conference spaces at Ford's Dearborn, Mich., headquarters, according to people familiar with the matter. Executives huddled there to sketch out concepts—often on sticky notes and sheets of paper stuck to the wall—to shake up the company's thinking on everything from its culture to branding.

"We expect Ford's next strategy to be more open to partnerships, new structures, new entities, and far greater emphasis on all-electric" vehicles, a Morgan Stanley auto

Courting Wall Street

Ford's share price has climbed since CEO Jim Hackett took over in May, rising about 10%, but investors are still looking for a firmer strategic plan.

Ford daily share price



analyst, Adam Jonas, wrote in a recent research note. "We are not convinced investors are prepared for the required sacrifice to near-term profit."

Other analysts say Mr. Hackett needs to rekindle Ford's competitiveness with certain peers and boost its profit margin. General Motors Co., for instance, has shown a greater willingness to make bold cost-cutting moves, including exiting its unprofitable European operations, while at

Please see HACKETT page B2

Condé Nast Publishing Titan Dies at 89

By JEFFREY A. TRACHTENBERG

Samuel Irving Newhouse Jr., the publishing magnate whose passion for art, photography and popular culture transformed Condé Nast into

one of the world's most distinguished magazine companies, died Sunday at age 89, according to a spokesman for the family.

He died at home following a long illness.

Mr. Newhouse, known as Si, was chairman emeritus of closely held **Advance Publica-**

tions Inc.

Together with his brother, Donald, he oversaw a vast media company with investments in newspapers, magazines, cable and assorted digital properties.

Those who worked for Si Newhouse described him as an introverted but rigorous businessman whose zest for magazines reshaped the publishing landscape. Although he had command of even the smallest details, he gave top staffers the freedom to make their own editorial decisions.

Otherwise, Mr. Newhouse was very much hands-on. "He was a brilliant kingmaker who knew how to pick winners, be it editors or publishers," said Tom

Florio, a former senior publishing executive at Condé Nast.

Top Condé Nast editors that Mr. Newhouse handpicked in-

cluded Tina Brown, who edited *Vanity Fair* and then the *New Yorker*; *Vanity Fair*'s outgoing editor Graydon Carter; David Remnick, who succeeded Ms. Brown as editor of the *New Yorker*; and Anna Wintour, editor of *Vogue*.

Advance Publications owns newspapers such as the *Times-Picayune* in New Orleans and the *Staten Island Advance*; magazines including *Vogue* and *Glamour*; and stakes in *Discovery Communications Inc.* and *Charter Communications Inc.* Advance also owns data analytics firm *1010data Inc.* and is the majority owner of social news site *Reddit Inc.*

Please see MEDIA page B2



Mr. Newhouse, seen in 2006.

Please see MEDIA page B2

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WSJ Ending Print In Asia and Europe

By LUKAS I. ALPERT

The Wall Street Journal is ceasing publication of the European and Asian print editions of the newspaper as the company shifts its focus to digital amid an increasingly challenged print-advertising market.

The final print edition in Europe was this past Friday, with Asia's print publication ceasing after this coming Friday, company officials confirmed. After that, the printed newspaper will no longer be sold in some markets and will be replaced by the U.S. edition in others—such as Tokyo—at a later date, the company said. WSJ. Magazine will also continue to be available through partner publications in many international markets.

The Journal began printing a separate edition in cities around Asia in 1976 and in European markets in 1983. But in recent years, a steep drop in overseas sales and print advertising revenue, coupled with steady growth in digital subscriptions, made continu-

ing the foreign editions no longer cost-effective, people familiar with the matter said.

Staffers who worked on putting together the overseas print editions have been reassigned, the company said. Editors and reporters in foreign bureaus will continue producing content for the Journal's various platforms.

In an editor's note to readers in Friday's Europe edition, the paper pledged to provide the same quality and depth of news via its digital services.

The reduction of the paper's print presence comes amid a broad reorganization of the Journal's editorial structure to transform the 128-year-old newspaper into a mobile-first news operation.

The Journal, a unit of News Corp., launched an initiative called WSJ2020 in October 2016 to revamp operations as the news industry undergoes a tumultuous shift toward digital and mobile. Other news organizations, such as the New York Times, have undergone similar operational reviews and restructuring initiatives.

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The Journal, a unit of News

TECHNOLOGY

WSJ.com/Tech

Musk: We Will Shoot For Mars By 2024

BY ANDY PASZTOR

Elon Musk unveiled plans to build the most powerful rocket ever and use it to launch a giant, reusable manned spacecraft to Mars—potentially in less than a decade—in the billionaire's most aggressive expression yet of his vision for privately funded space exploration.

Mr. Musk sketched out new ambitions for his company, **SpaceX**, including technical details of capsules larger than superjumbo airliners and the kernel of a business plan to pay for it, at an international astronautics conference in Australia on Friday.

Projecting the first trips to Mars in 2022 or 2024—more than a decade before the U.S. or any other governments anticipate coming close—Mr. Musk's latest plans are built around a business model he hadn't publicly broached before.

Space Exploration Technologies Corp., as his company is formally called, seeks to create a single fleet of super-powerful rockets and spacecraft able to serve commercial satellite operators, U.S. government customers and Mr. Musk's own dreams of deep space exploration.

"I think we have figured out how to pay for it," he told the crowd of scientists, industry officials and space aficionados gathered in Adelaide. "We think we have a way to do it."



'PlayerUnknown's Battlegrounds' has raked in millions of dollars with no marketing expense.

Videogames Get Upstart

PlayerUnknown's Battlegrounds' proves a hit, and it isn't even a finished product yet

BY SARAH E. NEEDLEMAN

The hottest videogame right now spends no money on marketing, has raked in hundreds of millions of dollars in sales and isn't finished being developed.

"PlayerUnknown's Battlegrounds"—or "PUBG," as fans call it—caught the videogame industry off guard this year with its twist on the timeworn shooter genre. Rather than rack up the highest kill count, 100 players parachute onto an island with nothing and do whatever it takes (hiding included) to be the last one alive.

It resembles the "The Hunger Games," and players are snapping up the \$30 game. More than 13 million copies have sold world-wide since March, according to its publisher, **Bluehole Studio Inc.**, a privately held company in South Korea.

That puts Battlegrounds in a league with blockbusters such as **Electronic Arts Inc.'s "Star Wars Battlefront"** and **Activision Blizzard Inc.'s "Overwatch."**

Battlegrounds' rise from a constant work in progress to the buzziest title of the year challenges the conventions of how modern blockbuster videogames are made.

An early playable version was created in a year for less than \$5 million by a team of 40 developers and sold at a discount since March on a site for "early access" games that

aren't polished. The only marketing came from players on live-streaming sites such as YouTube.

A tentpole game from a big publisher, meanwhile, often takes hundreds of employees years to make and can cost tens of millions of dollars if not more, plus additional spending for marketing. It can be akin to producing a Hollywood popcorn flick.

Battlegrounds, available for PCs, is launching on **Microsoft Corp.'s Xbox One** consoles later this year. Big publishers should take heed, industry watchers said.

Bluehole "effectively disrupted the market," Benchmark Co. analyst Mike Hickey said.

The game's success shows developers don't need deep pockets to create a blockbuster, he said.

Google Conducting Internal Inquiry on Russian Influence

BY JACK NICAS
AND ROBERT McMILLAN

Google is conducting a broad internal investigation to determine whether Russian-linked entities used its ads or services to try to manipulate voters ahead of the U.S. election, according to a person familiar with the matter, a move that comes after **Facebook Inc.** and **Twitter Inc.** said Russian actors used their sites.

Google, part of **Alphabet Inc.**, is also talking with congressional officials who are investigating Russian efforts to influence the election and plans to share its findings with them once completed, the person said.

Congressional leaders have scrutinized Facebook and Twitter for Russian activity on their sites and criticized the tech companies for their lack of disclosure of such information.

Google, pending a potential meeting with lawmakers, has said little. Earlier this month, the company said it found no evidence that it sold election-related ads to Russian actors. But it didn't say how deeply it was investigating the issue, or whether there were other types of Russian interference on its platform.

On Friday, the company said, "We will of course cooperate with inquiries; we're looking into how we can help with any relevant information."

Google also hasn't said

whether it would accept an invitation this week from the Senate Intelligence Committee to testify publicly on Nov. 1 about Russian interference. The committee also invited Facebook and Twitter. Facebook said it had yet to accept the invitation. Twitter also hasn't responded, a person familiar with the matter said.

It is unclear what sort of activity, if any, happened on Google's sites. But Google runs the world's largest advertising business and largest online-video site, YouTube, making it an obvious place for investigators to look.

Rep. Adam Schiff, the top Democrat on the House Intelligence Committee, which is investigating Russian influence on the 2016 U.S. election, said lawmakers want to speak to Google "given their dominant force online that has an advertising component."

Google sells ads above its search results, before YouTube videos and on third-party websites and apps.

Google even offers a specific ad tool for political campaigns that it says will help advertisers "win the moments that win elections."

Google's YouTube site is also one of the world's largest social-media communities, with more than 1.5 billion monthly users, compared with more than 2 billion on Facebook and 328 million on Twitter.

—Byron Tau contributed to this article

MIMS

Continued from page B1

ric, engagement, which is closely linked to how many ads the network can show us and how many of them we will interact with. Left unchecked, algorithms like Facebook's News Feed tend toward content that is intended to arouse our passions, regardless of source—or even veracity.

An old media catchphrase was, "If it bleeds, it leads"—that is, if someone got hurt or killed, that's the top story. In an age when Facebook supplies us with a disproportionate amount of our daily news, a more appropriate catchphrase would be, "If it's outrageous, it's contagious."

Will Facebook solve this problem on its own? The company has no immediate economic incentive to do so, says Yochai Benkler, a professor at Harvard Law School and co-director of the Berkman Klein Center for Internet

and Society.

"Facebook has become so central to how people communicate, and it has so much market power, that it's essentially immune to market signals," Dr. Benkler says. The only thing that will force the company to change, he adds, is the brewing threat to its reputation.

Facebook Chief Executive Mark Zuckerberg recently said his company will do more to combat illegal and abusive misuse of the Facebook platform. The primary mechanism for vetting political and other ads will be "an even higher standard of transparency," he said, achieved by, among other things, making all ads on the site viewable by everyone, where in the past they could be seen only by their target audience.

"Beyond pushing back against threats, we will also create more services to protect our community while engaging in political discourse," Mr. Zuckerberg wrote.

This move is a good start, but it excuses Facebook from its responsibility to be the primary reviewer of all advertising it is paid to run. Why are we, the users, responsible for vetting ads on Facebook?

By default, most media firms vet the ads they run and refuse ones that might be offensive or illegal, says Scott Galloway, entrepreneur, professor of marketing at NYU Stern School of Business and author of "The Four," a book criticizing the outsized growth and influence of Amazon, Apple, Facebook and Google.

Mr. Zuckerberg acknowledged in a recent Facebook post that the majority of advertising purchased on Facebook will continue to be bought "without the advertiser ever speaking to anyone at Facebook." His argument for this policy: "We don't check what people say before they say it, and frankly, I don't think our society should want us to."

This is false equivalence. Society might not want Face-

book to read over everything typed by our friends and family before they share it. But many people would feel it's reasonable for Facebook to review all of the content it gets paid (tens of billions of dollars) to publish and promote.

Facebook has embraced the healthy gross margins and influence of a media firm but is allergic to the responsibilities of a media firm," Mr. Galloway says.

Mr. Zuckerberg has said it would hire 250 more humans to review ads and content

posted to Facebook.

For Facebook, a company with more than \$14 billion in free cash flow in the past year, to say it is adding 250 people to its safety and security efforts is "pissing in the ocean," Mr. Galloway says. "They could add 25,000 people, spend \$1 billion on AI technologies to help those 25,000 employees sort, filter and ID questionable content and advertisers, and their cash flow would decline 10% to 20%."

Of course, mobilizing a massive team of ad monitors could subject Facebook to exponentially more accusations of bias from all sides. For every blatant instance of abuse, there are hundreds of cases that fall into gray areas.

The whole situation has Facebook between a rock and a hard place. But it needs to do more, or else risk further damaging its brand and reputation, two things of paramount importance to a service that depends on the trust of its users.

BUSINESS WATCH



A VW concept car on display in September. The auto maker said it will book another charge tied to its emissions-cheating scandal.

VOLKSWAGEN

Auto Maker Adds To Scandal's Costs

The bill for Volkswagen AG's diesel-emissions scandal jumped by €2.5 billion (\$3 billion) to just under \$30 billion after the company said it would take another charge to earnings, citing higher-than-expected costs for fixing cars in the U.S.

Volkswagen shares fell as much as 3% after the disclosure Friday, but ended the day little changed at €138.

The new write-down, which will be booked in the third quarter, comes as many investors were hoping the financial fallout from the emissions-cheating scandal was in the German auto maker's rearview mirror.

In 2016, Volkswagen pleaded guilty to conspiracy to defraud the U.S. government over emis-

sions levels for its diesel cars.

The company also agreed to pay nearly \$25 billion in fines, penalties and compensation after it settled a number of civil lawsuits. Two Volkswagen employees caught up in the scandal have faced charges in the U.S., with one sentenced to just over three years in prison.

—William Boston and Max Bernhard

AMAZON.COM

Whole Foods Gets Boost After Takeover

Amazon.com Inc. has sold about \$1.6 million in Whole Foods beans, breakfast cereal and other store-brand products in the first month since taking over the organic chain, one of the first infusions of cash the e-commerce company has delivered to the natural grocer

through its site.

Amazon completed \$500,000 in online sales in the first week after it started offering Whole Foods' "365 Everyday Value" products, according to the One Click Retail, an e-commerce data analytics firm that focuses on the site's transactions. Weekly sales fell to about \$300,000 for the next two weeks after Amazon ran low on some products but rebounded in the fourth week, the analysis found.

—Heather Haddon

MERCK

Drugmaker Trims Hepatitis C Efforts

Merck & Co. is halting development of new hepatitis C treatments after reviewing their effectiveness and determining there is already an abundance of treatments, including its own Zepatier drug.

The market to treat the liver disease afflicting 3.5 million Americans has become increasingly competitive, prompting Merck and others to focus their attention elsewhere.

Johnson & Johnson's Janssen unit earlier in September discontinued development of its own hepatitis C treatment, which analysts said had good but not competitive results. The company said it would focus on hepatitis B treatments, an area where there are fewer options.

Merck said Friday it made its decision after Phase 2 trials of two combination regimens.

—Cara Lombardo

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David Paul Morris/Bloomberg News

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The whole situation has Facebook between a rock and a hard place. But it needs to do more, or else risk further damaging its brand and reputation, two things of paramount importance to a service that depends on the trust of its users.

—By Byron Tau contributed to this article

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QUARTERLY MARKETS REVIEW

Inflation Hopes Spur Bond-Yield Gain

U.S. debt sells off as consumer prices bounce and prospect of tax cuts takes hold

BY DANIEL KRUGER

Bond investors are starting to believe in inflation again.

The yield on the benchmark 10-year U.S. Treasury note settled at 2.328% Friday and posted its first quarterly gain of the year, buoyed by an uptick in consumer prices that lent support to some policy makers' insistence that inflation will soon make a long-anticipated return to the central bank's 2% target.

Yields soared into the end of 2016 as investors bet that Trump administration policies would spark a surge of growth and inflation. The so-called reflation trade pattered out, however, after inflation remained tepid and the administration's legislative agenda stalled, with the 10-year yield posting declines in each of this year's prior quarters.

Now, investors are beginning to revive some post-election wagers. A rebound in consumer prices and the prospect of tax cuts spurred bond selling in recent weeks, with the 10-year yield falling just twice in the past 15 sessions.

"It's a hopeful sign of better things to come for the economy," said Thomas Roth, managing director in the rates trading group at MUFG Securities Americas Inc. "The market has a little more hope, as it did at the beginning of the Trump administration."

The 10-year government yield has spent the past six months locked in a range near 2.25% as the economy has maintained a slow and steady pace and as consumer prices showed few signs of gathering momentum. In September, it hit its lowest close since the election, 2.061%, as investors sought the relative safety of government debt as tension escalated between the U.S. and North Korea and investors



The Federal Reserve's persistent advocacy for a brisk pace of rate increases has helped drive up yields on two-year Treasuries. Fed Chairwoman Janet Yellen.

worried about damages from recent hurricanes.

The yield rebounded later in the month, however, after the Fed's decision to push ahead with an aggressive schedule for rate increases, penciling in one more this year and three for 2018. And while some analysts still harbor doubts about the prospects for the passage of tax overhaul, or other elements of the Trump administration's agenda, several said they are starting to anticipate more stimulative fiscal policy.

"There is a lot that policy makers and the markets are watching, and nobody knows how it will work out," said Gemma Wright-Caspary, who manages inflation-indexed

Treasuries at Vanguard Group.

The Fed's persistent advocacy for a brisk pace of rate increases has helped drive up yields on two-year Treasuries, which are more reactive to expectations for Fed policy, to their highest level since November 2008, before the nadir of the financial crisis. And as the Fed has raised rates, it also has succeeded in boosting inflation expectations, even as the failure of higher prices to materialize remains, in Fed Chairwoman Janet Yellen's words, a "mystery."

Fed-funds futures, which investors use to bet on central-bank policy, late Friday showed the chances that the Fed will boost rates for a third time this year at 78%, up from

34% a month ago, according to the CME Group.

Those expectations were key to the climb in yields, as prices for oil stabilized and the dollar continued its slide, boosting prices for commodities and making imports more expensive. Inflation is one of the biggest threats to the value of long-term government bonds because it erodes the purchasing power of their fixed payments.

Yields in the government-bond market indicate that investors are now forecasting inflation will average 1.8% during the next five years, approaching the 2% level reached in the wake of the election.

Some analysts suggest that

the Republican tax proposal could present investors with an opportunity to revisit the reflation trade. But the difficulty policy makers have had in producing gains in wages and prices, even as the unemployment rate has fallen to 4.4%—below the level where the Fed expects it to produce inflation—makes some investors skeptical.

"Even if you get decent growth, the assumption that it will lead to inflation is something that you have to question now," said Krishna Memani, chief investment officer at OppenheimerFunds Inc.

The plan to lower both personal and corporate income taxes would give a modest boost to the economy. Gold-

man Sachs Group has estimated that one version of the Republican plan would add 0.6% to the nation's gross domestic product.

The proposal will face serious opposition, but if it gathers momentum, it could continue to push yields higher. The initial forecasts about the tax overhaul say it could lift growth, but the battle to get it passed, and the likely need for legislative compromises, may make it less attractive as time passes.

Investors should look at rising yields "as a trading process rather than as a long-term economic analysis" by the bond market, said Jim Vogel, head interest-rate strategist at **FTN Financial**.

Oil Prices Bounced Back in Quarter

BY ALISON SIDER
AND AMRITH RAMKUMAR

Oil investors got a reprieve from falling oil prices in the third quarter, thanks to unexpectedly strong demand for crude and signs of ebbing U.S. production.

West Texas Intermediate, the U.S. crude benchmark, ended the quarter 12.2% higher, snapping a two-quarter losing streak and marking the biggest quarterly gain since the second quarter of 2016.

U.S. crude futures re-entered a bull market in September and are up nearly 21.5% from the lows in June. A gain of 20% or more signals the start of a bull market.

Demand was a bright spot, even amid worries that damage from major hurricanes in the southern U.S. would crimp consumption.

The International Energy

Agency raised its forecast for demand growth for next year. At the end of March, global fuel demand was just 1.3% higher than the previous year, according to J.P. Morgan Asset Management. By the end of July, demand grew 3.2% from the previous year—the biggest year-over-year increase since 2010.

"Everyone was concerned that global demand for oil was weakening. As we've moved through the year, it's actually strengthening again," said Rob Thummel, managing director at Tortoise Capital Advisors. "Ultimately consumers responded to lower oil prices, once again."

There also were signs that U.S. output hasn't increased as quickly as some had expected, as producers contended with rising costs, slowing oil-field activity.

That boosted sentiment for

oil investors, who had earlier feared that output from shale producers would cancel out the impact of cuts by members of the Organization of the Petroleum Exporting Countries and other producers.

The price of West Texas Intermediate ended the third quarter 12.2% higher.

The number of rigs drilling oil wells in the U.S. fell by six during the quarter, compared with an increase of 94 rigs during the second quarter.

"The entire first quarter and into the second, shale was the dominant factor," said Ebele Kemery, head of energy investing at J.P. Morgan Asset

Management. Now, "we've seen the trajectory of U.S. shale production growth slow."

The U.S. Energy Information Administration's monthly figures show that U.S. output has increased but that it hasn't been as high recently as preliminary weekly data had indicated. The EIA has moderated its projection of next year's production to 9.8 million barrels a day from a previous 10 million.

Some remain skeptical that the rebound in oil prices will continue. The rig count could begin to rise again if prices stay above \$50, analysts said.

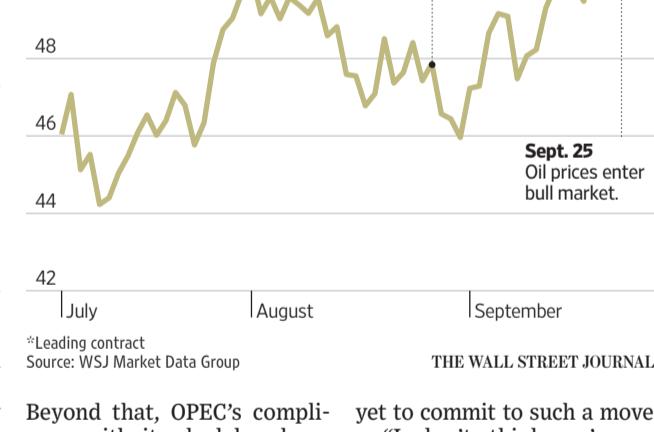
"There is probably limited upside," said Andy Lebow, senior partner at Commodity Research Group.

One reason is that producers are looking to take advantage of the recent rally to lock in higher prices, analysts said.

Oil's Comeback

Strong demand and signs of slowing U.S. production helped oil prices rebound in the third quarter.

Nymex crude-oil price*



*Leading contract
Source: WSJ Market Data Group

Beyond that, OPEC's compliance with its deal has been high in recent months, and the group has discussed extending its production cuts further into 2018. But the cartel has

yet to commit to such a move.

"I don't think we're on some fast track" to higher prices, said John Saucer, vice president of research and analysis at Mobius Risk Group.

Dollar Breaks Losing Streak With a Strong September

BY CHELSEY DULANEY

After a bruising year, the strong-dollar trade is staging a comeback heading into the final stretch of 2017.

The dollar edged up about 0.7% against a basket of major peers tracked by The Wall Street Journal in September, snapping a six-month losing streak that had been the currency's longest in a decade.

The currency's dramatic slide this year—driven by investor concerns about the U.S. economic and political outlook—confounded a broad consensus that the dollar would strengthen heading into 2017.

Now, signs that the Federal Reserve will maintain a steady pace of U.S. interest-rate increases, along with Republicans introducing plans for a tax overhaul, are leading investors to re-evaluate bets built up against the dollar in recent months.

"It was really hard to justify the speed with which the dollar had weakened this year," said Daniel Katzive, head of foreign-exchange strategy for

North America at BNP Paribas.

Even with September's recovery, the dollar remains down 7.1% for the year and on Friday notched its third consecutive quarter of declines. Yet the recent rebound gives some investors hope for a resurgence. BNP is forecasting that the dollar will gain more than 2% against both the Japanese yen and euro by year-end.

"We've seen a big shift in momentum," said Brad Bechtel, a managing director in foreign-exchange trading at Jef-feries Group.

One factor boosting the dollar: Federal Reserve officials have signaled they will continue to tighten monetary policy, easing worries among investors that weak inflation would prevent the central bank from raising rates.

At the close of its September meeting, the Fed penciled in one more rate raise for 2017 and three for next year. Markets now forecast a 78% chance of another U.S. rate increase this year, up from about 34% a month ago, according to CME Group data.

Expectations that rates will rise typically support the value of the dollar by making U.S. assets more attractive to yield-seeking investors.

"We're back in the mode where the U.S. is going to go outperform," Mr. Bechtel said. "We're tightening faster than other places."

At the same time, central bankers in Europe and Canada have grown more cautious on the prospect for tightening

policy at home as stronger currencies begin to weigh on their economies. While a strong currency is often a reflection of confidence in the economy, it also can damp inflation and growth prospects by making imports cheaper and exports more expensive.

Bank of Canada Gov. Stephen Poloz said in a Sept. 27 speech that "monetary policy will be particularly data-dependent in these circum-

stances and, as always, we could still be surprised in either direction."

European Central Bank President Mario Draghi also has struck a more cautious tone lately, saying in a recent speech that "volatility in the exchange rate represents a source of uncertainty." An unexpectedly weak showing for German Chancellor Angela Merkel's conservative alliance in September's election has added to pressure on the euro.

The euro lost 0.8% against the dollar in September, though it remains up about 12% for the year. The Canadian dollar has fallen 2.5% since hitting a two-year high in early September.

The U.S. political landscape also has recently turned more supportive for the dollar.

Republicans have released their plans for a sweeping tax overhaul, helping to revive hopes that the Trump administration will enact an agenda that could boost U.S. growth and accelerate U.S. interest-rate increases.

Some analysts say any re-



Speculators nonetheless hold big bets against the currency.

bound in the dollar will be short-lived. Hedge funds and other speculative investors are holding a net \$17.9 billion in bets against the dollar, the highest level in five years, according to data from the Commodity Futures Trading Commission.

"The big picture is that the dollar rally has still topped out," said Mr. Katzive, who expects the dollar to resume its slide next year. "Once we get closer to the end of the year, it will be time to think about the downsides for the dollar."

Chris Gaffney, president of EverBank World Markets, said the currency is facing a number of threats. A continuation in the trend of weak U.S. inflation could stymie the Fed's plans for raising rates, while tensions between the U.S. and North Korea could favor currencies such as the Japanese yen and Swiss franc over the dollar. Longer-term pressures, including an aging U.S. recovery that is being eclipsed by growth abroad, also make a sustained comeback in the dollar unlikely, Mr. Gaffney said.

QUARTERLY MARKETS REVIEW

S&P 500 Rises 4% in Quarter to a Record

By RIVA GOLD
AND CORRIE DRIEBUSCH

The S&P 500 finished September much like it spent the past three months—quietly grinding higher.

Solid earnings and economic data helped support major indexes this past summer, with trading largely remaining calm despite disruptive hurricanes and threats between the U.S. and North Korea.

The S&P 500 rose 4% to fresh records in the quarter, but the index's average daily move during the period was 0.3%, the lowest since 1968.

The S&P 500 rose 9.30 points, or 0.4%, Friday to 2519.36, a record, while the Nasdaq Composite added 42.51 points, or 0.7%, to a record 6495.96 as technology stocks extended this year's gains. The Dow Jones Industrial Average gained 23.89 points, or 0.1%, to 22405.09.

Friday's moves leave the Dow industrials up 4.9% since the end of June, its eighth consecutive quarterly advance.

"The path of least resistance seems to be higher for stocks," said Jack Ablin, chief investment officer at BMO Private Bank.

Some of the biggest gainers in the past three months were energy companies, boosted by the rising price of oil. U.S.-traded crude is up 12% since the end of June—to \$51.67 a barrel—lifted by unexpectedly strong demand and signs of slowing production. Energy companies in the S&P 500 finished the quarter up 6%.

All but one of the 11 sectors in the S&P 500 ended the quarter higher. Consumer-staples stocks finished in the red.

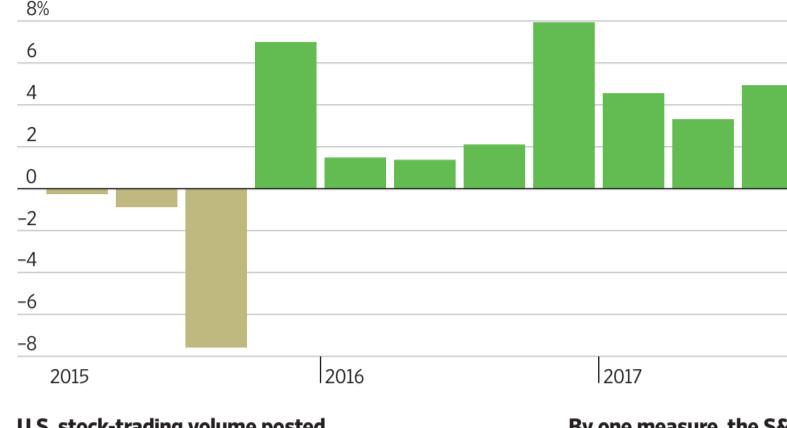
"The fundamentals are good, we're seeing economic expansion in virtually every country, and as long as we just continue steady, markets should climb," Mr. Ablin said. "Investors are relatively sanguine with fundamentals and appear to be brushing off the big doom and gloom."

October brings the next test

Eight Straight Quarterly Gains

U.S. stocks kept rising over the past three months, as solid earnings and economic data supported shares despite concerns about U.S. tensions with North Korea.

Dow Jones Industrial Average quarterly performance



U.S. stock-trading volume posted its slowest quarter in three years*.

10 billion shares traded, daily average



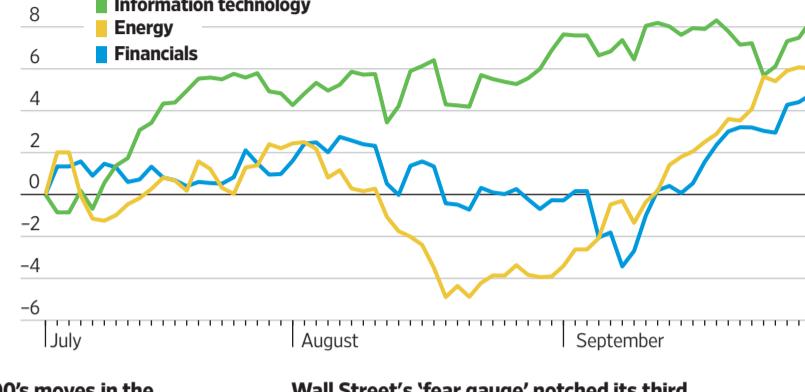
*Includes NYSE, Nasdaq, NYSE American and NYSE Arca volumes

†Trading range is calculated by subtracting the intraday low from the high and making that a percentage of the previous day's close. Available data go back to 1975.

Sources: FactSet (DJIA, sector performance, VIX); WSJ Market Data Group (volume); Thomson Reuters (moves)

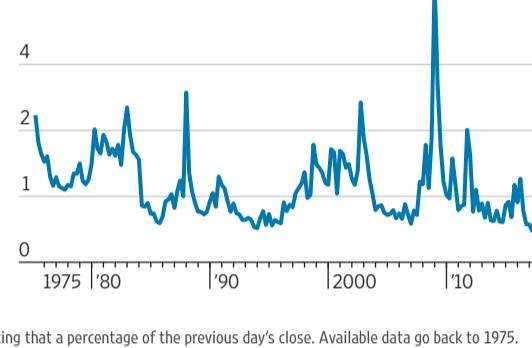
Technology stocks posted another strong quarter, while energy and financials picked up pace in September.

S&P 500 sector performance



By one measure, the S&P 500's moves in the third quarter were the smallest on record†.

6%



Wall Street's 'fear gauge' notched its third straight quarterly decline.

40%



THE WALL STREET JOURNAL.

of these fundamentals, when corporations report their most recent quarterly results. While they might show a modest slowdown in earnings growth, the fact that Republicans are moving forward with tax cuts could offer a boost to the economy and stock market, some investors said.

The Stoxx Europe 600 climbed 3.8% in September and ended the quarter 2.3% higher, as solid earnings growth and a buoyant global economy have drawn in investors.

Businesses and households

across the eurozone were more upbeat about their prospects than at any time in more than a decade during September, data from the European

specific region finished the quarter higher, with solid earnings and broadly positive risk sentiment continuing to outweigh the region's geopolitical con-

The Shanghai Composite Index gained 4.9% during the quarter, its best since 2015.

Commission showed Thursday, while the German unemployment rate fell to a record low, data on Friday showed.

Key indexes in the Asia-Pa-

cerns, in particular the escalation of tensions between North Korea and the U.S.

The Shanghai Composite Index gained 4.9% during the

quarter, its best since 2015, while Hong Kong's Hang Seng added 6.9% over the period.

Japan led the way regionally in September, with the Nikkei Stock Average notching its best month of 2017, up 3.6%.

Strength in Asian equity markets will likely continue through the fourth quarter as "there is still massive liquidity in the markets" and "most of the major global economies are still in a stimulus phase," said Gavin Parry, managing director of Parry International Trading in Hong Kong.

But some markets have paused more recently. Taiwan and Hong Kong logged their first monthly declines of 2017, with Taiwan shares hit by recent worry about tech demand, especially for Apple's iPhone.

Australia's S&P/ASX 200 recorded its worst run in six years by falling for a fifth straight month. After banks fell in August, a sharp retreat in iron-ore prices the past several weeks has pressured Australian mining stocks.

—Lucy Craymer contributed to this article.

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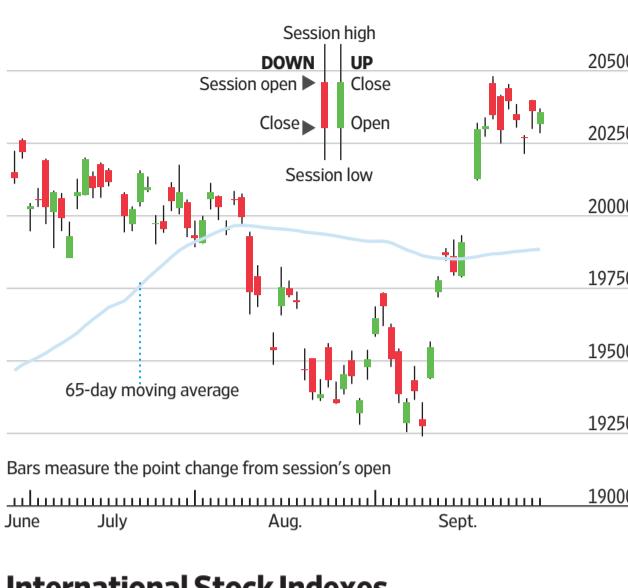
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MARKETS DIGEST

Data as of Friday, September 29, 2017

Nikkei 225 Index

20356.28 ▼6.83, or 0.03%
 High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

June July Aug. Sept.

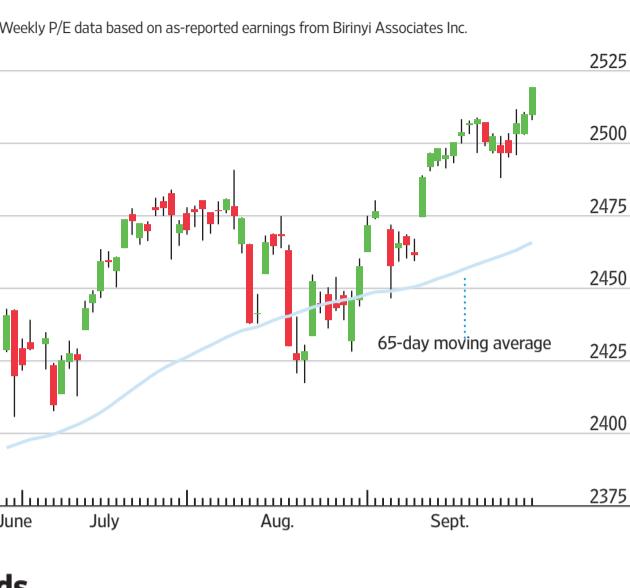
STOXX 600 Index

388.16 ▲1.80, or 0.47%
 High, low, open and close for each trading day of the past three months.



S&P 500 Index

2519.36 ▲9.30, or 0.37%
 High, low, open and close for each trading day of the past three months.



4 p.m. New York time

Last

Year ago

Trailing P/E ratio

24.22 24.45

P/E estimate *

19.19 18.52

Dividend yield

1.98 2.13

All-time high:

2519.36, 09/29/17

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

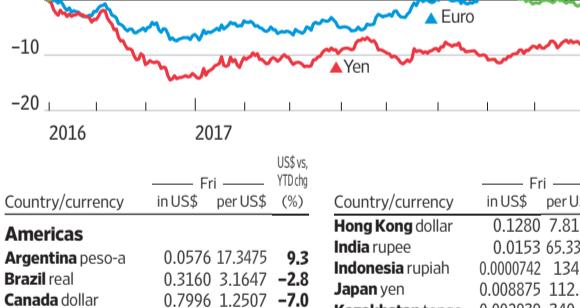
International Stock Indexes

Data as of 4 p.m. New York time

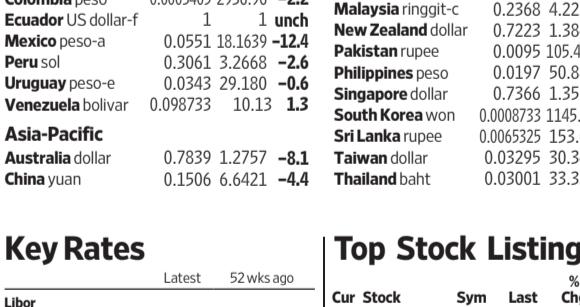
Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2907.67	11.83	0.41	2390.11	2914.34	14.9		
	MSCI EAFE	1973.81	10.37	0.53	1614.17	1981.49	17.2		
	MSCI EM USD	1081.72	9.34	0.87	838.96	1112.92	25.5		
Americas	DJ Americas	608.28	2.10	0.35	503.67	608.28	12.6		
Brazil	Sao Paulo Bovespa	74293.51	726.26	0.99	57110.99	76004.15	23.4		
Canada	S&P/TSX Comp	15634.94	16.69	0.11	14509.25	15922.37	2.3		
Mexico	IPC All-Share	50346.06	209.06	0.42	44364.17	51713.38	10.3		
Chile	Santiago IPSA	4055.19	24.65	0.61	3127.54	4055.19	25.8		
U.S.	DJIA	22405.09	23.89	0.11	17888.28	22412.59	13.4		
	Nasdaq Composite	6495.96	42.51	0.66	5046.37	6495.96	20.7		
	S&P 500	2519.36	9.30	0.37	2085.18	2519.36	12.5		
	CBOE Volatility	9.51	-0.04	-0.42	9.36	9.51	22.51	-32.3	
EMEA	Stoxx Europe 600	388.16	1.80	0.47	328.80	396.45	7.4		
	Stoxx Europe 50	3172.79	15.40	0.49	2730.05	3276.11	5.4		
France	CAC 40	5329.81	36.04	0.68	4377.46	5342.40	9.6		
Germany	DAX	12828.86	124.21	0.98	10259.13	12888.95	11.7		
Greece	ATG	755.61	0.85	0.11	565.53	858.08	17.4		
Israel	Tel Aviv	1421.04	...	Closed	1363.50	1478.96	-3.4		
Italy	FTSE MIB	22696.32	108.65	0.48	16216.95	22696.32	18.0		
Netherlands	AEX	537.06	3.67	0.69	440.51	537.06	11.2		
Russia	RTS Index	1136.75	11.19	0.99	960.32	1195.61	-1.4		
Spain	IBEX 35	10381.50	53.00	0.51	8607.10	11135.40	11.0		
Switzerland	Swiss Market	9157.46	45.30	0.50	7593.20	9176.99	11.4		
South Africa	Johannesburg All Share	55579.92	585.57	1.06	48935.90	56655.88	9.7		
Turkey	BIST 100	102907.73	256.63	0.25	72519.85	110423.11	31.7		
U.K.	FTSE 100	7372.76	49.94	0.68	6693.26	7547.63	3.2		
Asia-Pacific	S&P/ASX 200	5681.60	11.20	0.20	5156.60	5956.50	0.3		
Australia	Shanghai Composite	3348.94	9.30	0.28	3004.70	3385.39	7.9		
Hong Kong	Hang Seng	27554.30	132.70	0.48	21574.76	28159.77	25.2		
India	S&P BSE Sensex	31283.72	1.24	0.00	25765.14	32575.17	17.5		
Indonesia	Jakarta Composite	5900.85	59.81	1.02	5027.70	5915.36	11.4		
Japan	Nikkei Stock Avg	20356.28	-6.83	-0.03	16251.54	20397.58	6.5		
Malaysia	Kuala Lumpur Composite	1755.58	-2.48	-0.14	1616.64	1792.35	6.9		
New Zealand	S&P/NZX 50	7930.40	16.78	0.21	6664.21	7930.40	15.2		
Philippines	PSEI	8171.43	15.39	0.19	6563.67	8294.14	19.5		
Singapore	Straits Times	3219.91	-7.23	-0.22	2787.27	3354.71	11.8		
South Korea	Kospi	2394.47	21.33	0.90	1958.38	2451.53	18.2		
Taiwan	Weighted	10329.94	33.49	0.33	8931.03	10631.57	11.6		
Thailand	SET	1673.16	6.80	0.41	1406.18	1673.16	8.4		

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



US\$ vs. in US\$ per US\$ (%)



Country/currency in US\$ per US\$ (%)

London close on Sept. 29

US\$ vs. Fri YTD chg

Country/currency in US\$ per US\$ (%)

Fri YTD chg

Country/currency in US\$ per US\$ (%)

FINANCE & MARKETS

Axovant's Problems Ripple to Wall Street

Some hedge funds see value of investments sink after failure of Alzheimer's drug trial

BY JULIET CHUNG

A sudden collapse in **Axovant Sciences** Ltd.'s stock price after the company's Alzheimer's drug failed a pivotal clinical trial has stung some big-name Wall Street investors.

New York hedge-fund firms **QVT Financial LP** and **Viking Global Investors** both invested in private biotechnology company **Riovant Sciences** Ltd., Axovant's biggest shareholder. Riovant's Axovant stake of 75 million shares lost more than \$1.3 billion on paper in a day, plunging more than 70% from its value a day earlier. The loss had pared slightly as of Axovant's Friday closing price of \$6.88.

QVT and Viking still have made significant paper profits

on Riovant, said people familiar with the firms, with QVT still making more than 10 times its Riovant investment even after the plunge in Axovant's stock price. That's because of the valuation implied by a \$1.1 billion August financing round for Riovant led by **SoftBank Group Corp.**'s Vision Fund.

But Tuesday's disclosure of the failed trial of the drug known as intepirdine and the plunge in Axovant's share price mark a setback for the firms. They could also lead to a lower valuation price for Riovant than if the trial had succeeded.

Several Riovant investors described their stake as a bet on a diversified platform of drugs rather than a wager on just the success of intepirdine. Riovant has a portfolio of 16 drugs across both private and public biopharmaceutical companies. Riovant investors could also profit from a possible initial public offering of Riovant down the road, said people fa-

miliar with the matter.

QVT is a multistrategy hedge-fund firm founded by Daniel Gold in 2003. It is the biggest backer of Riovant, founded by former QVT employee Vivek Ramaswamy. While working at QVT as a biotech investor in 2014, Mr. Ramaswamy approached Mr. Gold with the idea of creating a biotech company to acquire and develop drugs that were being discarded by pharmaceutical companies. That company became Riovant.

Mr. Ramaswamy, who attended and graduated from Yale Law School while still working at QVT, founded Axovant as a subsidiary of Riovant. Axovant went public in 2015 and is now run by **Medivation Inc.** founder David Hung.

Axovant was formed around intepirdine, which Axovant bought from **GlaxoSmithKline PLC** for \$5 million in 2014.

Axovant said last week that it would now focus on other programs in development, in-



Vivek Ramaswamy founded Axovant, which went public in 2015.

cluding using intepirdine to treat another neurodegenerative condition known as dementia with Lewy bodies. Axovant expects those trial results by the end of the year.

SoftBank doesn't plan to mark down the value of its Riovant stake, according to people familiar with the firm,

because it had applied a discounted valuation in the first place. One person said the lower valuation was partly due to the high probability of intepirdine's failure given high failure rates in general for experimental Alzheimer's drugs.

Viking invested in Riovant

in December 2015, according to securities filings. Its investment is spread over several funds and constitutes a fraction of the roughly \$25 billion firm's portfolio. Its flagship hedge fund, which lost 4% last year, gained 10% this year through August, according to a person familiar with the fund.

Riovant comprises a more meaningful investment for QVT, whose assets under management have fallen to \$1.8 billion at the end of August from more than \$12 billion in early 2008, according to people familiar with the firm. Gains of billions of dollars on

Drug Fail

Axovant's shares lost more than 70% in a day, a setback for some large hedge funds.



Source: WSJ Market Data Group

THE WALL STREET JOURNAL

profitable bets against sub-prime mortgages that paid off in 2006 and 2007 helped fuel the rise to QVT's peak size in 2008.

Riovant's Mr. Ramaswamy, 32 years old, said he hoped Riovant would have successes with drugs in its pipeline in the future but expected additional failures, a sign the company was taking enough risk in R&D. "If I feel like I failed anyone this week it wasn't the investors in Axovant and Riovant. It's the patients who didn't get this medication," he said.

—Charley Grant contributed to this article.



AIG Chief Executive Brian Duperreault, shown in July

AIG

Continued from page B1
to traditional insurance regulators."

Freeing AIG of the "SIFI" label is steeped in significance. AIG received one of the government's biggest bailouts during the crisis as regulators feared its collapse would have far-reaching and unpredictable repercussions. It had extensive and complex financial dealings with big banks and other financial firms in the U.S. and Europe.

Its rescue package, which ultimately topped \$182 billion, upset many people, including homeowners who were struggling to keep up mortgage payments. The missteps that brought AIG to the brink played heavily into lawmakers' decision to create the new oversight council in the 2010 Dodd-Frank financial regulatory law and give it the authority to pull in firms such as AIG for tougher regulation.

In a 6-3 vote, AIG was deemed to no longer be a threat to the broader economy.

"AIG got a \$180 billion taxpayer bailout less than a decade ago and, without proper oversight, it will remain a huge and interconnected company that could bring down the financial system again," said Sen. Elizabeth Warren (D, Mass.).

AIG fully repaid its bailout by the end of 2012 by selling off businesses and other assets to roughly halve its size. Months later, the oversight council determined stress at AIG could threaten the economy and designated it as systemically important. It was the first time the council had used its main Dodd-Frank power.

The label subjected AIG to potentially onerous oversight, including supervision by the Federal Reserve. AIG and other insurers are primarily regulated by state insurance departments.

Entering 2008, AIG had \$1.048 trillion in assets on its books, though their true value was unknown at that point. Many government and insurance officials expected a liqui-

dation.

As of June 30, 2017, the company had \$499.76 billion of total assets. That makes it smaller than other insurers not labeled significantly important, including Warren Buffett's **Berkshire Hathaway Inc.**, which has \$666 billion in assets.

AIG remains one of the world's biggest sellers of property-casualty insurance to businesses worldwide and is also a major seller of life insurance and retirement-income products in the U.S., along with home and car insurance to wealthy households.

Removal of the label leaves **Prudential Financial Inc.** as the sole nonbank firm with the label, for now. Regulators rescinded it for General Electric Co.'s financing arm in June 2016.

Another insurer, MetLife Inc., successfully challenged its designation in federal court, though the matter was appealed and is now on hold while the Treasury Department reviews the designation process.

Some Wall Street analysts think Prudential will be freed of its label soon. In a statement Friday, Prudential said it "will consider our options while contesting our designation through the review process." Prudential has long maintained that we do not meet the standard for designation.

Analysts said AIG's share price in recent weeks has reflected a high probability that it would get out of the label. Still, action by regulators could give shares a lift "as it should help reduce regulatory costs and eliminate the potential annual 'black cloud' associated with" stress testing by the Fed, Thomas Gallagher of Evercore ISI said in an analyst note.

AIG's lead regulator will once again be New York's Department of Financial Services, widely considered one of the strictest and most well-staffed insurance departments in the country. Superintendent Maria T. Vullo said in a statement that the department "will continue to conduct in-depth and rigorous supervision of AIG's insurance companies to ensure their financial soundness and compliance with law. This state-based regulation will continue to keep our financial markets strong and robust while protecting consumers."

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MARKETS

Bitcoin Wins in Japan, Takes Hit in Korea

BY PAUL VIGNA
AND GREGOR STUART HUNTER

Two Asian nations took contrasting measures related to cryptocurrencies Friday, with Japan giving exchanges the green light to operate just as South Korea added its weight to a recent global regulatory crackdown.

Japan's Financial Services Agency handed out its first licenses for digital-currency exchanges, allowing them to operate legally in the country and further solidifying the upstart currency's status in the world's third-largest economy.

BitFlyer, the largest digital-currency exchange in Japan and one of the largest in the world, was among the 11 exchanges receiving a license, as was a smaller exchange called Quoine. Of the 11, nine were existing and two were new, while an additional 17 operators are under examination, the agency said.

"It has been a long and challenging process, but we are excited and truly grateful," said Quoine Chief Executive Mike Yamamori.

Japan has emerged this year as the largest market for bitcoin trading, at the same time that China has clamped down on its bitcoin industry. Roughly 50% of all bitcoin volume is via the bitcoin/yen trading pair. A year ago, yuan/bitcoin trading made up about 93% of all bitcoin trading.

The emergence of Japan as a major trading center led some Chinese bitcoin traders to shift their investing activities to Tokyo and, to a lesser extent, South Korea. Their emergence as important markets for cryptocurrencies helped bitcoin shrug off Beijing's regulatory crackdown and fueled a year-long rally. The price of bitcoin declined 25% after the Chinese clampdown but on Sunday was trading at \$4,288.

South Korea, meanwhile, said it would step up inspections of virtual-currency exchanges and join other leading economies in banning so-called initial coin offerings.

Initial coin offerings—the sale of bitcoin-like "tokens" to fund new businesses—have come under intense scrutiny this year from regulators worldwide who see cybersecurity and fraud risks in the red-hot market. Korea's Financial Services Commission cited a rise in criminal cases involving cryptocurrencies. In addition to ICOs, the regulator said it would ban coin margin transactions—buying virtual currencies with borrowed money.

The penalties for illegal acts will be "stern," it said.

"South Korea is following China, the U.S. and Singapore to tighten regulations on ICOs and shares the view of other countries about the risks associated with trading virtual currencies,"

the regulator said. "The FSC is concerned that ICOs would lead to fraudulent transactions and is concerned about the market becoming overheated."

The U.S. Securities and Exchange Commission said last week it had established a cyber unit to target internet-related misconduct, including violations of rules involving ICOs and distributed-ledger technology, also known as a blockchain, which underpins cryptocurrencies.

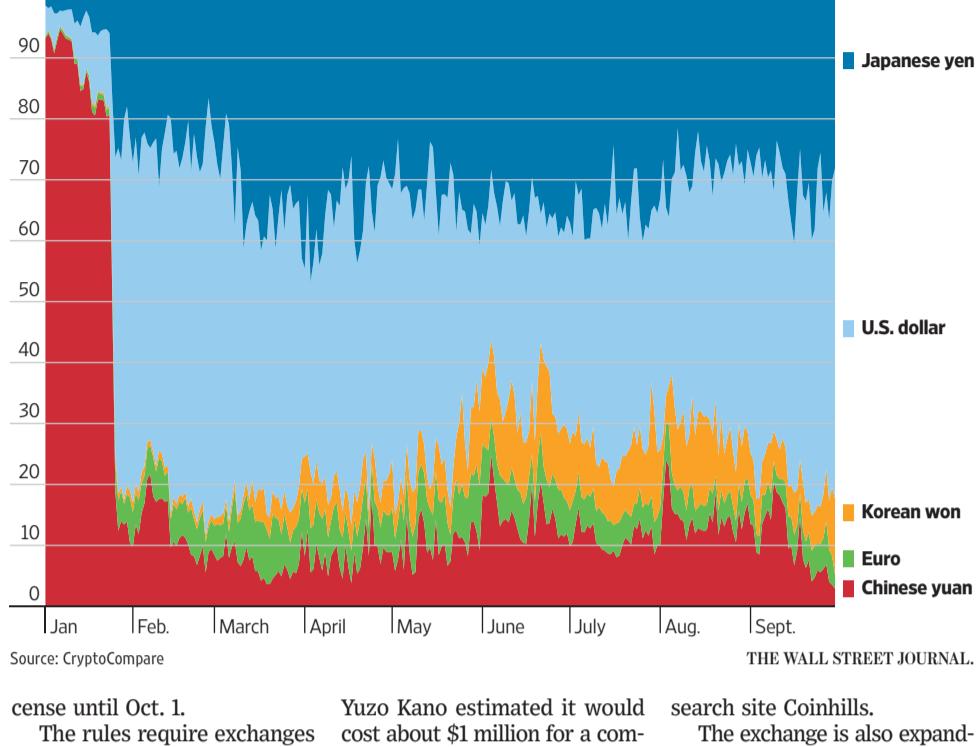
China banned fundraising through ICOs in September as part of a wider crackdown on bitcoin trading. Financial regulators in Hong Kong and Singapore have said in recent months that they would regulate ICOs like any other fundraising, citing fraud concerns as well as the risk of money laundering and terrorist financing.

The U.K.'s Financial Conduct Authority warned investors in September that ICOs are "very high-risk, speculative investments" and vulnerable to fraud. Japan has had a rocky history with bitcoin. The first major bitcoin exchange, Mt. Gox, was located in Tokyo. It collapsed and declared bankruptcy amid scandal in early 2014, and authorities are still dealing with the fallout. In 2016, the FSA began planning a set of laws for digital currencies.

The law went into effect on April 1, and exchanges were allowed to operate without a license until Oct. 1. The rules require exchanges to maintain minimum capital-reserve requirements, segregate customer accounts, and employ anti-money-laundering and know-your-customer practices. While there is a small application fee, the equivalent of about \$2,000, bitFlyer CEO

Bitcoin Gets Rushed in South Korea

The Korean won became the third-most popular national currency for bitcoin trading during the summer, as measured by market share.



Source: CryptoCompare

cense until Oct. 1.

The rules require exchanges to maintain minimum capital-reserve requirements, segregate customer accounts, and employ anti-money-laundering and know-your-customer practices.

While there is a small application fee, the equivalent of about \$2,000, bitFlyer CEO

Yuzo Kano estimated it would cost about \$1 million for a company to be fully compliant with the regulations.

BitFlyer is the largest bitcoin exchange in the world ranked by volume, with 29% of all bitcoin trading, and the third-largest cryptocurrency exchange globally, according to the re-

search site Coinhills.

The exchange is also expanding overseas. BitFlyer has received money-transmitter licenses from 38 U.S. states, Mr. Kano said. The firm expects to have its U.S. exchange operating by the end of the year.

—Kosaku Narioka contributed to this article.

HSBC Fined \$175 Million by Fed Over Forex Trading

BY MARGOT PATRICK
AND RYAN TRACY

The U.S. Federal Reserve fined **HSBC Holdings PLC** \$175 million for failing to adequately supervise its foreign-exchange trading business and said activities by two senior traders now being prosecuted are examples of the lack of oversight.

Mark Johnson, HSBC's for-

mer global head of foreign-exchange cash trading, is on trial in New York for allegedly trading ahead of a \$3.5 billion currency transaction for a client. Mr. Johnson denies the charges. His lawyer didn't return a call.

The Fed said the bank's deficient policies and procedures allowed Mr. Johnson and another senior trader, Stuart Scott, to misuse information

"in a manner that benefited them and their trading desk" to the detriment of the client. Mr. Scott has also been charged and is contesting extradition from the U.K. to stand trial. He denies the charges.

In 2011, HSBC client Cairn Energy PLC hired the bank to convert proceeds from the sale of an Indian subsidiary into sterling.

Prosecutors allege Messrs. Johnson and Scott bought pounds first for HSBC's own accounts, driving up the price. The bank made about \$8 million from the trades, prosecutors say.

The Fed said the British bank "failed to detect and address its traders misusing confidential customer information, as well as using electronic chat rooms to com-

municate with competitors about their trading positions."

An HSBC spokesman said the bank was pleased to have resolved the matter with the Fed and declined to comment on Mr. Johnson's trial. The bank isn't named as a party in the action against Messrs. Johnson and Scott in New York.

The fine comes after other regulators also levied penal-

ties and ordered remedial action at HSBC over activities in the same period from 2008 to 2013 that the Fed studied. But none had explicitly singled out the behavior of Messrs. Johnson and Scott.

Banks collectively have paid billions of dollars in penalties since a global regulatory probe into foreign-exchange market activities started in 2013.

HEARD ON THE STREET

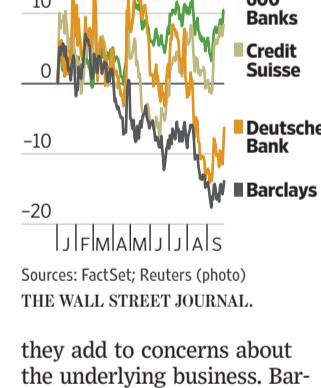
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Barclays Loses Investors' Love

Falling Behind



Sources: FactSet; Reuters (photo)

THE WALL STREET JOURNAL

they add to concerns about the underlying business. Barclays's three main businesses—U.K. retail banking, U.S. credit cards and investment banking—all face growing risks or poor growth.

U.K. retail banking, which can produce strong returns, is a worry because of recent rapid growth in consumer credit. The disruption of Brexit, the threat of higher interest rates and a vanishing of real household income growth

have been booming in the low-rate world. The market has got increasingly aggressive with cheaper pricing and looser terms. This clearly can't last. Interest-rate and currency trading, Barclays's other big strength, has been laid low by a lack of volatility and client activity.

Tim Throsby, head of the investment bank, says a modest increase in revenues would produce a tremendous increase in profitability. He also wants to recycle capital out of old, low-return lending relationships into more credit for clients willing to give a lot more business to the bank.

But that has been the mantra in investment banking for years already. It isn't hard to understand why investors may be skeptical.

Barclays slashed its dividend last year to help stabilize its balance sheet. With that done, the bank would do better to recycle capital into shareholders' pockets rather than chasing investment-banking market share. That would be a story investors could believe in.

—Paul J. Davies

OVERHEARD

So, you're saying there's a chance?

PTC Therapeutics got some bad news on Thursday. A Food and Drug Administration advisory committee voted, 10-1, that Translarna, the biotech company's experimental drug to treat Duchenne muscular dystrophy, needs more data to show its efficacy before the drug can be approved. That means the FDA is likely to reject the drugmaker's application by the Oct. 24 deadline.

That ordinarily would be a problem for investors, but its shares ripped 15% higher on Friday.

One possible explanation for the stock's surprise rally: The FDA panelists had the option to vote that the data showed Translarna is ineffective.

No panel member voted for that option. That might leave the door open for a positive result.

A second, more likely explanation: It's a bull market for stocks.

Why CEOs of Food Firms Are Exiting

A cereal killer is stalking the executive offices of packaged-food companies, with Kellogg boss John Bryant being the latest victim.

Other companies where chief executives have left since the spring of 2016 or are on their way out include **General Mills**, **Mondelez**, **Hormel**, **Hershey**, **Nestlé** and **Coca-Cola**.

As recently as 2015 many of these companies saw strong investor demand for their shares in a "boring is beautiful" trade—a bet helped along by speculation that there would be more industry consolidation like H.J. Heinz's purchase of Kraft Foods. But industry fundamentals have been horrific.

Of the 10 largest U.S.-listed food companies by revenue, not a single one has outperformed the S&P 500 in the past 12 months. An equal-weighted portfolio would have lagged behind by 31 percentage points before dividends.

One reason is moribund food prices. Last month's U.S. consumer-price index for food eaten at home was essentially unchanged from the spring of 2014.

Even as prices stagnate, consumer preferences have shifted toward fresher and healthier food.

Food companies have reshuffled or pruned brands to appeal more to consumers and done expensive acquisitions, such as General Mills' 2014 purchase of organic food company Annie's. To really move the needle, though, they will have to focus ruthlessly on costs. Kraft Heinz's aborted deal with **Unilever** early this year is a sign of things to come—a trend that turnover in their executive ranks may accelerate.

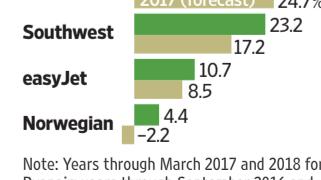
—Spencer Jakab

This Long-Haul Airline Disrupter Isn't Built for Turbulence

If you have booked a cheap trans-Atlantic flight with **Norwegian Air Shuttle ASA**, you can relax: It probably isn't about to go bust. Whether the Oslo-listed airline's high-risk business model can withstand more difficult market conditions is doubtful.

Michael O'Leary, the outspoken boss of European low-cost leader **Ryanair Holdings PLC**, told journalists in London last month that "Norwegian will go in four or five months." Norwegian flatly denied it had financial problems, and more recently identified a motive for Mr. O'Leary's accusations: Its mushrooming long-haul

Different Flight Paths



Note: Years through March 2017 and 2018 for Ryanair; years through September 2016 and 2017 for easyJet
Source: FactSet

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business has poached pilots from Ryanair. Crew shortages have forced the Irish carrier to cancel thousands of flights over the coming months. Norwegian's finances do

look stretched, but this isn't new. In 2012 the airline astounded the industry by ordering 372 planes. Since then it has resembled a land-grabbing property company, using its profits as cash deposits for highly leveraged plane purchases. Many of these equip its trans-Atlantic long-haul business.

The company's growth model has showed signs of strain this year. Like Ryanair, Norwegian has faced crew shortages in short-haul. Whereas Ryanair has canceled flights, risking the wrath of customers, Norwegian leased planes complete with crews. This was an expensive solution: Operating

cash flows for the year through June were roughly one-quarter lower than in the comparable period.

Even so, there is little evidence of a cash crunch at Norwegian: It had 5.8 billion krona (\$720 million) at the end of June, almost double the level from a year before. The company still seems to have access to debt, and could also raise cash by selling planes. The real question is whether the company's financial model can survive an economic downturn or higher oil price.

The airline operates a very different growth model to tried and tested low-cost carriers such as Southwest Air-

lines Co. in the U.S. and Ryanair. These combine a disruptive approach to operations with a conservative one to finances. Crucially, strong balance sheets and fat margins have given them the muscle to expand through downturns, when rivals are in retreat and customers hungry for bargains.

With its slim margins and leveraged balance sheet, taking advantage of a downturn will be much harder for Norwegian. Frequent fliers may hope its ambitious project to disrupt the North Atlantic oligopoly thrives. History suggests they shouldn't get their hopes up.

—Stephen Wilmot