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# THE WALL STREET JOURNAL.

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

TUESDAY, OCTOBER 17, 2017 ~ VOL. CCLXX NO. 91

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## What's News

Business & Finance

The Nordstrom family suspended efforts to take the chain private after struggling to raise enough financing for a buyout. A1

◆ P&G said it beat Peltz's Trian in a proxy fight by only about 0.2% of shares outstanding, setting the stage for a recount. B1

◆ Colony Capital is in talks to buy Weinstein Co.'s assets in the wake of sexual-assault allegations against Harvey Weinstein. B1

◆ Huawei is launching a new flagship smartphone as it seeks to challenge Apple's iPhone X in China. B1

◆ Silicon Valley leaders plan to seek approval for a new stock exchange focused on long-term investing. B1

◆ Financial shares lifted U.S. stock indexes to new records. The Dow rose 85.24 points to 22956.96. B1

◆ Netflix posted strong subscriber growth and said it plans to spend up to \$8 billion on content in 2018. B2

◆ Airbus plans to partner with Bombardier, intensifying competition with Boeing. B6

◆ Edward Jones said client assets topped \$1 trillion as it recruits experienced brokers from rivals. B10

◆ Facebook acquired TBH, an anonymous polling app popular among teens. B6

### World-Wide

◆ The U.S. sought to remain neutral as Iraqi troops took control of Kirkuk from Kurdish fighters. A1

◆ The clashes raised fears of a wider conflict between two U.S. allies in the fight against Islamic State. A8

◆ Trump and McConnell offered a united front to push their tax plan after months of tension as the Senate nears a critical vote. A1, A6

◆ Spain's premier gave Catalonia's leader until Thursday to cease his independence bid or face the loss of some regional powers. A7

◆ The Supreme Court agreed to decide if email providers have to comply with search warrants for customer data stored abroad. A2

◆ California officials urged caution as firefighters battled blazes for an eighth day and the death toll hit 41. A3

◆ Philippine forces killed one of the U.S.'s most-wanted terrorists in their fight to take a city from militants. A9

◆ NATO kicked off its annual nuclear exercise with drills in Germany and Belgium. A7

◆ Bergdahl pleaded guilty to misbehavior and desertion for leaving his post. A2

◆ Astronomers detected for the first time the collision of two neutron stars. A3

**CONTENTS** Markets B11-12  
Business & News B10 Opinion A15-17  
Sports B36 Sports A14  
Commodities B8 Technology B4  
Crossword A12 U.S. News A2-4,6  
Head on Street B12 Weather A14  
Life & Arts A11-13 World News A7-9

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President Donald Trump and Senate Majority Leader Mitch McConnell held a news conference at the White House after their lunch Monday.

## Trump Stresses GOP Unity

'We're fighting for the same thing,' president says of McConnell, after months of tension

By ELI STOKOLS

WASHINGTON—President Donald Trump and Senate Majority Leader Mitch McConnell, whose relationship has been tense for months, offered

a united front Monday to promote their plans to rewrite the tax code as the Senate nears a critical vote.

The White House had asked for the meeting over a week ago, according to a person familiar with the decision, and orchestrated a joint news conference that followed in the Rose Garden where the two men took turns praising each other.

The congenial appearance stood in contrast to the presi-

dent's statements at a cabinet meeting earlier on Monday, where he decried how Congress had failed to pass key parts of his agenda and made a nod to threats from his former chief strategist, Steve Bannon, to declare war on the Republican establishment.

After the lunch meeting, Mr. Trump eased away from promoting primary challenges to Republican senators, as Mr. Bannon is threatening, and

made clear he would sign a bipartisan health care bill that would diminish the political fallout that could come from his decision to cut off Affordable Care Act insurance subsidies—two moves that could help Mr. McConnell.

"My relationship with this man is outstanding," Mr.

Please see TRUMP page A4

◆ Trump, Yellen to meet about top Fed job..... A2

## U.S. Seeks To Stay Neutral In Iraq Conflict

WASHINGTON—The U.S. sought to stay on the sidelines as an all-out battle broke out between two of its closest ground partners in the campaign against Islamic State and raised concerns about a broader civil conflict erupting in Iraq.

By Ben Kesling,  
Nancy A. Youssef  
and Paul Sonne

Iraqi Prime Minister Haider al-Abadi ordered federal troops to push into Kirkuk province early Monday and occupy strategic locations that Kurdish Peshmerga forces had taken in a disputed area during the three-year battle against the Sunni militant group.

The clashes follow a referendum in which the Kurds, who run their own semiautonomous region in northern Iraq, voted overwhelmingly in favor of independence, defying Baghdad, regional powers and the U.S., which warned it would distract from the final battles to defeat Islamic State.

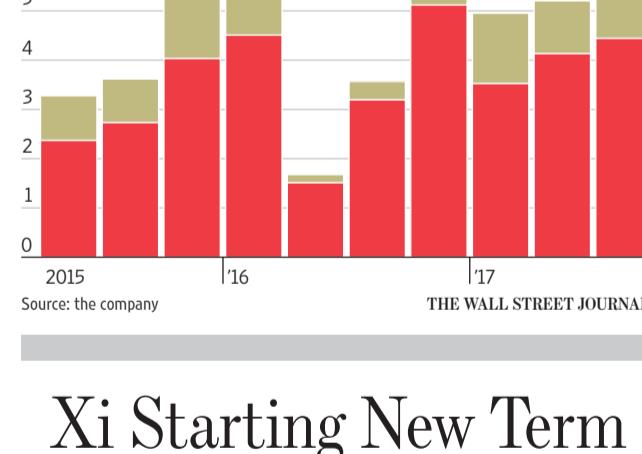
Elite government forces Please see KIRKUK page A8

◆ Yaroslav Trofimov: A U.S. ally rolls the dice, and loses..... A8

## Netflix Subscribers Still Stream In

Netflix exceeded its subscriber-growth estimates at home and abroad, the company disclosed Monday. It said it expects to spend even more on original programming next year to lure viewers. B2

Net additions to streaming subscribers at Netflix



## Xi Starting New Term Less Keen on Markets

In China, giant state firms are back in style

By LINGLING WEI

BELIJING—As a new president, Xi Jinping promised to give markets more room in China's economy. He even considered scrapping a hulking ministry supervising state-owned companies.

Today, Mr. Xi has set aside such notions. In today's China, state intervention attempts to engineer economic outcomes, ranging from raw-materials prices to the value of stocks and the currency. State-owned corporate giants are bulking up, with private capital funneled into them for support. The agency Mr. Xi toyed with dismantling is back in the driver's seat.

Going into his second term, Mr. Xi finds relying on markets too risky and state capitalism a better model. When

China's leadership talks of reform today it doesn't mean economic liberalization as it did in, say, the era of Deng Xiaoping. It means fine-tuning a government-led model.

The Communist Party congress that starts Wednesday will hand the reins to Mr. Xi for another five years. Having purged many rivals, Mr. Xi is expected to gain an even freer hand to pursue state control across society, from schools to the economy. Based on interviews with officials, government advisers, economists and business executives, it is clear market principles Beijing once saw as tools to invigorate state behemoths and the capital mar-

Please see CHINA page A10

◆ China's government bond yields keep rising..... B11

## Nordstrom Delays Buyout As Investors Balk at Retail

By SUZANNE KAPNER  
AND SAM GOLDFARB

The Nordstrom family has suspended efforts to take Nordstrom Inc. private after struggling to raise enough financing for the leveraged buyout, in the latest sign of how much investors have soured on the retail industry.

The founding family, including the co-presidents, Blake, Erik and Peter Nordstrom, notified the special committee of the board that it would resume its efforts to explore a go-private deal after the holiday shopping season.

The department-store operator disclosed in June that the family, which owns nearly one-third of the shares and runs the business, was exploring the possibility of going private. The family subsequently teamed with the private-equity firm Leonard Green & Partners in what could have been a \$10 billion deal. But the transaction faltered in recent weeks as the partners had trouble raising enough debt at reasonable rates, people familiar with the situation said.

Nordstrom declined to make its executives available for comment.

The deal's unraveling shows that even a chain like Nordstrom—which gets more than a quarter of its sales online and has a growing off-price Nordstrom Rack business—is struggling to attract investors, while lending to highly indebted companies outside the retail sector remains robust. The retail industry is suffering from a record number of bankruptcies and chains are on track to close more stores in 2017 than during the recession amid weak sales and profits.

Nordstrom, with its smaller footprint and stores mainly lo Please see STORES page A6

\* \* \*

Elite cafes jack up prices with rare beans, exotic formulas; 'Esmeralda Geisha 601'

By CHARLES PASSY

NEW YORK—In this hyper-caffeinated city, you don't have to venture far to find an affordable cup of coffee, be it from a corner bodega or pushcart vendor.

Then there is Eleven Madison Park, the Michelin-starred dining spot that just began offering a \$24 cup of joe.

Maya Albert, the restaurant's coffee director, spends about 10 minutes preparing the beverage tableside. She uses her Silverton "dripper," a brewing apparatus that resembles something out of a chemistry lab. She carefully times each of the three stages of the process, including the all-important

"bloom" period when the ground beans first make contact with the hot water.

The coffee is a rare variety called Wush Wush, sourced from a small farm in Colombia. Eleven Madison Park charges \$48 for 10 ounces of the coffee, but two people can share the offering and perhaps eke out a tiny refill or two.

"It's got this creamy texture that reminds me of dough or yogurt," Ms. Albert said of the coffee.

As for the flavor: "It's blueberry pie."

Competition in the world of wallet-busting coffee is heating up. Many Americans have long moved past the ho-hum cup—first embracing the higher-end brews offered by Starbucks and

Please see COFFEE page A10

### INSIDE



#### GOLD FORGED BY CELESTIAL COLLISION

U.S. NEWS, A3



#### BATMAN'S SOFTER SIDE

LIFE & ARTS, A11



## U.S. NEWS

# Top Court to Hear Microsoft Warrant Case

BY BRENT KENDALL

WASHINGTON—The U.S. Supreme Court agreed to decide whether email providers have to comply with search warrants seeking customer messages if the material is stored outside the U.S., the latest clash between technology companies and the government over access to private data.

The case, which centers on a battle between the federal government and Microsoft Corp., is part of a broader tussle between tech firms and law enforcement over consumers' digital information. It also comes as the high court is becoming more active in considering privacy rights and public safety in the digital age.

The new case Monday adds to a blockbuster docket in which the justices already

were preparing to hear a separate case on whether authorities need search warrants for data showing the location of cellphone users.

In the email case, the government in 2013 applied for a search warrant requiring Redmond, Wash.-based Microsoft to turn over email information for a customer who allegedly was using the account to conduct criminal drug activity. A magistrate judge issued the warrant.

Microsoft handed over some account-identification information that was stored in its facilities in the U.S., but it declined to turn over actual email messages, which it said were stored at a data center in Ireland. The company argued that U.S. search warrants don't reach data stored outside domestic borders.

The case made its way to

the Second U.S. Circuit Court of Appeals in New York, where a three-judge panel dealt a blow to the Justice Department by ruling for Microsoft last year. The court held that U.S. law doesn't authorize courts to enforce search war-

*U.S. says refusal to turn over customers' emails on foreign servers hurts probes.*

rants against U.S.-based companies for emails that reside on foreign computer servers.

The Supreme Court will review that ruling. The case likely will be argued in early 2018, with a decision expected by the end of June.

The U.S. appealed the case to the high court, saying the lower court decision has produced ripple effects, with Google and other technology companies putting up resistance similar to Microsoft's.

"Under this opinion, hundreds if not thousands of investigations of crimes—ranging from terrorism, to child pornography, to fraud—are being or will be hampered by the government's inability to obtain electronic evidence," the department said in a brief.

A group of 33 states filed a separate brief supporting the Justice Department, saying the lower court decision also was interfering with local and state investigations.

Microsoft said that if changes need to be made to the law, those should come from Congress, which could balance the needs of law en-

forcement with the needs of technology companies.

If the U.S. can seek this overseas data, it can place companies in a difficult spot when trying to comply with foreign privacy laws, Microsoft said in court papers. It said that, given customers' concerns about their privacy rights, granting law-enforcement authorities the broad power to obtain data stored overseas "would hamstring U.S. companies' ability to compete in the multibillion-dollar cloud-computing industry."

On another front, a top Justice Department official last week signaled the government plans a more aggressive posture in seeking access to encrypted information from tech companies. Deputy Attorney General Rod Rosenstein said negotiations with tech firms haven't worked.

## U.S. WATCH

GEORGIA

### Harvard Professor To Lead Morehouse

Morehouse College, one of the nation's premier historically black schools of higher education, named a Harvard Business School professor as its next president.

David A. Thomas, an academic for 31 years and a former dean at Georgetown University, takes the helm at a time when many of the more than 100 historically black schools are facing stiff headwinds.

Many are grappling with significant debt and declining enrollment as they compete for the best and brightest black students. Morehouse, in Atlanta, is all male and enrolls about 2,200 undergraduates, roughly 500 fewer than a decade ago. Morehouse and some others now recruit white, Asian and Latino students.

"Growing enrollment is high on my list of priorities," Dr. Thomas said, adding that the school would take a closer look at how its representatives speak not only to prospective students but to their parents. "We want to take a very strategic look at where we recruit and what our messaging is."

Dr. Thomas is the first Morehouse president in 50 years who didn't graduate from the college.

The school's interim president, William J. Taggart, died in June. Dr. Taggart had been appointed in April after the college's governing board voted to remove President John S. Wilson Jr. three months before his contract was to expire.

—Douglas Belkin

TEXAS

### Driver Pleads Guilty In Smuggling Deaths

A 61-year-old truck driver accused in the deaths of 10 immigrants being smuggled in the back of a tractor-trailer pleaded guilty in federal court in Texas on Monday.

James M. Bradley Jr. pleaded guilty to conspiracy to transport immigrants resulting in death, and transporting immigrants resulting in death.

Federal prosecutors in San Antonio accused Mr. Bradley of being the driver of a truck parked in a Walmart parking lot in July with dozens of migrants inside.

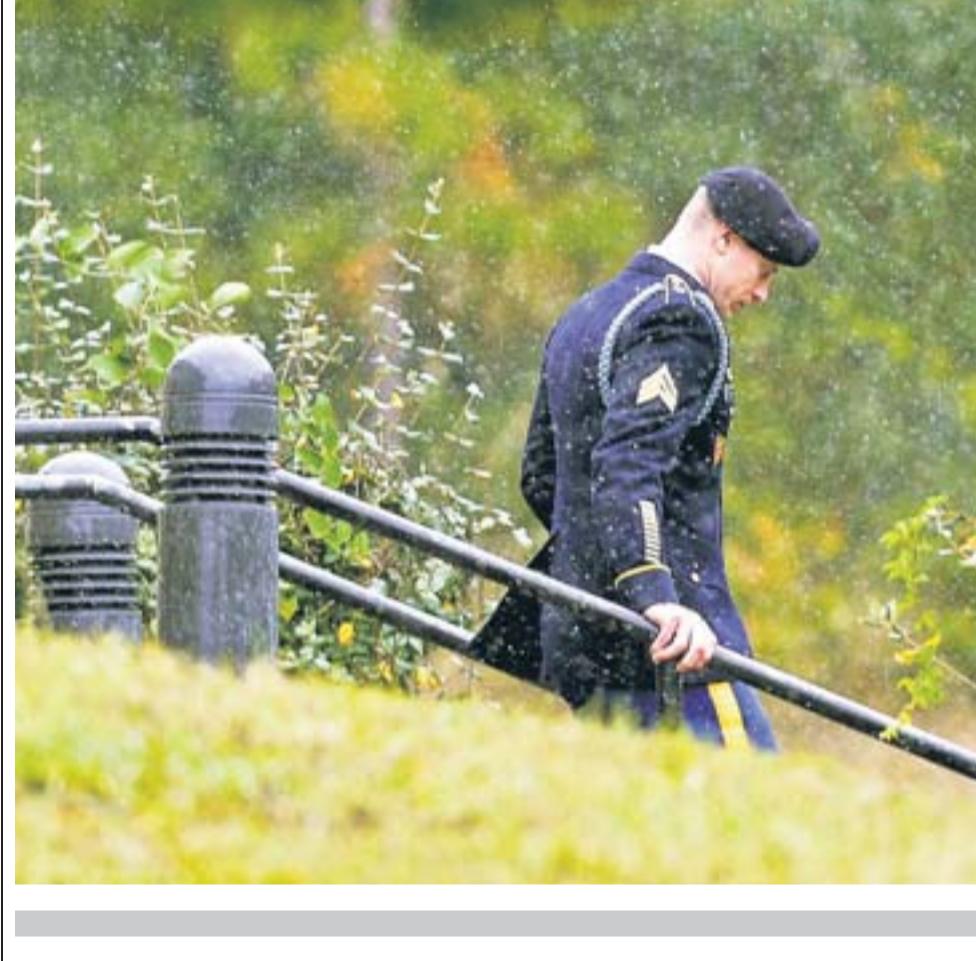
An attorney for Mr. Bradley couldn't immediately be reached.

Another man, Pedro Silva-Segura, also faces charges in connection with the case and is in jail. Court records don't list an attorney for Mr. Silva-Segura.

Smuggling attempts on trucks have been on the rise in South Texas in recent months.

The U.S. Border Patrol in the Rio Grande Valley said that during the 2017 budget year, which ended in September, more than 600 would-be immigrants were found being smuggled in big rigs.

—Alicia A. Caldwell



### Bergdahl Pleads To Misbehavior And Desertion

U.S. Army Sgt. Bowe Bergdahl, who walked off his observation post in Afghanistan and was captured by the Taliban, pleaded guilty Monday to charges of misbehavior before the enemy and desertion, an Army spokesman said.

Sgt. Bergdahl, 31 years old, left his post in Afghanistan in 2009 and was quickly scooped up by the Taliban. He remained in captivity until 2014, when he was freed in a prisoner swap.

Eugene Fidell, a lawyer for Sgt. Bergdahl, declined to comment.

Sgt. Bergdahl, pictured left on Monday in Fort Bragg, N.C., could face a maximum punishment of life in prison for misbehavior before the enemy, a military crime that prohibits endangering the safety of a command, unit or place. The desertion charge is punishable by as many as five years in prison.

Sgt. Bergdahl's time in captivity could also factor in the length of his sentence.

—Joe Palazzolo

## Trump, Yellen to Meet About Top Fed Job

BY PETER NICHOLAS  
AND KATE DAVIDSON

WASHINGTON—President Donald Trump plans to meet Thursday with Federal Reserve Chairwoman Janet Yellen to discuss the possibility of nominating her for a second term as central-bank chief, according to a person familiar with the matter.

Ms. Yellen's four-year term as chairwoman expires in early February.

She is one of several people under consideration for the Fed job, along with former Fed governor Kevin Warsh, current governor Jerome Powell, Stanford University economist John Taylor and National Economic Council Director Gary Cohn.

Mr. Trump met with Mr. Taylor on Wednesday, and interviewed Messrs. Warsh and Powell late last month.

Politico reported earlier that Mr. Trump would meet

with Ms. Yellen this week to discuss the matter.

Mr. Trump criticized Ms. Yellen during the campaign, but in a July interview with The Wall Street Journal said she was still in the running for another term.

"I think she's done a good job," Mr. Trump said. "I'd like to see rates stay low. She's historically been a low-interest-rate person."

Ms. Yellen has led the Fed's campaign to unwind the easy-

money policies that it pursued after the financial crisis, including three rounds of bond-buying and an extended period of near-zero interest rates aimed at stimulating the economy.

She has defended the Fed against criticism on Capitol Hill, largely from Republicans, that the central bank was too slow to raise rates after the financial crisis and should be subject to greater congressional oversight.

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## U.S. NEWS

# Neutron Stars Forge Gold

Teams detect celestial collision for the first time, say it is a source of heavy elements

BY ROBERT LEE HOTZ

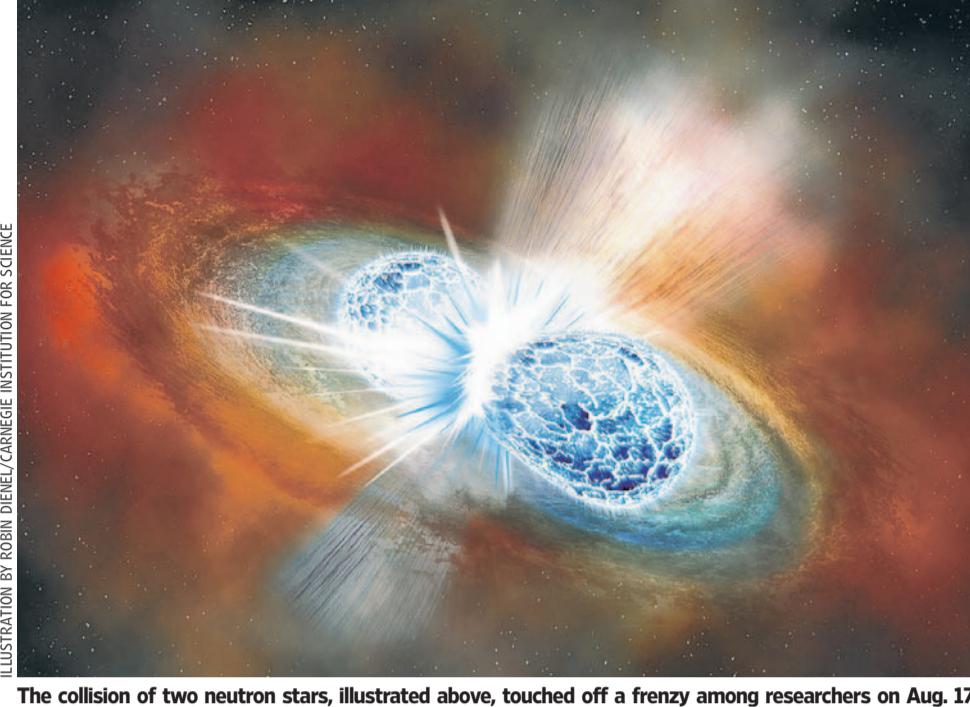
Astronomers scanning ripples in space-time have detected the collision of two neutron stars for the first time—and, by analyzing the flare from the cataclysmic crush, discovered such stellar smashups are the source of gold, platinum, uranium and other heavy elements found throughout the universe.

The discovery was announced Monday at a news conference in Washington. The findings were the work of thousands of researchers at three sprawling gravitational wave detectors in the U.S. and Italy, which first picked up signals from the merging stars, and of astronomers at more than 70 observatories around the world who scrambled to study its exotic effects before the fierce afterglow faded.

"Gold is forged in the nuclear furnace of neutron star collisions," said astrophysicist Duncan Brown, who studies gravitational waves at Syracuse University and who was involved in the effort.

The teams said it marks the first time any cosmic event has been seen both with gravitational waves, which are produced when massive objects such as black holes stretch and squeeze the fabric of space and time, and with the full electromagnetic spectrum—from gamma rays, X-rays and radio waves to infrared, ultraviolet and visible light.

"This is a new kind of as-



The collision of two neutron stars, illustrated above, touched off a frenzy among researchers on Aug. 17.

tromony," said physicist David Reitze at the California Institute of Technology, who is executive director of the \$1.1 billion U.S.-based Laser Interferometer Gravitational-wave Observatory, or LIGO, which caught the first signal from the merging stars.

Created in the collapse of a supernova, neutron stars are the smallest, densest stars in the known cosmos—so tiny that the two in the new studies were each about the size of Manhattan, so heavy that each contained more than the mass of the sun, and so compacted that a spoonful of their exotic essence likely would weigh more than a billion tons, the researchers said.

"When these two neutron stars collide, all hell breaks loose," Dr. Reitze said.

Among astrophysicists, astrol engineers and astronomers, it touched off a frenzy of discovery. The detector alarm first rang at the LIGO installation in Hanford, Wash., at 8:41 a.m. EDT Aug. 17. Almost immediately, the researchers confirmed the signal at LIGO's second installation 1,800 miles away at Livingston, La.

Less than two seconds after the first gravitational waves from the merging neutron stars reached Earth, NASA's orbiting Fermi Gamma Ray Observatory picked up a burst of high-energy light like a flash bulb in the southern sky.

Convinced that they were witnessing the same neutron star collision, the LIGO astrophysicists and Fermi astronomers still weren't sure where exactly the merging stars were

located. Scientists at the newly opened Virgo gravitational wave detector in Pisa, Italy, operated by the European Gravitational Wave Observatory, helped narrow the search for the source to a region of the Southern Hemisphere sky.

Within hours, seven astronomers at the Swope Telescope in Chile—a vintage optical telescope at the Carnegie Observatories' Las Campanas Observatory—picked out a bright new blue orb in a distant galaxy cataloged as NGC 4993.

As astronomers watched this radioactive plume of neutrons decay into other substances, they saw evidence of the creation of "r-process" elements, which account for about half of all the heavy elements in the universe.

## California Fires' Death Toll Rises to 41

BY SARA RANDAZZO  
AND ALEJANDRO LAZO

SANTA ROSA, Calif.—Officials on Monday urged thousands of firefighters on the front lines in Northern California to use caution, as fatigue hit workers on the eighth straight day of battling blazes.

The warning came amid news that a private contractor driving a water tanker to the fire zone died in a vehicle roll-over in Napa County, bringing the death toll related to the blazes to 41.

"We're nearing 4,300 firefighters in this camp, which is outrageous," Bret Gouvea, a Cal Fire incident commander, told a crowd of firefighters during a dawn briefing in Santa Rosa. "Lots of bad things can happen when we get to those numbers."

Statewide, 11,000 firefighters continue to fight 14 large

wildfires. The fires, which are slowly coming under control, have knocked out 5,700 structures and scorched 213,000 acres, according to Cal Fire.

Fire officials speaking in Sonoma County on Monday afternoon said they continued to make progress on all of the

**Water-tanker driver dies in a crash, but blazes are slowly coming under control.**

fires in their jurisdiction.

"We are still optimistic, cautiously optimistic...our containment percentages are continuing to go up," Mr. Gouvea said.

Residents are beginning to repopulate areas no longer under threat, but more than

40,000 people remain evacuated. Officials said that many evacuation orders are under consideration to be lifted.

Fire officials are allowing some evacuated residents back in their neighborhoods to see their homes, and retrieve belongings out of those houses that are still standing.

Sonoma County Sheriff Rob Giordano said that it could be weeks for some people whose homes burned down to get back into the areas. Teams of targeted search and rescue operations are continuing while the National Guard is doing broader sweeps, he said.

Mr. Giordano said 88 people remain missing in the county. He said he hopes some of the people missing are simply out of communication with their loved ones, but acknowledged that some might have perished in the fire.

Hot temperatures on Mon-

day and low humidity continued to challenge the fire fight, but winds have subsided.

The deadly Redwood Valley fire in Mendocino County is now 50% contained. Large fires in Sonoma and Napa counties are between 40% and 70% contained.

But a newer fire in Sonoma's Oakmont area has spread over 875 acres and remains a challenge, Santa Rosa Fire Chief Tony Gossner told the firefighters at a briefing.

He said they needed to focus on keeping the Oakmont fire away from an area with 2,000 homes, where they continue to clear out residents.

"Make this a hard hit," he said, while reminding crews—which have come from throughout California and out of state to assist the fire fight—to watch out for each other. "Be safe, be appropriate, and we'll get this thing."

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## U.S. NEWS

# Belated Squeeze on North Korea Has Begun



## CAPITAL JOURNAL

By Gerald F. Seib

In the center of the African nation of Namibia stands the expansive Independence Memorial Museum, the focal point of which is a giant statue of a heroic-looking Sam Nujoma, revolutionary leader and first president of an independent Namibia.

Unlike as it may seem, that scene is highly relevant to the world's most explosive issue: the debate over North Korea's dangerous nuclear and missile programs.

In fact, the Namibia tale tells you two important things. First, a lot of disparate countries have to answer for providing North Korea economic and military help. Second, there remains plenty of room to exert eco-

nomic pressure to truly cut off North Korea from the outside world and the international economy.

Both lessons are crucial now, when President Donald Trump sometimes sounds to be veering toward a military option to deal with North Korea. It's easy to conclude economic pressure and diplomatic isolation aren't working in taming the nation's quest. In fact, despite the perception North Korea has long been economically isolated, the international community has failed to bring the full force of economic sanctions to bear on it.

**T**hanks in significant measure to the Trump administration, the process of turning that around may only have just begun, with a new set of United Nations Security Council and American economic sanctions that seem to be squeezing North Korea. More important, there now appears to be a much more vigorous effort to actually enforce sanctions, which needs time to work.

A long and dense U.N. report this year examined how North Korea has evaded



The North Korea-built statue honoring Sam Nujoma, left, in front of the Independence Memorial Museum in Windhoek, Namibia.

SIGRID KOLBE/GETTY IMAGES

sanctions—and how a range of countries have helped it. North Korea, the report found, "is flouting sanctions through trade in prohibited goods, with evasion techniques that are increasing in scale, scope and sophistication." Other countries' efforts to enforce those sanctions were "insufficient and highly inconsistent."

Here is where that majestic Namibian museum and accompanying statue come in. The report found that a North Korean firm called Mansudae Overseas Project

Group of Cos. had found a lucrative business exporting one of the few world-class products the country produces: monuments and grandiloquent statues of the kind produced to glorify North Korean leader Kim Jong Un and his father and grandfather. It contracted to build the museum and statue in Namibia, one of at least 15 African countries that have purchased such monuments.

Worse, the U.N. report claims, Mansudae functions as a front company masking prohibited North Korean mil-

itary exports, an even more important source of hard currency for Pyongyang. The company provided North Korean workers to construct a munitions factory and military bases in Namibia, the report says, and withdrew dollars from a Namibian bank account to send home with those workers.

Mansudae, the report concludes, evaded U.N. sanctions "by providing services and assistance related to the manufacture and maintenance of arms and related materiel." To stop this process, the Security Council last year banned procurement of statues from North Korea, and Namibia pledged to the U.N. that it would end Mansudae's activity.

The report cites a long list of similar examples showing how North Korea has masked its international economic activity. Moreover, it also shows how this sanctions evasion sometimes directly helps it acquire material for its military programs.

For example, it says that debris found after a multi-stage North Korean missile launch included ball bearings, camera equipment and pressure transmitters from

foreign providers. The camera equipment appears to have come from a Chinese manufacturer. The pressure transmitters appeared to have been made by a U.K. company but arrived in North Korea after passing through several international intermediaries. In an earlier case, U.N. investigators found the same components were sold by a Chinese firm.

**S**imilarly, the report says trucks seen at a North Korean parade carrying missiles "strongly resemble a series of Russian-manufactured trucks." A Russian company, the report says, has been operating a truck assembly line in North Korea.

International efforts to crack down on North Korea have been something of a sieve. China, Russia, Pakistan and others have helped it develop nuclear and missile programs. Other nations have looked the other way as it sucked in hard currency.

Mr. Trump deserves credit for creating the pressure that is starting to cut off such activities. The question is whether he will give that pressure a chance to make a difference.

## Voters in Maine to Decide On a Key Plank of the ACA

BY JENNIFER LEVITZ  
AND MICHELLE HACKMAN

As the Trump administration takes steps to weaken provisions of the Affordable Care Act, voters in Maine are being asked whether the state should embrace a central plank of the 2010 law.

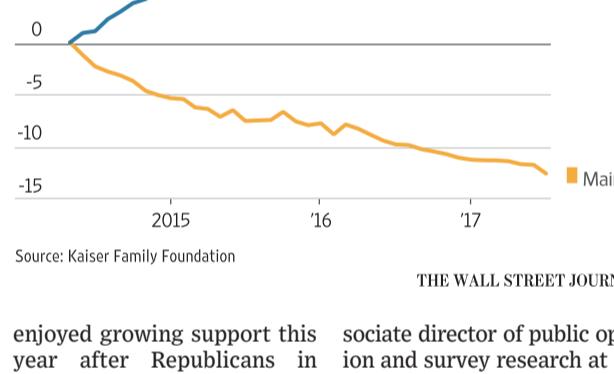
The November statewide ballot measure proposes the state accept enhanced federal funding available under the health law to extend Medicaid health benefits to low-income adults, over the strong opposition of the state's Republican governor, Paul LePage. Mr. LePage argues the expansion would deplete state coffers.

Advocates elsewhere are seeking to put the question to voters. Supporters of expanding Medicaid in Utah filed a petition last week to place the issue on the 2018 ballot. Several other states including Idaho, Tennessee and West Virginia put plans to expand their Medicaid programs on hold as Congress debated a repeal of the law, according to a Kaiser Family Foundation survey soon to be published.

Medicaid expansion, which has extended health coverage to 14 million people who were uninsured before the ACA, has

### Divergent Paths

Maine's enrollment in Medicaid and the Children's Health Insurance Program has fallen in the past couple of years even as it has risen nationally. Change in monthly Medicaid and CHIP enrollment:



Source: Kaiser Family Foundation

enjoyed growing support this year after Republicans in Washington made runs at repealing the ACA. Even some Republican lawmakers, who had derided the Medicaid expansion, hesitated to pare it back. One of the program's strongest GOP Senate defenders was Maine's Susan Collins.

"As the idea of cutting Medicaid significantly came up, the threat of taking it away made people hold it a little bit closer," said Bianca DiJulio, as-

sociate director of public opinion and survey research at the Kaiser foundation.

The ACA tried to encourage states to expand Medicaid by offering federal funding up to the higher income level, but several Republican-led states chose not to expand the program. Maine's ballot question—pushed by left-leaning groups, health advocates, citizens and others—would extend Medicaid to adults under age 65 with incomes at or below

138% of the federal poverty level, which in 2017 means \$16,643 for a single person or \$22,412 for a family of two.

Backers of the initiative, who began collecting signatures for the measure last year, believe the GOP efforts in Washington to dismantle parts of the law could help rally support for Medicaid expansion.

Other proponents agree. "I'm extremely optimistic," said Republican state Sen. Thomas Saviello, a supporter

of the ballot measure, which requires the state to seek the expansion and which he said would help the working poor.

Mr. LePage, the governor, has vetoed five attempts by the state's legislature to expand Medicaid. In a public message last week, he said voters should be aware of the "disastrous effects Medicaid expansion will have on Maine."

Advocates estimate 70,000 Mainers would gain coverage if voters pass the measure. The

expansion would cost Maine \$54 million a year once fully implemented and would bring in \$525 million annually from the federal government, according to the state's Office of Fiscal and Program Review.

Groups representing hospitals and other health providers have backed the measure, as has the Maine Small Business Coalition. Maine's chapter of the National Federation of Independent Business is opposed.

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## U.S. NEWS

# Mortgage Break Faces Irrelevancy

BY LAURA KUSISTO

The Republican tax-overhaul plan has the potential to diminish the value of a break that lawmakers once considered untouchable: the mortgage interest deduction.

The break allows homeowners to deduct from federal taxes money spent on interest tied to mortgage loans of as much as \$1 million.

So far the deduction is one of the few being kept alive in the framework put forward by President Donald Trump and fellow GOP leaders in Congress this month.

While the mortgage deduction is kept in place, it might face irrelevance. That is because the tax plan also would almost double the standard deduction for individuals and couples, meaning only the highest earners would continue to itemize their deductions, and only a few of them would take the mortgage break. For most taxpayers, the standard deduction is likely to be the better option.

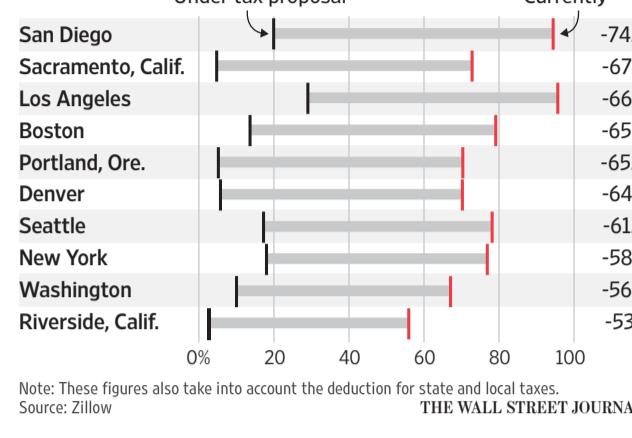
Currently, about 30% of U.S. homes are valuable enough to make it worthwhile to take the mortgage interest deduction, along with a deduction for state and local property taxes, according to an analysis by home search website Zillow. Under the proposed changes, the share would drop to 5%, according to Zillow.

The deduction is "more at risk than at any point in the last 30 years," said Isaac Bolstansky, director of policy research at Compass Point Research & Trading, an invest-

### Homeowners' Finances

The percentage of homes that are valuable enough to make it worthwhile to take the mortgage interest deduction is expected to decrease significantly under the GOP proposed tax plan.

#### Share of homes worth enough to get mortgage interest deduction by city



Note: These figures also take into account the deduction for state and local taxes.  
Source: Zillow

THE WALL STREET JOURNAL.

ment bank in Washington. The GOP proposal makes it effectively worthless, he said.

Existing homeowners would still be able to choose whether to take the standard deduction or itemize based on what would be the most financially beneficial for them. But they could be affected by broader shifts in the market.

The weakening of the deduction could lessen the incentive for renters to buy homes and would likely encourage people to spend less on a home purchase, economists said.

A May study by accounting firm PricewaterhouseCoopers conducted for the National Association of Realtors said home prices nationally would likely drop 10% in the short term if the standard deduction

were doubled and the state and local tax deduction eliminated. Many economists said they expect prices to recover over time.

Under current law, a typical homeowner would need to purchase a home worth at least \$305,000 to make taking the break worthwhile, according to Zillow, while under the proposed law that would shoot up to \$801,000. The median home value in the U.S. is just over \$200,000.

The most expensive markets in the country, mainly on the coasts, would see the largest drop in homeowners opting to take the mortgage break. The share of Boston homeowners likely to take the break would drop to 14% from 79%, according to Zillow.

Other less pricey markets

### Housing Groups Spar Over Tax Plan

The debate over weakening the tax incentive for homeownership has created a rift between two powerful trade groups representing real-estate brokers and home builders.

The National Association of Home Builders and the National Association of Realtors for decades have been stalwart proponents of the mortgage interest deduction, a cherished break that allows homeowners to deduct the interest paid on their mortgage.

But this month the NAHB said it is "open to the idea of broader options regarding housing tax incentives," the first time in at least three decades it has expressed anything less than full-throated support for the break.

Jerry Howard, chief executive of the NAHB, said the group has received assurances that Congress and the White

House "are willing to look at creative ideas around a homeownership tax incentive that would offset the erosion produced by the increase in the standard deduction," such as a homeowners' tax credit.

Jamie Gregory, deputy chief lobbyist at the National Association of Realtors, said the group has been careful not to overreact to the home builders' shift in position. "They're not walking away from homeownership," he said. But he added that proposals he has seen so far for a homeowner credit would be less valuable for homeowners than the mortgage deduction.

"We want to make sure that we first do no harm. We don't want homeownership to lose ground," Mr. Gregory said.

Housing experts said the split between the two groups on what has long been considered the central issue for the housing industry is unprecedented.

—Laura Kusisto

chief economist at Zillow.

Many of those pricey markets also would be hit by another part of the plan, which would eliminate deductions for state and local taxes. The break mainly affects homeowners in high-tax states, who typically pay school and property taxes. Within hours of announcing the plan, Republicans received fierce pushback from Republicans in New York and New Jersey.

—Richard Rubin  
contributed to this article.

## WASHINGTON WIRE

### WHITE HOUSE

#### Trump Blames Cuba For Sonic Attacks

President Donald Trump said he believes Cuba "is responsible" for the mysterious ailments that have left at least 22 U.S. government employees and family members in Cuba with hearing loss, cognitive problems and other symptoms.

But it was unclear if he meant to lay formal blame on Havana for what the U.S. has termed health attacks.

Washington's position until now has been that the U.S. holds Cuba responsible for protecting the safety of U.S. diplomats and to stop the spread of the ailments, but has stopped short of blaming Cuba for making the employees ill.

"I think Cuba knew about it," Mr. Trump said at an impromptu news conference Monday at the White House. "I do believe Cuba is responsible. I do believe that, and it's a very unusual attack, as you know, but I do believe Cuba is responsible."

Officials said later Monday that the U.S. still hasn't yet determined the cause of the health attacks, which began in November, or who is responsible for them. Cuba has denied culpability in the illnesses, saying it has worked to find out what has sickened the U.S. employees.

—Felicia Schwartz

### HOMELAND SECURITY

#### Latest Travel Ban Gets Court Hearing

A federal judge in Maryland probed whether President Donald Trump's latest travel ban was on firmer legal footing than two previous versions that ran into trouble in court.

U.S. District Judge Theodore Chuang held a 90-minute hearing Monday in three combined cases, considering requests by legal challengers to block the new ban, which is set to go into full effect on Wednesday.

As with past cases on Mr. Trump's earlier bans, civil-rights groups and immigrant-rights advocates said the president's new ban is a product of religious animus that disfavors Muslims in an unconstitutional way. They also say the ban goes beyond the scope of the president's authority under federal immigration law.

The government rejected both claims, with the Trump administration saying the restrictions protect the country from potential terrorist threats.

—Brent Kendall

### MILITARY

#### President's Remarks Draw Strong Rebuke

Speaking for the first time about the recent death of U.S. soldiers in Niger, President Donald Trump said Monday that his predecessors hadn't called relatives of U.S. service members killed in action overseas.

The remark brought swift denunciations from top aides of former President Barack Obama.

"If you look at President Obama and other presidents, most of them didn't make calls," Mr. Trump said.

Ben Rhodes, a former deputy national security adviser to Mr. Obama, tweeted: "This is an outrageous and disrespectful lie even by Trump standards."

—Gordon Lubold

# Task Force Seeks to Boost Apprenticeships

BY ERIC MORATH

The Labor Department is enlisting the help of corporate executives, labor unions and governors to develop its policy of expanding the use of apprenticeships in the U.S.

The department announced 23 members of the president's apprenticeship task force on Monday, charging them with crafting a plan to expand use of the training strategy that is popular in Europe but little-used in most U.S. industries.

President Donald Trump signed an executive order in June making apprenticeships a cornerstone of his strategy to address a shortage of skilled workers.

"Expanding apprenticeships will help Americans learn the skills they need to fill jobs that are open right now and in the future," Labor Secretary Alexander Acosta said. Members of the task force "will provide varied perspectives that will help guide the administration's strategy on growing apprenticeship programs nationwide."

Employers that use apprentices like the programs because they train future workers for specific, in-demand jobs. Apprentices earn a paycheck while they train, often eliminating the need to take on debt to fund their education. Upon completion of a training program, 90% of apprentices are offered jobs and earn a starting salary of about \$60,000 a year, according to the Labor Department. Yet undergraduate students at col-



The Labor Department says 90% of apprentices are offered jobs. Above, two apprentices at a Stihl chain-saw plant in Virginia.

leges outnumber apprentices in the U.S. 26 to 1.

Apprenticeships have struggled to take hold in the U.S. in part because the education system is geared more toward college preparation, than, for example, in Germany, where teens are more frequently steered toward a vocation.

And American students and families are often reluctant to pursue careers in fields such

as plumbing or manufacturing, even if those jobs pay good wages.

Task force members include corporate executives—**Dow Chemical** Co. Chief Executive Andrew Liveris, **Northrop Grumman** Chief Executive Wesley Bush and **ManpowerGroup** Director Cari Dominguez—as well as leaders of several Washington trade groups that represent business

interests. Three labor leaders are also members.

The White House has directed the Labor Department to allow companies, trade associations and unions to develop their own apprenticeship-program guidelines. This task force would help create guidance for that. In June, administration officials said the government would generally take a lighter touch with such

industry-led programs than it does with registered apprenticeship programs, which have existed for decades.

Unions traditionally have supported Democrats, but the Labor Department has sought to reach out to these groups on workforce training. Nearly half the apprentices in the U.S. work in the construction sector, and most of them are trained by trade unions.

# STORES

Continued from Page One  
cated in high-end malls, is considered a bright spot among department stores.

The company's investment-grade debt rating is higher than that of Macy's Inc., Kohl's Corp., J.C. Penney Co. and numerous other retailers tracked by Fitch Ratings.

But it isn't immune to the changes reshaping the industry. Net profit for its most recent fiscal year fell 35% to \$354 million on asset-impairment charges and higher technology and fulfillment costs. Sales rose nearly 3% to \$14.5 billion.

Bankers were concerned they wouldn't be able to sell the buyout debt before the holiday shopping season and would have to hold it until next year, exposing them to the risk that Nordstrom's business, or the broader market, would deteriorate in the in-



Nordstrom, with stores mainly located in high-end malls, is considered a bright spot among retailers.

terim, the people said.

"There is nothing that would make anyone put leverage on a specialty apparel retailer or department store right now," said Paul Lejuez, a Citi analyst. "These businesses have been

under a lot of pressure—and that's with strong consumer spending."

The debt markets have been far from closed to retail companies in recent months: Retailers issued \$5.3 billion of junk-rated

bonds through the first three quarters of 2017, up from \$4.1 billion over the same period last year, according to LCD, a unit of S&P Global Market Intelligence. But the chapter 11 bankruptcy filing in September of Toys "R"

Us Inc., which was felled by \$5 billion in debt from a 2005 leveraged buyout, served as a reminder to debt investors of the vulnerability of retailers.

Conditions for retailers have worsened in recent weeks, and the size and timing of the Nordstrom deal made it unattractive for lenders. Bonds issued at par by PetSmart Inc. in May recently traded at 80 cents on the dollar and have fallen this month as low as 78.625 cents, according to MarketAxess.

As of early October, the Nordstrom family was scrambling to save the deal, possibly by adding more equity, though it was unclear where that equity would come from, the people said. One problem: additional equity would dilute the family's stake, which stands at roughly 31%.

If Nordstrom has a good holiday season, it could find it easier to raise debt, but the price of its equity could also go up, changing the calculus for potential partners. A bad

season could put a deal even more out of reach.

Analysts are expecting department stores to report another round of disappointing quarterly earnings in November given the unusually warm fall weather, which would be a gloomy harbinger for the important end-of-year selling season.

Nordstrom shares declined 5.3% Monday to \$40.40, helping to drag down the shares of other department-store chains, including Macy's, Penny and Dillard's Inc.

Since the Toys "R" Us bankruptcy filing, bankers have been wary about adding debt to retailers—as siphoning cash flow to interest payments means the companies would have less money to spend on improving their businesses at a time when investing in new technologies and store upgrades is seen as a crucial way to stay competitive.

—Soma Biswas  
contributed to this article.

# WORLD NEWS

## Catalan Leader Given Ultimatum

Madrid vows to strip region of powers if secessionist bid isn't rescinded by Thursday

By JEANNETTE NEUMANN

MADRID—Spanish Prime Minister Mariano Rajoy gave the leader of Catalonia until Thursday to cease his bid for independence or face the loss of some regional powers at the hands of the central government.

Mr. Rajoy, in a letter sent to Carles Puigdemont on Monday, said the Catalan leader hadn't clarified whether he declared the region independent from Spain last week, as the central government had demanded in an earlier injunction. The Catalan leader now has until Thursday morning to withdraw his secessionist drive. If he doesn't, Mr. Rajoy said he would invoke an article of the Spanish constitution that would allow the central government to strip the wealthy region of some of its powers.

"Never in their history have the citizens of Catalonia enjoyed greater liberty and political and financial autonomy than in this democratic period. The only conflict that exists at this moment in Catalonia is a conflict of lawfulness," Mr. Rajoy said in the three-page letter addressed to Mr. Puigdemont. The prime minister called on the Catalan leader to respect the rule of law and drop his bid to split with Spain.

Last week, Mr. Rajoy gave Mr. Puigdemont until Monday at 10 a.m. local time to set the record straight on whether he declared the region independent. Anything but an unequivocal statement denying that was his intent would be taken as a proclamation of Catalonia's secession from Spain, according to an injunction Madrid sent to the Catalan leader on Wednesday.



Catalan regional President Carles Puigdemont, right, hasn't clarified whether he declared regional independence from Spain last week.

In a response sent to Mr. Rajoy earlier Monday, Mr. Puigdemont didn't say whether he declared the wealthy Spanish region an independent republic during his earlier speech, but called for a meeting "as soon as possible" with the prime minister to discuss Catalonia's future. Mr. Rajoy has refused to enter into talks on Catalonia's secession because he says it violates Spain's constitution.

On Oct. 10, in an ambiguously worded speech, Mr. Puigdemont declared Catalonia independent. Moments later, however, he said he was suspending the declaration to offer the government of Mr. Rajoy the possibility of negotiating independence for the northeastern region.

"The priority of my government is to intensively pursue the path of dialogue," Mr. Puigdemont said in the letter addressed to Mr. Rajoy. "We want to talk, as they do in consolidated democracies, about the problem posed by the majority of Catalan people, who want to embark on a path as an independent country in the European framework."

Mr. Puigdemont set a window of two months for dialogue with the central government, despite Mr. Rajoy's repeated refusal to negotiate the secession of one of Spain's 17 autonomous regions.

Mr. Rajoy said the Catalan leader's request for dialogue was deceptive. "Your calls for dialogue in the name of Catalonia aren't credible when you

refuse to speak with a significant part of [Catalan] society through their legitimate representatives," the prime minister said.

The central government ac-

**Prime Minister Rajoy says Catalonia is undergoing a 'conflict of lawfulness.'**

cuses Mr. Puigdemont and separatist lawmakers of ignoring calls from opposition lawmakers in the regional Catalan assembly to debate Catalonia's future.

Later Monday, a judge or-

dered the head and another official of Catalonia's regional police force, the Mossos d'Esquadra, to hand over their passports and appear in court every 15 days while the court investigates their role in allegedly hindering the work of Spanish security forces in Barcelona as they investigated preparations for the unauthorized Oct. 1 referendum on independence, according to court documents published Monday.

"We will continue to demonstrate with evidence that the serious accusations they ascribe to us do not reflect reality," the Mossos said on Twitter.

A spokesman for the 17,000-strong force declined to comment further.

## NATO Begins Nuclear Exercise

By JULIAN E. BARNES

BRUSSELS—NATO kicked off its annual nuclear exercise on Monday with drills in Germany and Belgium, as the alliance seeks to showcase its nuclear deterrent but avoid accusations of saber rattling.

The exercise, called "Steadfast Noon," is taking place at two air bases where the U.S. stores nuclear weapons in Europe: Kleine Brogel in Belgium and Büchel in Germany.

In the face of North Korean tests and Russian drills, the North Atlantic Treaty Organization has been highlighting its nuclear defenses, with a visit by alliance ambassadors to a U.K. ballistic-missile-armed submarine base in September.

NATO has also taken a strong stance against the Nuclear Weapons Ban Treaty, saying it will remain a nuclear-armed alliance as long as these weapons exist elsewhere.

NATO's nuclear drills remain sensitive; the alliance omits Steadfast Noon from many lists of its exercises. NATO officials won't publicly confirm the nature of the exercise, but privately acknowledge it is the main nuclear-deterring drill.

An official said nuclear exercises remained a "delicate balancing act among allies," with some countries uncomfortable with public discussions and others wanting acknowledgment of the deterrent's importance.

NATO officials said the exercise involved aircraft from across the alliance. In addition to Belgium and Germany, Poland has participated in Steadfast Noon since Russia's annexation of Crimea in 2014.



Supporters of Carlos Ocariz, a former opposition mayor who was popular in the Caracas district he led, react to news that he was strongly defeated by the Socialist candidate Héctor Rodríguez.

## Venezuela's Opposition Has Tough Choices After Election

CARACAS, Venezuela—Opponents of President Nicolás Maduro expressed skepticism over the results of regional elections the governing party said it won decisively, leaving weary Venezuelans facing the grim prospect of a drawn-out battle to challenge the vote and more violent street protests.

By Anatoly Kurmanov, Juan Forero and Ryan Dube

The election set Venezuela on a new course of uncertainty after the pro-government National Electoral Council said Mr. Maduro's allies won at least 17 of 23 gubernatorial races fought in a contest that polls had predicted the opposition would win handily.

Opposition leaders had hoped sweeping victories would put pressure on Mr. Maduro to enter into negotiations that would lead to a presidential election in 2018, opening the way for his likely defeat.

The U.S. on Monday "condemned" the lack of free and fair elections yesterday in Venezuela." The Trump administration recently said it planned to step up sanctions against Mr. Maduro and other

officials for human-rights abuses and suppression of democracy.

"An electoral solution to the humanitarian, economic and political crisis in Venezuela seems increasingly unfeasible," said Diego Moya-Ocampo, political analyst at IHS Inc. in London. "What's coming are more sanctions, more isolation and economic dependence on China and Russia."

The opposition coalition, Democratic Unity said it would finish counting copies of the ballots before announcing what it would do next. A spokesman, Gerardo Blyde, decried irregularities and said that the opposition wouldn't recognize the results.

The prospect of mobilizing fresh street protests was problematic. The last series of demonstrations that ended in August were disruptive and often violent, resulting in 120 deaths.

Venezuela, meanwhile, is being whipsawed by the world's highest inflation rates, acute food shortages and an economy that has contracted by about a third since 2014.

Many Venezuelans awoke Monday dismayed and incredulous. Some talked of trying to find a way to leave the country while others wondered

how their family would eat. In states won by the opposition, celebration quickly gave way to fears that the Maduro administration, whose Socialist movement is represented by red, would starve their new governor of resources.

"I don't understand how we come to see a map full of red in Venezuela, when the hope was that after these elections Nicolás Maduro was on his way out," said Ana Morales, a 47-year-old housekeeper from Zulia state, where opposition candidate Juan Pablo Guanipa won.

"What am I going to do now, when there are days I don't have anything for dinner in my house? I'm sure that Guanipa won't get any food or money from the government to help us," Ms. Morales said.



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## WORLD NEWS

# Iraq Clash Raises Fear of Wider Conflict

U.S.-led coalition calls for dialogue after Iraqi forces effectively retake city from Kurds

BY ALI A. NABHAN  
AND ISABEL COLES

ERBIL, Iraq—Iraqi forces took control of the local government building in Kirkuk on Monday, pushing out Kurdish fighters and effectively retaking the oil-rich city after skirmishes that raised fears of a wider conflict between two of the closest U.S. allies in the war against Islamic State.

Elite military units seeking to restore federal government authority over territory and resources seized by Kurdish forces during the push against Islamic State advanced toward Kirkuk overnight, and by evening they had taken control of the provincial government headquarters, witnesses and Kirkuk officials said.

Iraqi forces said they faced only light resistance in retaking the K1 military base, an airport, the Kirkuk refinery and the Baba Gurgur oil field.

There were several casualties on both sides, Kurdish and Iraqi military commanders said. Thousands of residents were fleeing Kirkuk into the neighboring semiautonomous Kurdish-led region, leading to huge traffic jams on the way out of the city.

Until recently, Iraqi forces



AHMAD AL-RUBAYE/AGENCE FRANCE PRESSE/GTY IMAGES

Iraqi forces advanced Monday toward Kirkuk, where thousands of residents fled into the neighboring semiautonomous Kurdish-led region.

and Kurdish fighters had cooperated against Islamic State, but as the threat posed by the terror group recedes, they have turned on each other. Tensions have been building since the Kurds voted overwhelmingly to break away from Iraq in a referendum last month opposed by Baghdad,

regional powers and the U.S. Losing Kirkuk and its resources would be a blow to the Kurds' long-held dream of independence, which seemed closer than ever to realization after the Iraqi army's northern divisions collapsed during the Islamic State onslaught in 2014. The Kurdish Peshmerga

filled the vacuum, driving back Islamic State in northern Iraq and expanding territory under their control by as much as 40%.

The U.S.-led coalition to defeat Islamic State on Monday said it supported dialogue between the groups and urged them to focus on stamping out

what remained of the terror group in Iraq. "These movements of military vehicles, so far, have been coordinated movements, not attacks," the coalition said. "We believe the engagement this morning was a misunderstanding."

In the wake of the Kurdish vote, the Iraqi parliament au-

thorized Prime Minister Haider al-Abadi to deploy troops to retake disputed territories the Kurds had effectively annexed after driving Islamic State back.

Mr. Abadi said Monday his goal was to reimpose federal government authority in Kirkuk and urged security forces to protect all citizens of the city, which has a mixed population of Kurds, Arab and Turkmen.

The fallout from the referendum has exposed divisions between the two Kurdish factions that have dominated the region for decades.

The Kurdistan Democratic Party is now accusing its rival-turned-ally, Patriotic Union of Kurdistan, which dominates in Kirkuk and is closer to Baghdad, of striking a deal with the Iraqi government to surrender control over its areas, thereby allowing the nation's elite forces to quickly retake the city.

That was denied by Bafel Talabani, a senior member of the PUK: "[Iraqi] forces didn't come into Kirkuk with anybody's permission," he said.

A senior commander in Iraq's Emergency Response Division said the next target would be the Bai Hassan and Avana oil fields, from which the Kurds have been unilaterally exporting crude via a pipeline to Turkey since taking them over in 2014. Those fields are controlled by forces loyal to the KDP.

—Ghassan Adnan  
in Baghdad  
contributed to this article.

## KIRKUK

### Lay of the Land

Swaths of northern Syria and Iraq are controlled by an array of Kurdish groups that operate with varying degrees of autonomy from Damascus and Baghdad.



Source: Institute for the Study of War

de facto endorsement of Iraq's central government and dealt a blow to Kurdish independence aspirations.

"Inaction is a form of action," said Lukman Faily, a former Iraqi ambassador to the U.S. and a Kurd who favors a united Iraq.

Kurdish leaders forced the matter with an independence referendum in September that Washington and Baghdad failed to quash. That vote set off a chain of events that led Mr. Abadi to take Monday's actions.

The U.S. neutrality offered a

A State Department official called on all sides to stand down and refrain from any further provocative actions. The official warned the biggest winners from tensions would be Islamic State and Iran's Islamic Revolutionary Guard Corps.

"This situation requires a peaceful, political solution," the official said. "The U.S., the government of Iraq, the Kurdistan Regional Government and our entire coalition must be united in prioritizing the final defeat of ISIS."

But Kurdish officials said the move by Baghdad involved Iranian-backed militias and showed Mr. Abadi's willingness to give way to Iranian influence growing in Iraq.

Others, however, said the move was a measure Mr. Abadi needed to take to reassert the integrity of the Iraqi state.

The violence could mark a turning point in Washington's long and close alliance with the Iraqi Kurds, who have served as a critical partner for U.S. forces in the country

since the 2003 invasion and now see Washington's backing of Mr. Abadi as a rebuke.

"The Kurds are amazing, and have been through a lot, but we need to get over our sentimentality," said Michael O'Hanlon, a senior fellow in foreign policy at the Brookings Institution. "Their ambitions inside Iraq are not compatible with a stable internal situation for that country."

The Obama administration returned U.S. forces to Iraq in 2014, some 2½ years after their high-profile withdrawal, rushing to the country's aid as Islamic State swept the nation and threatened Baghdad.

At the time, former President Barack Obama, wary of stumbling back into a costly occupation, promised American troops would destroy Islamic State but said they wouldn't "get dragged into another ground war in Iraq."

Instead, the U.S. strategy was to make local forces the tip of the spear and "advise and assist" them, rather than take charge. American troops embedded with Iraq's national security forces and the Kurdish Peshmerga, among other local fighting groups, and provided arms, advice and air support, as the locals pushed back against Islamic State.

As the fight progressed, the uncomfortable question of what would come next dogged U.S. officials. Washington had backed groups that long had been at odds, realizing they could turn on one another after defeating their common enemy.

The Trump administration opted to continue the "advise and assist" strategy, while adjusting tactics to give U.S. troops in the conflict zone more leeway to engage the enemy.

One of the first signs the U.S.'s partners were beginning to turn on one another came when the Kurdish leader Masoud Barzani said in June that Iraqi Kurdistan would hold an independence referendum on Sept. 25.

U.S. diplomats went into overdrive trying to derail the vote. Mr. Barzani proceeded anyway, as Kurdish officials said they had dealt with Baghdad's dysfunction long enough, suffered in the fight against Islamic State and deserved their own nation.

The U.S. military sought to play down the extent of the hostilities, saying some reports about the violence in Kirkuk had been overstated.

"We have not seen levels of violence suggested in some media reports," Army Col. Rob Manning told reporters.

## A U.S. Ally Rolls the Dice, and Loses



### MIDDLE EAST CROSSROADS

By Yaroslav Trofimov

Monday's fall of Kirkuk made plain the one tangible result of the independence referendum Iraqi Kurdish authorities organized last month against international advice: It endangered the very survival of existing Kurdish autonomy.

The Iraqi federal government's lightning military operation to seize the Kurdish-held city and the surrounding oil fields was the latest in a series of steps Baghdad has taken to chip away at Kurdistan's freedoms in the aftermath of the Sept. 25 referendum.

The military offensive follows moves to shut down international flights to Kurdistan airports and curtail its oil exports via Turkey. Iraqi Prime Minister Haider al-Abadi made a new demand Monday, saying Kurdish Peshmerga military forces—which have always operated independently—must come

under federal control. The speed with which Kirkuk—a city of such historical importance to Kurds that they call it "the Kurdish Jerusalem"—fell is already causing a major rift within Iraq's Kurdistan Region. With the region's two main political forces accusing each other of treason, the rising acrimony has rekindled fears of a civil war of the kind that Kurdistan went through from 1994 to 1997.

"The question now is whether the Kurdistan Region survives. Its political leadership has gambled and lost," said Gareth Stansfield, a professor of Middle East politics at the University of Exeter in England.

The recent events have shown just how vulnerable landlocked Iraqi Kurdistan is—and how badly the region's president, Masoud Barzani, overestimated the Kurds' political and military strength. With the U.S. so far not interfering beyond generic calls for restraint on both sides, and neighbors Turkey and Iran siding with Baghdad, the noose is only likely to tighten around Kurdistan in the immediate future.

Iraqi Kurds enjoyed Western support—and military protection—back at the time when they fought for self-rule against Saddam Hussein's dic-

tatorship. These days, however, a democratically elected government sits in Baghdad, whereas Mr. Barzani's term expired in 2015 and his legitimacy is contested by major political forces inside Kurdistan. Those opposition parties also disagreed with his referendum plans.

Frustration over Mr. Barzani, however, shouldn't color the U.S. approach to the Kurdistan crisis going forward, argued Zalmay Khalilzad, a for-

mer U.S. ambassador to Iraq and to the United Nations.

"Yet it is in the U.S. national interest to contain this and to start negotiations as soon as possible. Despite the anger over the referendum that has occurred, the war between Kurdistan and Iraq, with Iranian influence rising in Kurdistan and Iraq, isn't in our interest," he said.

Iraq, with its own restive Kurdish population, was the most vocal opponent of Kurdistan's independence. The chief of its Quds Force, Maj. Gen. Qassem Soleimani, who has nurtured close ties

with Baghdad and Mr. Barzani's Kurdish opponents, played a key role in Monday's takeover of Kirkuk.

Before the referendum, Kurdistan was at the peak of its autonomy. Kurdish forces controlled vast territories, especially in the oil-rich Kirkuk region, which they seized after Iraqi troops abandoned those areas to Islamic State in 2014.

Kurdistan's Erbil and Suleimani airports implemented visa policies independent of Baghdad and were busy with international flights ferrying businesspeople and aid workers. In the wake of the joint campaign to oust Islamic State from Mosul, relations between Kurdistan and Baghdad also appeared more cordial than they had ever been.

Mr. Barzani's insistence on conducting the independence referendum despite opposition from Baghdad, domestic rivals and virtually the entire international community (with the notable exception of Israel) has provided Iraq's federal government with the excuse to regain its authority—and to reclaim areas, such as Kirkuk, that it lost in 2014.

Yet if the conflict intensifies and Baghdad overplays its hand, international public opinion—and U.S. support—may yet swing back behind the Kurds.

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## WORLD WATCH

### IRAN NUCLEAR DEAL

#### Europeans Slam U.S. Decision to Pull Out

European foreign ministers attacked President Donald Trump's decision to pull his administration's backing for the Iranian nuclear agreement, calling the move a serious mistake that could lead to a military confrontation with Tehran.

At a European Union meeting in Luxembourg, foreign ministers from across the bloc said Europe will stand by the agreement, keeping sanctions on Tehran suspended in line with the 2015 accord. They urged U.S. lawmakers not to endanger the agreement by reimposing sanctions.

"The EU encourages the U.S. to maintain its commitment" to the deal "and to consider the implications for the security of the U.S., its partners and the region before taking further steps," the 28 foreign ministers said.

—Laurence Norman

### MALTA

#### Journalist Is Killed In Car Bomb Attack

A Maltese investigative journalist who exposed the island nation's links to offshore tax havens through the leaked Panama Papers was killed Monday when a bomb exploded in her car, the prime minister said.

Daphne Caruana Galizia, 53 years old, had just driven away from her home when the bomb went off, Prime Minister Joseph Muscat said.

Ms. Caruana Galizia's death resulted from a "barbaric attack" that also amounted to an assault on freedom of expression, Mr. Muscat said. He described her as "one of my harshest critics, on a political and personal level," as he denounced her slaying.

—Associated Press

### CANADA

#### Small Businesses Are Given a Tax Cut

In an effort to quell an uproar among entrepreneurs over tax policy, the Liberal government in Ottawa offered small firms a cut to their corporate rate.

Prime Minister Justin Trudeau said the rate paid by small firms would be cut from the current 10.5% to 9% as of Jan. 1, 2019. That tax rate applies on the first 500,000 Canadian dollars (US\$401,050) of business income. —Paul Vieira

### LIBERIA

#### Two Candidates Qualify for Runoff

Vice President Joseph Nyumah Boakai of the ruling Unity Party and retired soccer star George Weah will contest a runoff in November to succeed President Ellen Johnson Sirleaf after no candidate got enough votes in the Oct. 10 election.

The two men, who topped a field of 20, will vie to succeed the incumbent, who has served two six-year terms, the maximum allowed under the constitution. —Nicholas Bariyo

## WORLD NEWS

# ISIS-Linked Filipino Killed

BY JAKE MAXWELL WATTS

MANILA—One of the U.S.'s most-wanted terrorists was among the last remaining leaders killed after Philippine forces pressed forward with their offensive to retake the southern city of Marawi from Islamic State-linked militants, authorities said.

The bodies of Isnilon Hapilon—who was on the U.S. Department of Justice list of most-wanted terrorists worldwide, with a reward of as much as \$5 million for his capture—and Omar Maute were recovered on Monday after the two leaders were killed as they moved between concrete structures and mosques in the city's old central business district with a few dozen other fighters and hostages, government spokesman Ernesto Abella said.

The two were leading a last stand against government troops in Marawi, officials said.

Hapilon was involved in several kidnappings, including the 2001 abduction from an island resort of 20 people, U.S.



CIVIL RELATIONS SERVICE ARMED FORCES OF THE PHILIPPINES/AP

The chief of staff of the Philippine military held photos of the bodies of militants Hapilon and Maute on Monday.

authorities say.

The deaths of Hapilon and Maute are a long-awaited victory for the government forces, who, inexperienced in urban combat, have struggled to clear the city since it was occupied in the name of Islamic State by hundreds of heavily armed fighters in May.

The armed forces said their offensive had boxed the remaining militant-controlled area to just a few acres even before the two leaders were killed.

The remaining combatants "were seen scampering in disarray," the armed forces said. "It will be a matter of days before it can finally be declared that Marawi has been liberated from the clutches of terrorists."

The two leaders had been a target for the military since the reported death last month of Maute's brother, Abdullah—though no body was found to confirm his demise. The brothers were local to the province and rallied a coalition of fighters under the Islamic State flag to occupy the city.

Hapilon led his own group of fighters, a faction of the Abu Sayyaf Group, which swore allegiance to Islamic State in 2014 and joined the Maute brothers in their occupation of the city. Islamic State leadership later named Hapilon as its "emir," or ruler, in the Philippines.

The remaining militants in Marawi, numbering about 30, the military said, have few among them with a status similar to the Maute brothers' or Hapilon's. The de facto leader, some analysts say, is likely to be Mahmud Ahmad, a Malaysian whose links to Islamic State in the Middle East made him the militants' primary foreign recruiter. The army says he is still thought to be in Marawi.

## Questions Mount After Somalia Attack

Emergency personnel and volunteers in Mogadishu spent a third day sifting through the rubble of one of the deadliest vehicle bombings ever, as the

nerals, laying to rest loved ones that in many cases had been buried beyond recognition.

The attack poses tough questions for Somali leaders as well as the U.S. and other international actors that have spent years fighting an Islamist insurgency that at one point controlled the capital and much of Somalia. Although no one has claimed responsibility for the bombing, experts said it bore the hallmarks of al-Shabaab militants, who are trying to grab power from the internationally recognized government in Mogadishu.

"Al-Shabaab remains a very dangerous, committed and sophisticated terrorist organization," said Joshua Meservey of the Heritage Foundation, a conservative Washington-based think tank. "Everyone, includ-

ing the U.S. government, needs to keep that front of mind, that's not a threat that's anywhere close to being defeated."

The Trump administration this year eased the rules of engagement in Somalia, allowing

*A campaign to crush al Qaeda-affiliated al-Shabaab militants has gone on for years.*

it to mount more attacks against al-Shabaab by simplifying legal approvals. More than a dozen strikes have killed several targets this year. In 2016, the U.S. contributed more than \$500 million to security oper-

ations, while millions more were directed to responding to a mounting hunger crisis and other humanitarian goals.

The main military force in the country remains the African Union's Amisom, which has been fighting to reclaim territory from al-Shabaab for years. Somalia has been struggling to fully develop its own robust security forces despite support from numerous donors, including the U.S.

Two people familiar with Saturday's attack said the death toll was likely much larger than intended because the truck carrying the bomb exploded next to a parked vehicle carrying fuel. That amplified the blast and might be the reason al-Shabaab, which claims to be pro-people and antigovernment, hasn't taken responsibility.



TAKING FLIGHT: The South Korean air force's Black Eagles aerobatic team performed south of Seoul on Monday.

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## IN DEPTH

# CHINA

Continued from Page One

kets are now something to be deeply wary of—potential agents of chaos.

"Risks are everywhere in the society, and now more than ever, the government should play a bigger role" in guiding the economy, said Liu Shangxi, head of the Chinese Academy of Fiscal Sciences.

One consequence of the renewed stress on central control is more credit is flowing into state businesses that are less productive than private ones. China's state capitalism is rife with inefficiencies. It steers investment to unneeded building projects and industries such as steel that already overproduce.

This leaves China to tackle problems such as soaring debt and overbuilding with little benefit of the market discipline free enterprise might supply.

Heavier state intervention ultimately threatens to squeeze out private enterprise, sap innovation and slow China's rise into rich-country ranks, according to economists and analysts. Badly handled, China's economy could end up mired in low growth, delaying the expected date sometime next decade of passing the U.S. in size.

### Hold on power

Despite its economic drawbacks, the centralized approach works in favor of the Communist Party's hold on power. The loser is the private sector, including Western multinationals operating in China.

The Chinese government has maintained it can manage the country's debt problems, and its investments in infrastructure and innovation can help China maintain growth.

China's leaders have never been entirely comfortable with capitalist dynamics. Mr. Xi seemed an exception, showing determination to shake up the bloated state sector in 2012.

Some attributed that to his experience running Zhejiang province, where lower barriers for entrepreneurs led to enormous wealth creation. In Zhejiang, Mr. Xi embraced policies to nurture private enterprise.

Before he was anointed China's leader in 2012, Mr. Xi vanished for two weeks, an absence never fully explained. People with knowledge of it say he was huddling with advisers over his vision for China. A policy blueprint a year later said market forces would play a "decisive" role in the economy.

That sent a jolt of anxiety through an agency called the State-owned Assets Supervision and Administration Commission, or Sasac, which holds the government's equity in the largest state companies and supervises them closely.

According to officials familiar with planning at the time, Mr. Xi considered a bold proposal based on the "Temasek model," named for Singapore's sovereign-wealth fund. In that model, investment companies funded by the Finance Ministry would take over the ownership in state companies from Sasac but leave running them to professional managers. That would essentially eliminate Sasac. To test the plan, Mr. Xi sent Vice Premier Ma Kai to provinces to meet with state companies.

Sasac saw it was in a fight for its survival. Senior Sasac officials in Beijing called ahead to tell colleagues in the provinces



WANG HE/GETTY IMAGES

Workers at debt-laden Wuhan Iron & Steel. It was merged into a rival to create a giant, under a policy that favors big state companies.

### Wards of the State

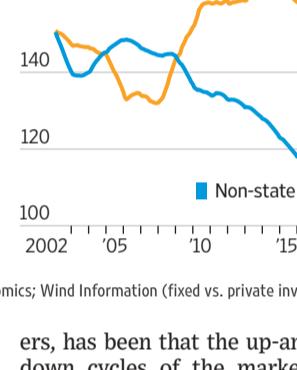
Compared with private companies, state investment in China is now growing faster and state firms are taking on more debt even though they are less profitable and contribute only about 30% to China's GDP.

State investment in fixed assets vs. private investment, change from a year earlier

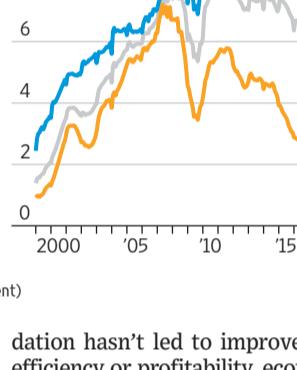


\*Through August Sources: Gavekal Dragonomics; Wind Information (fixed vs. private investment)

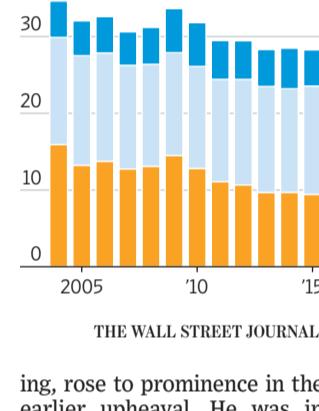
Liability-to-equity ratio for industrial enterprises, 12-month moving average



Return on assets of Chinese industrial enterprises



State share of China's GDP



THE WALL STREET JOURNAL.

they must convince the vice premier of Sasac's importance to the state sector's future.

Officials latched onto a core objective of Mr. Xi, strengthening the Communist Party, arguing this was best achieved by increasing, not reducing, state companies' footprint.

The question whether market forces helped or hurt the party came to a head in 2015.

China had an epic stock rally, partly the result of a push to encourage stock investing and turn equity markets into a funding vehicle for businesses.

In June the tide turned. Stocks began a tumble that reverberated around the world and embarrassed Beijing. Then in August, investors seized on a brief experiment with a freer currency to pummel the yuan. Mr. Xi expressed deep displeasure with regulators who seemed unable to prevent investment wagers against China's stocks and its currency.

### Change of mind

Over a few months, China's commitment to market forces crumbled. State firms stepped in with stock buying. The government cracked down on investors who had bet on stocks to fall. And the central bank set aside all other priorities to prop up the yuan, whose weakness was driving huge amounts of capital out of the country.

The conclusion of the Chinese leadership since then, say officials and government advis-

ers, has been that the up-and-down cycles of the markets, something they can't control, make outcomes too uncertain.

In May of this year, China's central bank added to its formula for setting the yuan's official rate a "countercyclical" factor—a tool to defy pressures exerted by currency markets. The move came after officials complained the yuan seemed unable to go up even when China's economy improved.

China's foreign-exchange regulator, Pan Gongsheng, explained the rationale at an event in July attended by European business executives, say people who attended. Speculators would have kept driving down the yuan, he said, posing intolerable risks to China's economy.

Chinese officials still publicly tout the markets and participation in the economy by private and foreign capital. But the enthusiasm for markets from the early days of Mr. Xi's presidency is gone, say officials and government advisers.

Some China watchers theorize Mr. Xi will revive an agenda of pro-market overhauls after the party congress as his power is consolidated. Among signs pointing the other way are that under Mr. Xi, Sasac's influence has grown, not shrunk. "Nobody talks about the Temasek model anymore," said a Sasac official.

In the past few years, Sasac has spearheaded a wave of industrial mergers. The consoli-

dation hasn't led to improved efficiency or profitability, economists and analysts say. Instead, Sasac often has relied on big state companies to take on loss-making smaller ones just to keep them going.

Baoshan Iron and Steel acquired a debt-laden rival, Wuhan Iron and Steel, last year in a deal that formed the world's No. 2 steelmaker by capacity, after ArcelorMittal SA. In 2015, China National Machinery Industry Corp., known as Sinomach, ensured the survival of an equipment maker teetering

on default by taking it over.

With a larger economy and a better social safety net, China is in theory better able to weather a state-sector shake-up than two decades ago, when then-Premier Zhu Rongji engineered one. Mr. Zhu closed money-losing factories and broke up some state conglomerates in an effort to spur efficiency through competition.

Instead, among Sasac's endeavors, said people familiar with the matter, is the re-establishment of a state aluminum giant broken up by Mr. Zhu.

The head of Sasac, Xiao Ya-

ing, rose to prominence in the earlier upheaval. He was in charge of the smaller and nimbler Aluminum Corp. of China, or Chinalco, created out of Premier Zhu's actions. In 2008, Chinalco took a stake in the Anglo-Australian miner Rio Tinto to thwart BHP Billiton's hostile bid for it, which Beijing feared would drive up iron-ore prices.

The gambit worked, showing state firms could be useful agents of the Chinese state.

"Strengthening party building is the key to state-sector reform and making state companies stronger and more competitive," Mr. Xiao said at a news conference last month.

Sasac now is reconstituting a mammoth Chinalco, say the people with knowledge of the matter. A Shanghai-listed subsidiary of Chinalco said the company is working on a plan to sell shares and then use the proceeds to acquire assets.

To keep growth from slowing too much, Beijing has kept the credit tap open. More of the lending has gone to state companies than to private ones, even though state companies use capital less efficiently. The resurgence of the state economy is "potentially far more adverse for China's long-term growth and financial stability," said Nicholas Lardy, a senior fellow at the Peterson Institute for International Economics.

Government efforts to cut industrial overcapacity have forced many private coal miners and steel mills out of busi-

ness. State companies have generally been left intact, and some have seen improved profits as private competition shriveled.

Beijing's plans to cut coal output inspired expectations the least-competitive mines, mostly small and high-polluting ones, would be forced to close. Instead, China ordered all mines to shut production a certain number of days of the year.

The centralized approach didn't make the coal industry leaner, but in a roundabout way it worked in Beijing's favor. When state power generators complained of higher coal prices, the government allowed more production days and asked state companies to sell coal below market prices. The result of relying on markets to sort it out would have been much less predictable, officials say.

In August, Beijing combined under one roof Shenhua Group, the country's top coal miner, and China Guodian Group, one of its largest power generators, a move that created one of the world's largest power companies and made it easier to control prices of both coal and electricity.

Today, private investment is growing much more slowly than state investment in China. Authorities have brought to heel the global ambitions of private Chinese conglomerates that had made inroads in Hollywood and bought trophy hotels in the West. Instead, they are favoring government-condoned projects overseas.

### Top down

At times, China's top-down approach, with bureaucrats rather than competition deciding winners and losers, also helps China's private sector. An example is industrial policies to foster Chinese domination across sectors, such as electric cars, at the expense of foreign rivals.

More often, the state courts China's private companies for their cash.

This fall, China Unicom, the weakest of China's three state-owned telecom carriers, sold \$11.7 billion in shares of its Shanghai-listed subsidiary to a group of private investors including internet giants Tencent, Alibaba and Baidu. Officials hailed the deal as a triumph of "mixed-ownership" reform.

In fact, the state's overall holdings in China Unicom declined only a little, to about 58% from 63%, according to an analysis by research firm Gavekal Dragonomics.

"The essence of such reforms is to make state companies like China Unicom bigger and stronger," an official involved in the process said.

Mr. Xi's increasing emphasis on ideological purity leaves little room for Western-style capitalism.

A term Mr. Deng and his acolytes used in the 1980s and '90s for China's economy was "socialism with Chinese characteristics." The emphasis was clear: addressing a state economy's problems by applying market solutions.

Used today, given Mr. Xi's increasing emphasis on ideological purity, the term conveys a different message—that there is little room for Western-style capitalism.

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Used today,

# GREATER NEW YORK

## Pitch to Amazon: \$7 Billion

New Jersey dangles big tax breaks in push for Newark to become second headquarters

BY KEIKO MORRIS  
AND MIKE VILENSKY

New Jersey is making a high-dollar pitch for Newark as Amazon.com Inc.'s second headquarters, offering up to \$7 billion in state and city tax incentives.

Republican Gov. Chris Christie joined Newark Mayor Ras Baraka and Sen. Cory Booker, both Democrats, in Newark on Monday to tout the city's progress in the past decade and highlight its transportation options, educational institutions, technology infrastructure and businesses that have made Newark home.

In September Amazon said it

would find a second corporate headquarters in North America and solicit proposals from cities around the country. That set off a nationwide competition among municipal leaders to land the company's new home, which could create up to 50,000 jobs. Initial proposals are due Thursday.

New Jersey is offering Amazon \$5 billion in tax incentives over the next 10 years and upon the creation of 50,000 jobs, Mr. Christie said. In addition, Newark is offering a property-tax abatement potentially worth \$1 billion and another \$1 billion that Amazon's new Newark workers would gain over 20 years from the city waiving its local wage tax, the governor said.

"Let any state go and try to beat that package along with what we have offered here in Newark," Mr. Christie said.

In New York, meanwhile,

business leaders on Monday urged Amazon to put its next headquarters somewhere in the five boroughs, even as the city's liberal advocacy groups came out against tax incentives to lure the giant online retailer.

The Partnership for New York City, a nonprofit promoting economic development, sent a letter to Amazon touting the city's benefits. The letter was also provided to New York City Mayor Bill de Blasio and New York Gov. Andrew Cuomo, both Democrats.

The letter lists data showing the city's high number of college and professional-school graduates, universities and high-earning companies. "[New York City] features unparalleled diversity of industry talent and institutional resources," it said.

The chairman of IAC and the chief executives of Citigroup Inc. and Morgan Stanley are among the dozens of signato-

ries from the city's business world.

Not everyone in New York City is as enthusiastic about the idea. Advocacy groups wrote a letter to Messrs. de Blasio and Cuomo raising concerns about wooing Amazon.

"You should focus on pushing Amazon to be a better corporate citizen and improving how it treats workers," the letter said. "You should also...work to ensure that this multibillion-dollar company does not receive financial incentives simply for doing business here."

Signatories on that letter included many of the mayor's political allies, including the public-education group Alliance for Quality Education, the immigrant-advocacy group Make the Road New York, and the Association for Neighborhood and Housing Development.

A spokesperson for Amazon didn't comment.



Ahmad Rahimi in May. His lawyer said an appeal is planned.

MIKE SEGAR/REUTERS

## Rahimi Guilty Of Planting Chelsea Bombs

BY REBECCA DAVIS O'BRIEN  
AND THOMAS MACMILLAN

A federal jury in Manhattan on Monday found Ahmad Rahimi guilty on all counts in connection with planting two bombs in September 2016, including one that exploded and injured more than two dozen people.

Mr. Rahimi, a 29-year-old naturalized U.S. citizen who lived in Elizabeth, N.J., faces a mandatory life sentence in prison. A lawyer for Mr. Rahimi said they planned to appeal the verdict, which came after less than a full day of deliberations.

"Today's verdict is a victory for New York City, a victory for America in its fight against terror," acting U.S. Attorney Joon H. Kim said outside the Manhattan federal courthouse Monday. "Rahimi's crimes of hate have been met with swift and resolute justice."

Law-enforcement officials say Mr. Rahimi, who was born in Afghanistan, was inspired by al Qaeda and Islamic State ideology to plant the bombs, which put the city on high alert and led to a manhunt across two states.

At about 8:30 p.m. on Sept. 17, 2016, a bomb—which authorities said was placed in a pressure cooker and left near a dumpster—detonated on 23rd Street in Manhattan's Chelsea neighborhood, injuring 30 people and causing widespread property damage.

Shortly afterward, a civilian call to police revealed a second, undetonated bomb in a bag nearby on 27th Street. Police defused the bomb, a pressure cooker packaged with ball bearings and steel nuts and attached to a cellphone.

Early that same day, a bomb in Seaside Park, N.J.,

some 80 miles south of New York City, had exploded without causing injury. Mr. Rahimi was also accused of planting that bomb, although he wasn't tried on counts related to it.

Police also say Mr. Rahimi left explosive devices in a backpack at a train station in Elizabeth, about 20 miles from New York, which were found the day after the New York bomb detonated.

The following morning, Sept. 19, Mr. Rahimi was arrested in Linden, N.J., following a shootout in which several police officers were injured and Mr. Rahimi was shot in the leg. He still faces state charges in New Jersey in connection with the shootout.

Federal prosecutors in

*'Rahimi's crimes of hate have been met with swift and resolute justice.'*

Manhattan charged Mr. Rahimi with eight counts, all in connection with the two Manhattan bombs, including using a weapon of mass destruction, bombing a place of public use and interstate transport of explosive devices.

The trial began on Oct. 2. The government called more than 50 witnesses and presented evidence that included DNA and fingerprints, records of purchases, dozens of videos, terrorist propaganda found on a laptop, and a letter written by Mr. Rahimi claiming responsibility for the attacks.

Attorneys for Mr. Rahimi declined to mount a case for his defense, calling no witnesses, and in closing arguments addressed only the

Please see BOMBS page A10B

## Yankees Come Home and Take Game Three



DOWN BY ONE: Aaron Judge rounded the bases after hitting a three-run homer in the Yankees' 8-1 win over the Astros on Monday. The Pinstripes trail 2 to 1 in the best-of-seven American League Championship Series, with game four set for Tuesday at Yankee Stadium.

## Improv Group Is Moving Uptown

BY JONATHAN RANDLES

The **Upright Citizens Brigade** Theatre will be moving out of its venue in Manhattan's Chelsea neighborhood, home to its brand of improvisational comedy for more than a decade, and relocating uptown to Hell's Kitchen.

Upright Citizens Brigade, the comedy group co-founded by Amy Poehler, has acquired a lease for the former performance space of the Pearl Theatre Company, which filed for bankruptcy in June.

The new theater is located at 555 W. 42nd St. The move is scheduled to occur by the end of November and will be commemorated with special performances to celebrate the change and bid farewell to the

Chelsea venue, which the improv group took over in 2003. Located on West 26th Street in a basement below a Gristedes supermarket, the Chelsea theater has become hallowed ground in New York City's comedy scene and served as a launchpad for the careers of numerous actors and writers. Live versions of

the Comedy Central television shows "Broad City" and what became "The President Show" were performed in the Chelsea theater.

Upright Citizens Brigade had long been searching for a venue that complies with the Americans with Disabilities Act, said Shannon O'Neill, artistic director of Upright Citizens Brigade Theatre New York. The theater plans to be-

gin performing at the Hell's Kitchen location at the beginning of December, she said.

"We have a very diverse group of students, performers and patrons and we want to be able to serve all of them," Ms. O'Neill said. "Right now, the Chelsea theater doesn't allow that."

Ms. O'Neill acknowledged moving out of Chelsea will be tough for many people connected to Upright Citizens Brigade who have grown fond of the theater's quirks, but said veteran performers she informed of the move over the weekend received the news positively and expressed excitement about the new venue.

The move reflects Upright Citizens Brigade's maturation as an institution over the last

dozen years as it moves on from a basement that was converted into a performance space to a venue designed for theatrical productions. During its 14-year residency at the Chelsea location, Upright Citizens Brigade has grown and today includes an improv training center and additional theaters in the East Village and Los Angeles.

The former Pearl Theatre location is a 160-seat theater with more room backstage for performers, a higher ceiling and no obstructions blocking audience members' lines of sight to the stage, Ms. O'Neill said. There are pillars in the Chelsea theater that can obstruct views of the stage depending on where members of the audience are seated.

At about 8:30 p.m. on Sept. 17, 2016, a bomb—which authorities said was placed in a pressure cooker and left near a dumpster—detonated on 23rd Street in Manhattan's Chelsea neighborhood, injuring 30 people and causing widespread property damage.

Shortly afterward, a civilian call to police revealed a second, undetonated bomb in a bag nearby on 27th Street. Police defused the bomb, a pressure cooker packaged with ball bearings and steel nuts and attached to a cellphone.

Early that same day, a bomb in Seaside Park, N.J.,

## Connecticut Governor Proposes a 'Slimmed-Down' Budget

BY JOSEPH DE AVILA

Connecticut Gov. Dannel Malloy is hoping the fourth time's a charm.

Nearly four months after the start of the fiscal year, Mr. Malloy on Monday released a new budget proposal, his fourth for this year. It comes amid protracted negotiations with lawmakers on how to eliminate a two-year, \$3.5 billion shortfall and threats of further credit-rating downgrades.

The governor's latest proposal includes spending cuts for education, municipal aid and social-service programs. It also eliminates some surcharges and new taxes on seasonal homes that Democrats had proposed earlier this year.

"Folks, it is a slimmed-down budget," Mr. Malloy, a Democrat, said at a news conference. "I'm trying to meet people where I can meet them."

S&P Global Ratings said Friday the state could be headed

for another downgrade as the budget impasse continues. The firm lowered the state's rating from AA- to A+ in May.

Moody's Investors Service said Monday it placed 26 Connecticut towns and cities under review for downgrades, citing the prolonged budget impasse. It also assigned negative outlooks to ratings for an additional 25 municipalities.

Mr. Malloy signed an executive order at the start of the fiscal year on July 1 to keep

state operations running until a full budget agreement passes.

Monday's proposal is his first counteroffer after he vetoed a budget plan passed by the Legislature in September.

The governor said the lawmakers' plan was filled with gimmicks and would invite legal challenges from public-sector unions for making changes to the pension systems for teachers and state employees.

Mr. Malloy has kept one of his most controversial propos-

als in his plan: shifting \$281.6 million in teacher pension costs from the state to municipalities over the next two years.

The new budget immediately drew fire from Mr. Malloy's opponents. "It is obvious that the governor's proposal, including his devastating cuts to certain core services and shifting of state expenses onto towns and cities, would not pass the Legislature in its current form,"

said Len Fasano, the Senate's top-ranked Republican.

### Plan's 2-Year Effect On Municipalities

\$178 million less for education

\$9 million more for special education

\$282 million in new teacher pension costs

\$92 million additional funds for Hartford

Source: Gov. Dannel Malloy's office

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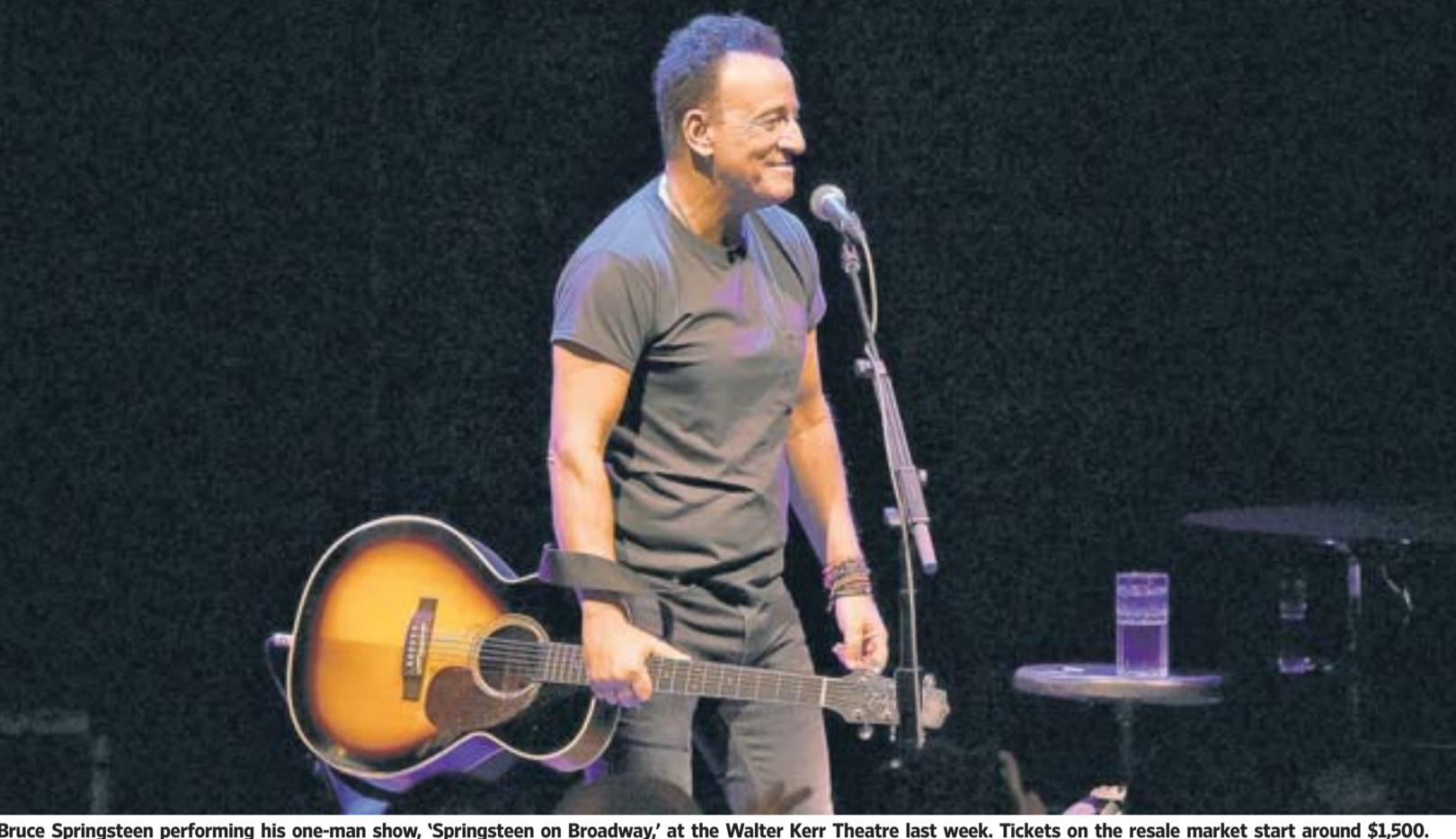
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## GREATER NEW YORK



Bruce Springsteen performing his one-man show, 'Springsteen on Broadway,' at the Walter Kerr Theatre last week. Tickets on the resale market start around \$1,500.

# Springsteen Tickets Rock Broadway

BY CHARLES PASSY

Tickets for Bruce Springsteen's one-man Broadway show are going for as much as \$12,500 on the resale market, putting the musician into "Hamilton" territory.

The New Jersey-born rocker's "Springsteen on Broadway" show, which opened Thursday to mostly positive reviews after a brief preview period, is sold out for its entire run through Feb. 3. Seats on StubHub, the resale site, start around \$1,500 for most performances, with select tickets costing five figures in a few instances.

The original prices ranged from \$213.50 to \$875, not including 26 tickets made available for every performance through a lottery for \$75.

Last week, the show took in \$1.9 million at the box office, according to figures released Monday by the Broadway League, a trade group. That puts "Springsteen on Broadway" almost in the same league as such sales juggernauts as "Hamilton," "The Lion King" and "Hello, Dolly!"

That is despite the fact Mr. Springsteen's show, which consists of an extended monologue with musical interludes, is being staged in one of Broadway's relatively smaller venues—the Walter Kerr Theatre, which has slightly under 1,000 seats.

And for all the success that "Hamilton" has enjoyed, tickets for the perpetually sold-out Tony Award-winning show start at much lower prices on StubHub—typically, around

### Grosses Last Week

1. "Hamilton," \$2.9 million
2. "Hello, Dolly!" \$2.4 million
3. "The Lion King," \$2.1 million
4. "Springsteen on Broadway," \$1.9 million
5. "Wicked," \$1.8 million
6. "Dear Evan Hansen," \$1.7 million
7. "Aladdin," \$1.5 million
8. "Come From Away," \$1.3 million
9. "The Book of Mormon," \$1.3 million
10. "The Phantom of the Opera," \$1.1 million

Source: The Broadway League

\$300 to \$400.

It remains to be seen if "Springsteen on Broadway"

will take home any Tonys.

The awards program has yet to determine what, if any, categories would apply to the production, which was written and directed by Mr. Springsteen and tracks his life and career while featuring such hits as "Born to Run" and "Dancing in the Dark."

It could be considered eligible in the Best Musical category, with additional awards for everything from direction to acting. But in past years, the awards program has put some nontraditional productions in a "special theatrical event" category, such as the actor and comedian Billy Crystal's one-man show, "700 Sundays."

The earliest the matter may be decided is Nov. 9, when an awards administration committee meets.

It is quite possible that the show won't put itself into play for the awards. One possible reason: Given the show's financial success and the fact it has such a limited run, producers may not want to make free tickets available to the roughly 800 voters, a requirement for any Tony contender.

Officials with the show declined to comment on the matter. But a source close to the production pointed out that the tickets aren't there to be had at this point in any case—unless Mr. Springsteen decides to add more performances. The source added that the show, however, is inviting members of the Tony administration committee, suggesting that it is vying for some recognition.

# Demand Boosts Industrial Rents

BY KEIKO MORRIS

Strong demand for modern warehouse space helped push asking rents for New Jersey's industrial buildings up sharply in the third quarter, with big retail tenants willing to pay a premium for locations close to New York City, according to JLL.

Asking rents for industrial space in New Jersey rose to \$7.09 a square foot in the third quarter, an 11.8% increase from the same period last year, JLL said.

The central New Jersey submarket reached \$6.31 a

square foot, a 14.5% bump from the previous year. Northern New Jersey's asking rents climbed 10.5% to \$7.69 a square foot, according to JLL's report.

Vacancy rates dropped to historic lows, with New Jersey's overall rate falling 0.6 percentage point to 4%. The central New Jersey submarket's vacancy rate dropped to 3.4% in the third quarter.

About 6.5 million square feet of industrial space was under construction during the quarter. The amount under construction is relatively high for New Jersey, where land is

limited, analysts said.

"There is more tenant demand than there is inventory coming online, proposed or under construction," said David Knee, JLL executive managing director. "So in the near term it means rents are going to continue to grow."

Online retailers are driving demand. Wayfair Inc., an online home-goods retailer, signed a lease for 1.3 million square feet at a Cranbury development, according to JLL.

In certain submarkets such as the Meadowlands, where there is a lack of quality warehouse space despite proximity

to New York City and the ports, the jump in rents was even sharper than the state's overall increase. The average asking rent in the Meadowlands rose 16% to \$8.95 a square foot.

Somerset County on the I-287 corridor has become a destination for tenants fleeing "skyrocketing asking rates" in locations along the New Jersey Turnpike, according to the report. But that increased demand has pushed the vacancy rate to 1.6% and driven up average asking rates to \$6.74 a square foot, a 23% increase from last year.

### Climbing Higher

Average asking rents for industrial space in New Jersey

\$8 per square foot



Source: JLL  
THE WALL STREET JOURNAL.

## BOMBS

Continued from page A10A counts related to the undetonated bomb on 27th Street.

Mr. Rahimi's lawyer, Sabrina Shroff, told jurors Friday that her client should be acquitted on counts related to the 27th Street bomb, saying prosecutors hadn't shown that he intended to detonate it.

"You can despise Mr. Rahimi for doing something so heinous as leaving a bomb on a public street," Ms. Shroff said. But the fact that the 27th Street device didn't detonate shows that Mr. Rahimi didn't intend to set it off, she argued.

"Your common sense tells you that this is a man who knows how to detonate a bomb. If he wanted to, he would have done so," Ms. Shroff said. She and other lawyers for Mr. Rahimi declined to comment outside the courthouse following the verdict.

In a rebuttal statement on Friday, federal prosecutor Andrew DeFilippis said Ms. Shroff's argument "does not pass the smell test."

"If the defendant had his way, there would have been bodies on 27th Street," Mr. DeFilippis said. "This was not cold feet...this was cold blood."

The jury foreman spoke briefly with reporters as he left the courthouse Monday, saying: "It's never easy for somebody to take part in something like this."

### SEXUAL HARASSMENT

#### Companies Could Lose Tax Breaks

A New York lawmaker says the state should refuse to grant tax credits to companies that fail to address repeated problems of sexual harassment in the workplace.

State Assemblywoman Linda Rosenthal said on Monday that she has written legislation that would require firms to disclose sexual harassment complaints and settlements going back five years when they apply for tax breaks or other state business incentives. Companies with a poor record of handling harassment would be ineligible for state help.

Ms. Rosenthal, a Manhattan Democrat, says she thought of the bill following the sexual harassment and assault allegations against film producer Harvey Weinstein. The state needs to consider all the ways it can to fight harassment and discourage companies from covering up or enabling outrageous misconduct, she says.

—Associated Press

### IMMIGRATION

#### Candidate Offers Couple Sanctuary

A Christian Indonesian couple who fear they will be deported if they follow orders to report to U.S. immigration officials have taken refuge in a church run by

—Associated Press

# Dismissal Denied in Trial of Menendez

BY THOMAS MACMILLAN

A federal judge on Monday rejected a defense motion to dismiss the corruption case against U.S. Sen. Bob Menendez.

Mr. Menendez, a two-term New Jersey Democrat, is currently on trial in Newark federal court on fraud and bribery charges. Prosecutors say he took \$1 million in gifts and campaign contributions in exchange for political favors for Florida doctor Salomon Melgen, his co-defendant in the trial.

Both men have pleaded not guilty. The senator has said the government is seeking to criminalize his longstanding friendship with Dr. Melgen.

Prosecutors have sought to persuade jurors that Mr. Menendez used his office to help Dr. Melgen in a medical billing dispute, to secure travel visas for the doctor's girlfriends and to intervene in a government donation to the Dominican Republic in an effort to benefit Dr. Melgen's investments.

When the prosecution rested its case Wednesday after five weeks of testimony, lawyers for Mr. Menendez called for the case to be dismissed. They argued that the government hadn't presented sufficient evidence.

Prosecutors have sought to connect gifts from Dr. Melgen to specific actions taken by Mr. Menendez. But the case rests largely on circumstantial evidence; there is no smoking-gun proof showing an explicit quid-pro-quo relationship between the two men, legal experts have said.

The Menendez case is complicated by a U.S. Supreme Court decision in a corruption case involving former Virginia Gov. Bob McDonnell, which narrowed the definition of official corruption.

The prosecution has argued that the case against Mr. Menendez depends on a "stream of benefits" theory of bribery, in which a public official receives many gifts over a long period. That theory remains valid even after the McDonnell decision, prosecutors say. Mr. Menendez's lawyers disagree.

Defense lawyers argued Monday that the prosecution hadn't shown that Mr. Menendez and Dr. Melgen had a specific agreement to exchange gifts for political acts, as required under the McDonnell decision.

But Judge William Walls said the McDonnell decision doesn't state that such specificity is required to prove criminal wrongdoing.

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## GREATER NEW YORK WATCH

### SEXUAL HARASSMENT

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A Christian Indonesian couple who fear they will be deported if they follow orders to report to U.S. immigration officials have taken refuge in a church run by

—Associated Press

### NEW YORK

#### State Encourages Organ Donation

New York state is taking steps to make it easier to sign up as an organ donor. Democratic Gov. Andrew Cuomo announced a new executive order Monday directing state agencies to work to make it easier to enroll on the state's Donate Life Registry, the list of organ donors. The order also directs officials to offer the choice of signing up whenever New Yorkers apply for state services or benefits. The state is also revamping the registry enrollment website to make it easier to use.

The governor says more than 84,000 people have signed up to be donors in New York state so far this year.

—Associated Press

Arthur Jemmy in the Reformed Church of Highland Park.

Photo: JULIO CORTEZ/ASSOCIATED PRESS

# LIFE & ARTS

TURNING POINTS | By Clare Ansberry

## Was It Just a Coincidence?

The unexpected concurrence of events can be strangely providential; When there is something more at work than chance

**CHANCES ARE** you've had a coincidence in your life, maybe a particularly memorable one that makes you wonder why.

Carol Tippett did. Ms. Tippett, and her husband, Eddie Hedger, of Portland, Ore., owned a franchise called Hoodz that cleaned commercial kitchen equipment. They were at a critical point, having just landed a big contract, when Eddie was killed in a motorcycle accident in 2014. During the months that followed, Ms. Tippett struggled over whether to invest in the business or sell it. At one point, she found herself in a taxi, en route to look at a truck that she wasn't sure she should buy.

"I was just thinking to myself, 'Oh Eddie, I wish you were here helping me,'" she says. As soon as the taxi pulled into the parking lot, the song "Truly, Madly, Deeply," by Savage Garden came on the radio. It was a song Eddie sang to her and had become their special song. "I got chills," says Ms. Tippett. "I felt like it couldn't have been anything else but Eddie reaching out to me letting me know I was doing the right thing."

A coincidence is an unexpected concurrence of events. It can be remarkable but relatively insignificant, like running into a colleague and his family at a little vegetarian restaurant in Hawaii. It can also be strangely providential, like missing a plane that later crashed.

Scholars don't agree on their cause, with some citing probability, others God, and still others our subconscious. Coincidences are random and due to probability, says David Hand, a British statistician and author of "The Improbability Principle: Why Coincidences, Miracles and Rare Events Happen Every Day." Prof. Hand cites five laws that explain why the improbable happens, including the law of truly large numbers. "If something has a tiny chance of occurring but enough opportunity to occur, it will occur," he says.

People inject meaning into coincidences, he says, because we seek patterns and order. But there's no great metaphysical force at work or significance in them, he says.

That doesn't mean they aren't wonderful and interesting. He marvels over his own coincidences. The same month his improbability book was published, a novel "Coincidence" was published in the U.S., which told the story of a London-based professor who is making a study of coincidences, like Prof. Hand. The female protagonist teaches at the same university as Prof. Hand's wife. The fictional and real professor shared the same birthday—June 30. J.W. Ironmonger, who wrote "Coincidence," says he never came across Prof. Hand and his work before the book was published.

Although they might seem rare, coincidences are more common than we might think and are becoming even more so with social media, which provides greater op-



Cristina Spano

portunities to discover people, who might have the same birthday, middle name or third-grade teacher. They can happen so often that some people become anxious and obsessed with coincidence. They see someone in the morning and twice more that day and become paranoid.

Several of Bernard Beitman's patients need what he has termed coincidence counseling. "People get very perplexed by them, seeing a person over and over again in a day. They start to think they are a little crazy," says Dr. Beitman, a former chairman of the Department of Psychiatry at the University of Missouri-Columbia and author of "Connecting with Coincidence."

Sometimes, too, we subconsciously create our own coincidences. We don't fill a gas tank, so we run out of gas and can't get to a dreaded date. It might look a meaningful coincidence that affirmed our reluctance, but it's more likely we sabotaged the date.

Based on an online survey compiled in 2016 of 1,551 people who experienced coincidences, Dr. Beitman found the most common type of coincidences involve thinking of calling someone, only to have that person unexpectedly call you. He also found that people who are intuitive or highly sensitive tend to experience more coincidences. Those who are more outgoing and willing to strike up conversations with strangers are also more likely to find unexpected connections.

Dr. Beitman, who believes there is more to coincidences than probability, said coincidences followed him through his life, one of the most memorable being when he was 31 and living in San Francisco. His father lived in Connecticut. At 11 p.m., Dr. Beitman started choking over the sink as if something was caught in his throat although he was not eating or drinking anything. It was strange, but he went to bed.

Scholars don't agree on their cause, with some citing probability, God, or our subconscious.

The next morning his brother called and said that his father had died at 2 a.m. after choking on blood.

He calls that experience simpathy, a term he coined, which means experiencing or feeling another's distress at a distance. Identical twins often experience simpathy. Another category is serendipity—finding what you need when you need it, or looking for one thing and finding another. The person you met at a party you didn't want to attend steers you to a job.

Mary Ann Bohrer was working for a major public-relations firm in New York when she started doing pro bono work for a national domestic-violence hotline. She re-

ceived a call from a marketing executive of the company underwriting the hotline who wanted to meet the following week after hearing about her pro bono work from the hotline director. She told him she was traveling. The two of them ended up on the same plane flying to Plano, Texas. They talked. He offered her a job. She left the PR firm and began working full time on the hotline.

"It was just so weird," says Ms. Bohrer, who is writing a book on intuition in her free time. "He called me out of the blue and we ended up on the same plane."

David Spiegelhalter, a Cambridge University mathematician, gathers coincidences, loves them and sees them all as random chance. One married couple discovered that they were likely born in the same bed in a little cottage hospital in a small German town. His favorite is the story he read in news reports of a lost wedding ring found years later on an unearthed carrot, which is amazing in and of itself, but even more so that it happened twice in six years: once in Canada and the other in Sweden.

Chance, he says, is often associated with risk and bad things happening. He sees coincidences as the positive side of chance. "You meet an old friend you haven't seen for years or closely connect to someone who was a stranger. They can be enormously positive and reinforce our connectedness to each other and the world."

### The Top 10 Coincidences

■ I think of a question only to have it answered by an external source (i.e. radio, TV, or other people) before I can ask it.

■ I think of an idea and hear or see it on the radio, TV, or internet.

■ I think of calling someone, only to have that person unexpectedly call me.

■ I advance in my work/career/education by being in the right place at the right time.

■ I need something, and the need is then met without my having to do anything.

■ I am introduced to people who unexpectedly further my work/career.

■ I run into a friend in an out-of-the-way place.

■ When my phone rings, I know who is calling without checking the screen or using personalized ring tones.

■ Meaningful coincidence helps determine my educational path.

■ I think about someone and then that person unexpectedly drops by my house or office, or passes me in the hall or street.

Source: Bernard Beitman

### COMIC BOOKS

## BATMAN TAKES ON A MORE HUMAN DIMENSION



Batman aka Bruce Wayne, above left, shows human vulnerabilities in the latest comic books written by Tom King, inset.

BY MICHAEL RAPORT

**BATMAN**, the Dark Knight, finally has a little light in his life. He's still driven to fight evil and protect Gotham City but over the past year he's become a more human, emotionally vulnerable figure than the perpetually grim, obsessed avenger portrayed in many earlier comic books. Recently, he confessed his deepest secret to Catwoman, his on-again, off-again love—and asked her to marry him. The next installment in the life of the DC Entertainment superhero, which goes on sale this week, deals with the repercussions of her answer.

The Dark Knight's transformation is the handiwork of Tom King, who has been writing Batman's adventures for more than a year now.

"What I like best about Batman

is that he's sort of a machine that turns pain into hope," Mr. King said. "He's had the horrible happen to him"—witnessing his parents' murder as a boy. "He's lived a hellish life, and it's done all it could to pull him down, and he takes that pain and turns it into his strength."

Mr. King, who is 39 years old, brings a unique perspective to his superheroes, thanks to the seven years he spent working for the Central Intelligence Agency both overseas and in the U.S. He served in Iraq after the U.S. overthrew Saddam Hussein's regime, and recruited people to penetrate terrorist networks. "It was all focused on preventing the next 9/11," he said.

The career change to comics from counterterrorism doesn't seem odd to Mr. King. "I always

Please see BATMAN page A13



## LIFE & ARTS

YOUR HEALTH | By Sumathi Reddy

# A New Search for Male Birth Control

Researchers are testing a contraceptive gel that's shown early signs of working—but it still faces hurdles

**A FEDERAL EFFORT** is under way to develop a new kind of male contraceptive, a development that scientists say would be an important public-health breakthrough. It's also an effort that has struggled for years.

The National Institutes of Health plan to start recruiting couples soon for a clinical trial of a gel that is applied to men's shoulders.

The gel includes the hormone progestin, which prevents the testes from making testosterone at a level that supports sperm production. It also contains testosterone to maintain normal blood levels to try to prevent a hormone imbalance that might cause side effects.

An easily accessible contraceptive for men could have far-reaching effects, though scientists don't expect a male contraceptive to have as huge of an impact as the introduction of birth control pill decades ago. They expect it to reduce unintended pregnancies. It would allow men to better control their own fertility. It could also allow women to discontinue their birth control.

Efforts at developing a male contraceptive have been held back by lack of interest from big pharmaceutical companies. A large human clinical trial several years ago ended early because some participants experienced depression and mood disorders.

The NIH trial is expected to take about three years. If successful, researchers would move on to another trial. That means any commercial product is years, or even a decade, away.

An earlier six-month study had men apply the progestin gel on their abdomens and a commercially available testosterone treatment on their shoulders. The researchers found that the gel suppressed sperm production after a couple of months. The men's sperm count went down to less than one million per milliliter, the threshold used for contraception. The results were published in *The Journal of Clinical Endocrinology and Metabolism* in 2012.

Researchers wanted a smaller volume of gel and a single preparation to make it easier to use. So they reformulated the material, combining the two hormones into a gel that requires only about a teaspoon that is applied to each shoulder. They tested the new product with about 25 men in a one-month study. It succeeded: The only side effect was mild acne.

Now the researchers plan to study the gel application on a



larger scale, enrolling 420 couples at nine sites on four continents. Men will begin applying the gel every day, while their partners will continue using their usual contraception. Once the men reach a low enough sperm count, the couples will stop using any other contraception.

"The progestin shuts down the pathway," says Diana Blithe, who is heading up the trial. She is chief of the contraceptive development program at the National Institute of Child Health and Human Development, part of the NIH. "The intention is that the couple will use the method for up to a year, and at the end of that time there are hopefully few pregnancies, with a failure rate similar to typical use of oral contraceptives."

Dr. Blithe says researchers are testing the product on men's shoulders because currently available products for patients with low testosterone instruct patients

to apply testosterone gel there.

The typical failure rate of oral contraceptives for women is 7%, while that of condoms is 13%, according to the most recent data published in March in the journal *Perspectives on Sexual and Reproductive Health*. Such rates take into account improper use of the product.

A California facility is producing large quantities of the gel as researchers await feedback on their protocol from the FDA and their European counterparts. They will begin enrolling couples in 2018.

Even if the test succeeds, researchers haven't found a pharmaceutical company willing to make the gel.

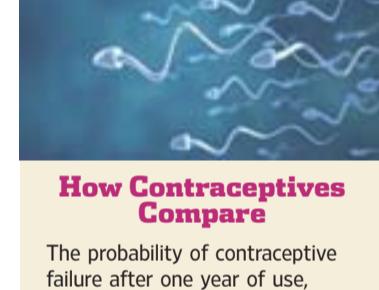
"At the moment no one is beating down our door," Dr. Blithe says. "I hope they will be. I think this is really groundbreaking territory and somebody may decide that this is an opportunity."

Some experts advocate looking

to nonhormonal approaches to developing a male contraceptive. Other methods being studied could inhibit the sperm's ability to fertilize an egg, inhibit sperm mobility or interfere with the sperm transfer process by creating a blockage in the vas deferens, the tube that sperm travel down before getting to the urethra, without requiring surgery.

Aaron Hamlin is executive director of the Male Contraception Initiative, a nonprofit that funds and advocates for nonhormonal male birth control. Hormonal contraception has the issue of potential side effects and can take several months to start working and require testing of the sperm count.

Mr. Hamlin says at least three companies are working on methods that would create a blockage in the vas deferens, a nonsurgical variation on the vasectomy. The question that remains, he says, is making it reversible.



### How Contraceptives Compare

The probability of contraceptive failure after one year of use, due to both user error and failure of method to work:

All methods combined: 10.3%

Injectable: 4%

Pill: 7.2%

Male condom: 12.6%

Withdrawal: 19.9%

Long-acting reversible (IUD and the implant): 1.4%

Source: *Perspectives on Sexual and Reproductive Health* (March 2017)

## Weather



## LIFE & ARTS



Dashiki, door-knocker earrings and Dutch wax interpreted for the exhibition by Monika Mogi, left; Levi Strauss waist overalls (1890), right



gamt, as in this sampling: Aviator Sunglasses, Birkin Bag, Cheongsam, Dashiki, Flip-Flops, Kippah, Monogram, Pearl Necklace, Speedo, Tattoo, Wonderbra. Haute and humble, bohemian and Brahmin, Western and Eastern, male and female. Some of the items aren't even items—Fleece, Gore-Tex, Dutch Wax—but fabrics or fabric treatments.

The show fills the sixth floor Special Exhibitions gallery, a huge space divided roughly into three sections. It does not move alphabetically but in loose groupings that address ideas: silhouette, technology, modesty, messaging, sports and power. The curators bring two and sometimes three levels of exploration to each item.

First there's the stereotype: the item as it is collectively envisioned.

Some items have many examples—11 Little Black Dresses show the changing silhouette of the LBD through the decades—while others, like the Turtleneck, have just one (but what a one: It's Issey Miyake's 1980 design for Sony employees—a subtle seam bisecting the front—which Steve Jobs asked Mr. Miyake to make for him as well).

Then there's the historical archetype, which is discussed in label text and illustrated in videos. The Snugli, for instance, patented in 1969, is supported by photographs showing diverse cultural iterations of baby slings worn fore and aft, as well as a kangaroo with a baby in its pouch.

About a third of the items on display include prototypes, specially commissioned works that reconsider the stereotype, either through sustainable materials or futuristic technical leaps. These are the most interesting pieces in the show. A prototype Shift Dress designed by Stella McCartney is made of a lustrous sunflower-yellow fabric spun from manmade spider's silk. And Pia Interlandi's Little Black (Death) Dress is a funeral shroud that turns white, through heat transfer, wherever it is touched by mourners. Beguiling is Richard Nicoll's Optic Slip Dress from 2015, conceived in collaboration with Studio XO and reproduced here. Its fiber-optic fabric gives it a spectral glow, a bioluminescence.

In the exhibition

catalog, in her essay "Who's Afraid of Fashion?", Ms. Antonelli admits that at first she "felt anxiety about using 'fashion' in the title" of this show, but then chose to embrace the word. All right. But the wall text, overly didactic, has the effect of holding the subject at arm's length. And one's looking, despite those inventive prototypes, is too often unrewarded. A black nylon backpack, even one by Prada (1984), does not thrill. And who wants to gaze at a Fitbit? Because so many of the items are mundane—Headphones! Bucket Hats! A Red Lipstick!—the viewer must spend a lot of time reading about why a piece is included, and this is tedious. "Items" begins to feel like a very long sociology class. In its decision to bring fashion on board MoMA has every right to set the context. But does seriousness have to be such a slog?

**Items: Is Fashion Modern?**  
The Museum of Modern Art, through Jan. 28, 2018

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

## EXHIBITION REVIEW

# A Sociology Class On Iconic Items

Pieces from Levi's to the Speedo, seen through the lens of artistic modernity

BY LAURA JACOBS

New York

**IT'S A LITTLE LATE** in the day to be definitive about fashion. Museums of art and design that don't let clothing in the door don't look pure—they look stubbornly patriarchal (dissing fashion as a female form) or close-minded (judging it ephemeral and therefore frivolous). Fashion brands and design signatures are common coin today, no matter what one's level of income or education. And we're all semioticians when it comes to clothes, making choices that carry political and poetic subtexts whether we know it or not. With the exhibition "Items: Is Fashion Modern?" the Museum of Modern Art has fi-

nally come to the party.

"Items" is actually the second exhibition on fashion in MoMA's history. The question in its title is an echo of MoMA's first, in 1944, an exhibition called "Are Clothes Modern?" That show was curated by the architect and social historian Bernard Rudofsky, and its press release stated: "It will not be a style or fashion show; it will not display costumes... The purpose of the exhibition is to bring about an entirely new and fresh approach to the subject of clothes." We are not told whether it succeeded in this purpose.

In their introductory wall text, the exhibition's curators, Paola Antonelli—MoMA senior curator, Department of Architecture and

Design—and curatorial assistant Michelle Millar Fisher, explain that in questioning fashion's modernity they are using the definition of "modern" that's applied to architecture and design: "a constructive attitude based on the unity of the arts, working together on society's needs, aspirations, and priorities. In this exhibition, garments created for the benefit of many coexist with those made for the delight of a few. What they have in common is their influence on the world over the past one hundred years."

And so an alphabetical list of 111 "items" takes up an entire wall at the entrance to the exhibition. The black print on the white wall is purposely generic (just as the word "items" is), as if establishing a fashion baseline. Between item 001 (Levi's 501s) and item 111 (YSL Touche Éclat, a cosmetic used for facial contouring), the chosen garments and accessories run the



One-Star Perfecto Leather Motorcycle Jacket (late 1950s), below; New Era 59FIFTY style New York Yankee scarlet fitted cap (1996), left



## BATMAN

*Continued from page A11*  
wanted to be a writer—the CIA's the weird thing," he said in a recent interview at New York Comic Con.

In fact, he said, his CIA work gave him a pretty solid grounding in understanding people who work under extreme conditions and put themselves at risk for the greater good. That comes in handy when writing about superheroes.

"They require the same basic skill, which is empathy," he said. As a CIA officer, "you have to sit across from someone that you don't know anything about, that you can't relate to, with different values, and you have to be inside their head, and know what they want more than they know. And that's all a writer does, all day long."

At DC, Mr. King recently picked up an additional assignment: writing the adventures of Mister Miracle. Like Batman, the character has survived trauma. Mister Miracle is a super-escape artist who grew up on the hellish planet Apokolips. "What that did to him and how it affected him is what the story's about," Mr. King said.

Mr. King wanted to work in comics before he joined the CIA, and during the 1990s interned at DC and Marvel Comics. He earned a degree in philosophy and history from Columbia University, worked in the U.S. Justice Department and intended to go to law school—until the 9/11 attacks motivated him to

join the agency.

He worked in counterterrorism as an operations officer. "I've seen people at their absolute worst, the worst of humanity," he said. "I've sat across from monsters who would destroy me and my family, and I've asked them for help. And I've seen the best of humanity, colleagues of mine who for no reason at all were risking their lives to save everyone."

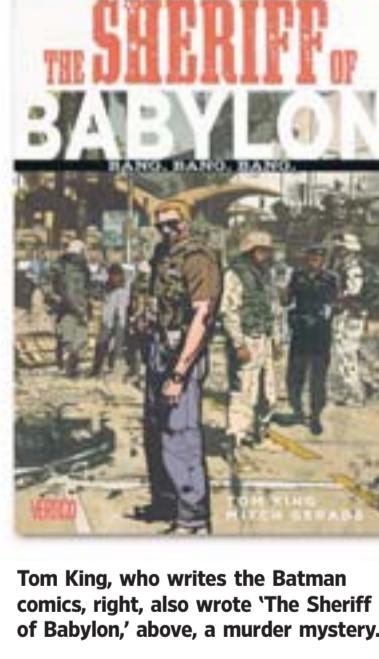
He isn't allowed to go into detail about his CIA work, but it informs everything he writes. "I can write about the emotions of it," he said. "If you're going to be a writer, if you're going to write Batman or anything, you have to draw from your life. That was my life."

Mr. King left the agency because he didn't want to be apart from his wife, Colleen, and their three children any longer. At one point, in the middle of an interrogation overseas, he called his wife to wish her a happy birthday.

"I couldn't be the CIA officer I wanted to be and the father I wanted to be," he said. "I was raised by a single mother, my dad wasn't in my life and I wanted to be in my kids' lives."

He started writing and had a novel about superheroes, "A Once Crowded Sky," published in 2012, before breaking into comics. He first attracted widespread acclaim for his take on the Vision, Marvel's android hero. In Mr. King's story, the Vision tries to create his own family and live an ordinary suburban life, with tragic results. The series won an Eisner Award, one of the comic industry's highest honors.

Before taking on Batman, Mr.



Tom King, who writes the Batman comics, right, also wrote 'The Sheriff of Babylon,' above, a murder mystery.

King wrote "The Sheriff of Babylon," a murder mystery set in post-invasion Iraq, for DC's Vertigo imprint. It's the book most directly inspired by his CIA experience and the only one he had the agency vet to make sure he wasn't giving away secrets. The CIA didn't ask for any changes, Mr. King said, adding "I know the lines I'm not supposed to cross."

When dealing with a character like Batman who's been around almost 80 years and has been in thousands of stories, he said, "the question is what can you do that's new. And the only thing you can do, the only thing you can bring that nobody else can bring, is yourself."



# SPORTS

## BASKETBALL

# Rockets' Plan to Shoot Past the Warriors

Why the NBA's most aggressive team wants to shatter the record for most 3-pointers in a season—again

BY BEN COHEN

**THE HOUSTON ROCKETS** had one of the most explosive offenses ever last year because they shot by far the most 3-pointers of any team in NBA history. And now they want to shoot more. A lot more.

"We can definitely average more than we did last year," Rockets coach Mike D'Antoni said in an interview. "I don't think we averaged 50. We could average 50 this year."

That sounds completely nuts. No team before last year had taken 50 threes in *any* game. D'Antoni wants his team to do it *every* game.

The Rockets averaged 40 last season and destroyed the record for most 3-point attempts by 23%. They would incinerate their own record by another 24% if they somehow average 50 this season. They also would likely become the first NBA team to shoot more 3-pointers than 2-pointers.

But it isn't completely nuts. It's only slightly nuts. And only slightly nuts is what it takes to win in today's NBA because the Golden State Warriors still exist.

The Warriors were the best regular-season team ever two seasons ago. They were undeniably better last season. And they have reason to believe they will be even better when this season begins Tuesday night against the Rockets.

They also explain why the NBA's off-season was such a circus that it might as well have involved elephants. This was a summer when the Warriors' biggest threats—the Cleveland Cavaliers, San Antonio Spurs, Boston Celtics and especially the Oklahoma City Thunder—made bold moves to beat a team that often appears unbeatable. But the Rockets were the most aggressive participant in the league's escalating arms race.

They traded for Chris Paul even though they already have James Harden. They added versatile wing players to deploy in small-ball lineups and improve their defense. And they realized that shooting an unprecedented number of 3-pointers wasn't shooting enough.

The analytics suggested there was still value to be exploited behind the arc. So their coach wants them to be more extreme this year.

The way that D'Antoni talks about 3-pointers is the way he used to talk about pace when his mid-2000s Phoenix Suns teams played faster than anyone in the league. He makes radical ideas sound perfectly rational. Take his thoughts on whether there is such a thing as too many 3-pointers.

"I don't think so," he said. "If it's a bad shot, it's too many. If it's still the right shot, and you've got the right guy shooting it, then I



James Harden of the Houston Rockets shoots over Golden State's Stephen Curry.

## Ready for Launch

The Rockets want to shoot more than 50 threes per game—which would break the NBA record they set last year.

Team (year) Avg. 3-pt attempts/game

Rockets (2018) 50?

### NBA leaders

Rockets (2017)	40.3
Cavaliers (2017)	33.9
Celtics (2017)	33.4
Rockets (2015)	32.7
Warriors (2016)	31.6

Note: Year to season

Source: Basketball-reference.com

THE WALL STREET JOURNAL.

Houston's plan to play them apart.

Paul and Harden playing the same position for the same team means Houston can keep a star point guard on the court even when its other star point guard is on the bench. They have the luxury of a future Hall of Famer running the team for 48 minutes. It wasn't long after Paul signed that D'Antoni started dreaming about exactly that possibility.

"As soon as the ink was halfway dry," he said. "We just have to make sure we stagger them enough to do it."

The addition of Paul gives them more of everything this year. More stops on defense. More transition opportunities, more possessions and more variety on offense. And the potential for more 3-pointers.

"The more threes we get up," said forward Ryan Anderson, "the better our offense is."

It isn't only that the Rockets expect to take more threes. They also expect to take smarter threes.

The beauty of their two-point-guard lineup is that it should create open looks for players who should never be left open. For example, Paul and Harden will bump Anderson and Eric Gordon to the corners, where there is a blatant advantage: The arc is nearly two feet closer to the basket. But they were so rarely positioned in the corners last year that they somehow took more threes from beyond 27 feet. "I'd much rather shoot an open corner three than one five feet outside the arc," Anderson said.

That's one of the reasons it isn't unthinkable for Houston to hit D'Antoni's number. The Rockets had five exhibitions to get ready for their first crack at the Warriors on Tuesday. They took a rather absurd 61% of their preseason shots from behind the arc. And their average number of 3-point attempts: precisely 50 per game.

don't think so."

The Rockets' goal isn't necessarily to shoot 3-pointers at an extraordinary rate. D'Antoni simply wants them to take the first good shot they get. "You can't give up going to the basket and getting in the lane and creating foul," he said.

"Threes should be a product of that. As long as they come off your driving and kicking, then you take as many threes as they give you."

But sometimes there are no threes to be taken. He doesn't mind when teams do whatever they can to stop the Rockets from launching. That attention gives them space to chase the highly efficient shots—layups and free throws—that come

from attacking the rim instead.

"Maybe we get so great at driving that we only average 40 threes," D'Antoni said. "I'm fine with that."

Only 40 threes? The Rockets also came into last season with the explicit goal of breaking the record for 3-point attempts per game. It was 32.6. They shattered the mark.

But it shouldn't have been a surprise that the Rockets had the 10th best offense of all time in D'Antoni's first season. His offensive genius has always been embracing strategies that seem counterintuitive until they become conventional. Which makes D'Antoni a perfect match for Houston general manager Daryl Morey.

In a recent interview, when asked

whether the Rockets had reached 3-point equilibrium yet, Morey pulled the statistics of the Rio Grande Valley Vipers, his Petri dish of a G League team. He pointed out that the Vipers once averaged 45.4 threes over an entire season.

"The league will keep changing until the expected points and all the different actions on the floor converge into a similar number," Morey said. "I do not think we're there yet."

Shooting more 3-pointers than anyone thought possible isn't their only progressive scheme. The Rockets paired Harden and Paul in the off-season so they could play together. But no less interesting is

**FOOTBALL** | By Jason Gay

# CAN GREEN BAY RALLY WITHOUT RODGERS?

Aaron Rodgers busted his collarbone, will need surgery, and may be lost for the rest of the football season. It's a bummer, not just for Green Bay Packers lunatics, but also for sports fans in general—Rodgers is one of the most thrilling players in the NFL, athletic and canny, capable of pulling a last-second victory out of his...let's just say there's no character in the game quite like Aaron Rodgers. The under-fire NFL front office and its television partners probably reached for the bourbon Sunday night.

The only thing NFL fans like more than great quarterbacks is screaming about who should replace one after he's injured. Nothing alters a team like losing a good QB, and for every Gehrig over Pipp ascension (Tom Brady taking over for an injured Drew Bledsoe is the biggest, and Jeff Hostetler won a Super Bowl for the Giants after taking over for a hurt Phil Simms), there are countless tales of seasons lost when the top man goes down unexpectedly.

It's a nightmare. Football is rich with tough-guy "Next Man Up" culture—as in, it's a sport with frequent injury (the NFL is also without banged-up stars J.J. Watt and Odell Beckham Jr.), and replacements need to be at the ready, but quarterback is a different story. Most of the teams in the NFL don't even have a QB they feel OK about

asking for a lift to the airport, much less starting an NFL game.

As soon as Rodgers got into the injury cart, speculation began to rage. And of course the attention went to the biggest names first. Would the Packers bring in Colin Kaepernick—currently a free agent without a team—or Tony Romo, currently singing an unexpectedly gorgeous duet of "Islands in the Stream" with Jim Nantz every weekend as an analyst for CBS?

Packers coach Mike McCarthy pooh-poohed an outside talent search, saying that newly elevated Packers No. 2 Brett Hundley is my quarterback, Joe Callahan is the backup, that's the direction we're going." McCarthy doubled down on the pooh-pooh on Monday, snapping at a reporter who raised Kaepernick as a possibility. "I got three years invested in Brett Hundley. Two years invested in Joe Callahan. The quarterback room is exactly where it needs to be. OK?" the coach said, sounding like your parents when they say they have McDonald's at home.

This won't stop the speculation, however, since A) insufferable sports media knuckleheads like me can't help ourselves and B) Kaepernick and Romo have talent and Wisconsin roots and C) Brett Hundley and Joe Callahan are...Brett Hundley and Joe Callahan (Hundley also donated three interceptions in a loss to the Vikings Sunday). Kaepernick may still be tangled amid the protest



Green Bay Packers quarterback Aaron Rodgers broke his collarbone in Sunday's game against the Minnesota Vikings.

controversy (he also has filed a grievance with the league, alleging collusion among NFL ownership to keep him out of the game), and Romo was hobbled by injuries late in his career and has made a nice transition to TV, but there's a cheery sentimental twist to bringing them back to their home state.

If Hundley struggles, and if Callahan steps in and struggles, too, you can expect more of the same.

I'm surprised no one's gotten onto the Brett Favre bandwagon. I'm serious. Sort of. OK, not really.

You don't have to reintroduce Favre to Green Bay. You don't have to give him directions to the stadium. The guy still has a steakhouse across the street from Lambeau Field, the Hall of Fame Chophouse.

I ate there once, when it was

still named for Favre. Tremendous baked potato. Tremendous.

I know what you're thinking. Brett Favre has been out of the NFL for quite a while. He was pretty old and gray and craggy when he left. How old is he now?

I checked. Brett Favre is just 74 years old. He's a spring chicken! He's still got 15 more years in the tank—at least. (Fine...he's 48.)

Favre wound down his career playing a couple seasons for the rival Vikings, an act Wisconsin fans viewed as a betrayal. But he returned to Lambeau a couple of years ago for a jersey retirement ceremony, and the city went bonkers.

Favre told the football writer Ed Werder "absolutely not" when Werder asked him about replacing Rodgers. Favre was also fined

\$50,000 by the NFL in 2010 for what the league said was his lack of cooperation with an investigation that he sent inappropriate photos and texts to a woman while playing for the Jets in 2008.

Someone ask Mike McCarthy about Favre this week, just to see if he'll completely blow a gasket. (You might want to hide behind a garbage can after asking.) Kaepernick and Romo will loom, and I wouldn't be stunned if other quarterback names surface as well. (Who is going to start a Peyton Manning rumor?) That's the way it works in the quarterback-deficient NFL.

Aaron Rodgers is down, and it looks like it could be a long season in Green Bay—and not in a good way.

# OPINION

## The NFL vs. the New York Times

Good thing for Colin Kaepernick he isn't a New York Times reporter.

As quarterback for the San Francisco 49ers, Mr. Kaepernick was backed by NFL Commissioner Roger Goodell in 2016 when he chose not to stand during the national anthem. Mr. Goodell said that while he didn't necessarily agree with Mr. Kaepernick, "players have a platform, and it's his right to do that." One year and many NFL game day protests later, Times executive editor Dean Baquet has just made clear to his own employees: There will be no taking of knees if it embarrasses the Times.

Which puts the Gray Lady in a pickle. When Mr. Kaepernick began protesting the national anthem, the Times ran a few opinion pieces but refrained from staking out an official position. That changed after Donald Trump weighed in. At a Friday night rally in Alabama last month, the president asked: "Wouldn't you love to see one of these NFL owners, when somebody disrespects our flag, to say 'Get that son of a bitch off the field right now?'"

In response, the Times blitzed. A Sept. 24 editorial called "The Day the Real Patriots Took a Knee" asserted the president's remarks about the flag and players were yet

more evidence of his disregard for "the legitimate and deeply felt fears and grievances of minority Americans."

It piled on, accusing Mr. Trump of "implying that players give up their right to free speech when they put on a uniform." For good measure, it went on to impugn Treasury secretary Steven Mnuchin for suggesting "players should keep their mouths shut in the workplace."

We get it: Employers have no right to restrict their employees' speech.

But one tiny question: Why do Times reporters not enjoy this same right?

Because within three weeks of blasting those who believe NFL players have no First Amendment right to use the football field to make political statements, Mr. Baquet issued a memo about social media warning Times reporters not to use their "vibrant presence" on these platforms to express their own, uh, deeply felt fears and grievances.

Mr. Baquet says "the key points" are as follows:

- "In social media posts, our journalists must not express partisan opinions, promote political views, endorse candidates, make offensive comments or do anything else that undercuts The Times's journalistic reputation.
- "Our journalists should be especially mindful of appearing to take sides on issues that The Times is seeking to cover objectively.
- "These guidelines apply to

everyone in every department of the newsroom, including those not involved in coverage of government and politics."

In its NFL editorial, the Times approvingly quoted New England Patriots owner Robert Kraft, who defended his players' right to "peacefully affect social change and raise awareness in a manner they feel is most impactful."

### The paper says pro football players have speech rights it denies to its own reporters.

For its own employees, the Times has now chosen a different approach.

"We consider all social media activity by our journalists to come under this policy," the memo warned. "While you may think that your Facebook page, Twitter feed, Instagram, Snapchat or other social media accounts are private zones, separate from your role at The Times, in fact everything we post or 'like' online is to some degree public. And everything we do in public is likely to be associated with The Times."

Remember, when NFL players take a knee, they do so in the uniforms of their employers, in a workplace paid for by their employers, and before a TV audience provided by their employers. By contrast, while someone might be identified on, say, Twitter as

a Times reporter, it's not a Times platform. In this sense, a reporter posting on Facebook is more akin to Mr. Kaepernick's appearing at, say, a Black Lives Matter rally, off hours and out of uniform.

At a panel discussion at George Washington University last Thursday, Mr. Baquet was blunt about why he's going all Mike Ditka on the social media accounts of his employees. It's vital, he says, to institutional credibility. He wants to be able to say of Times coverage that "we're doing this because it's journalistically sound, we're not doing this because we have a vendetta or [because] we're trying to take him out, and I can't do that if I have 100 people working for the New York Times sending inappropriate tweets."

It's an eminently sane argument—even if rooted in the premise that the Times will be discredited by more honesty about what its reporters really think. If the NFL owners decide at their fall meeting this Tuesday to require players to stand for the national anthem, expect Mr. Goodell to emerge offering a version of the Baquet argument.

To paraphrase Justice Oliver Wendell Holmes, while everyone has the constitutional right to free speech, no one has a constitutional right to work for the New York Times. Surely that goes for the NFL too. So why does the Times believe professional football players have more speech rights than its own reporters?

*Write to mcgurn@wsj.com.*

## Secessionism's Dangerous Return

By Walter Russell Mead

Secession is back on the front pages, and that isn't good news. Activists are talking about setting up new states in Catalonia, Kurdistan, Scotland and even Biafra—the predominantly Igbo-speaking region in southeastern Nigeria whose attempted secession led to a bloody civil war from 1967-70.

Not all secessions are alike. The movements in Catalonia and Scotland are taking place within cohesive and consolidated democracies in a peaceful part of the world. Since the European Union and the North Atlantic Treaty Organization provide a strong institutional framework, secessionist groups can hope to have it both ways. They think they can enjoy all the benefits and trappings of home rule without losing the prosperity, influence and security that citizens of large, powerful states enjoy. Much of Europe today has become a place where small nations can flourish.

What is going on in Kurdistan, Biafra, the Baluchistan region of Pakistan and Iran, and other areas of the postcolonial world is very different—and presents more challenges to world peace. The relatively demure secession movements of Europe depend on strong institutions, respected constitutional arrangements, and resilient civil societies. Much of the postcolonial world is not so abundantly blessed.

Worse, colonial boundaries often do not reflect ethnic, tribal, religious or even geographical realities. The borders of Iraq, Nigeria and many other states were drawn by colonial powers without much regard for the wishes or needs of the locals.

Partly as a consequence, many of the postcolonial states that took shape in these countries have oscillated between tyranny and fecklessness, with corruption the only constant.

Ethnic nationalism is up. So is competition between great powers. It sounds like 1914.

Imperialism and the racism that accompanied it still shape our discourse; many African "tribes" are larger than some European "nations" and have just as much linguistic and cultural heritage in common. There are approximately 34 million Igbo compared with seven million Bulgarians, six million Danes, and two million Slovanes.

Nevertheless, a wave of secession movements in the developing world would be a geopolitical and humanitarian nightmare. South Sudan, Rwanda, Syria and Myanmar show what can result when ethnic and religious identity politics as dangerous as anything Europe saw in the past.

Bitter conflicts of dissolution can turn particularly violent,

result, with some rare exceptions (Eritrea, East Timor, South Sudan and Bangladesh) the world has looked askance at independence and secession movements in postcolonial countries.

Western elites have fondly hoped that modernization—understood as economic development and the spread of democracy—would cause identity politics and ethno-nationalist grievances to fade. Yet the history of Europe from the Napoleonic Wars through the aftermath of World War I is the story of movements for national liberation that grew more powerful as economic and social development spread.

The rising middle classes powered nationalist movements across Europe.

The multinational and multi-confessional federations and empires of Europe and the Middle East were pulled apart by the centrifugal forces of modernization. Genocidal slaughters, ethnic cleansing and mass floods of refugees became common as these conflicts erupted in the 19th and early 20th centuries. They flared again late in the 1990s as the Soviet Union and Yugoslavia imploded. Now, as economic and social development transform much of the postcolonial world, we are witnessing new movements of ethnic and religious identity politics as dangerous as anything Europe saw in the past.

Bitter conflicts of dissolution can turn particularly violent,

threatening the peace of the wider world, when the ambitions of rival great powers align with different factions. The Balkans became the "tinderbox" of Europe a century ago not only because various small nationalities wanted to pursue feuds, but because great powers like Russia and Austria intervened to turn Serbian irredentism into a world war.

What's worrying today is that the surge in secessionist movements and identity politics in the postcolonial world coincides with rising competition between the great powers. In Syria, Yemen and Iraq we already see how great-power rivalries can inflame local quarrels, as outside powers aligned with Sunni, Shiite Kurdish and other factions airdrop in the resources and weapons that escalate limited conflicts and allow them to endure.

Rising great-power competition intersecting with a world-wide surge in identity politics—the combination does not point toward a calm future. At the end of the Cold War, many in the West looked forward to a "posthistorical" era in which conflict would be rare. Those predictions look increasingly forlorn; America must learn to chart its course in a grimmer and less forgiving world.

*Mr. Mead is a fellow at the Hudson Institute and a professor of foreign affairs at Bard College.*

By Ray Jayawardhana

A cosmic cataclysm was announced Monday—and astronomers cheered.

Astronomy isn't like the other natural sciences. Its practitioners don't get to put their quarry under a microscope or experiment with it. For centuries we have had to make do with the feeble light reaching our telescopes from remote celestial bodies. Such light encodes deep insights in the form of spectral lines, which betray the compositions, temperatures and motions of cosmic denizens. That's how we know what stars are made of and how fast galaxies are moving.

The spectrum extends well beyond the rainbow of colors visible to human eyes. Over the past several decades, astronomers have deployed instruments, on the ground and in space, that can register the full range of "light"—electromagnetic radiation—from low-frequency radio waves to energetic

gamma rays, revealing a more colorful and action-packed universe than anyone could have imagined.

Monday's announcement marks the coming-of-age for multimessenger astronomy. For the first time, scientists have detected gravitational waves from the merger of two neutron stars, while also observing electromagnetic radiation associated with the event.

### New ways of seeing what happened 130 million years ago.

On Aug. 17, NASA's Fermi satellite sensed a burst of gamma rays at the same time that detectors on the ground discerned subtle distortions in space caused by passing gravitational waves. Over the next few days, some 70 observatories, terrestrial and orbital, scrambled to peer at the drama that unfolded 130 million light-

years away. They took images of the source in visible and infrared light, as it faded and became redder. Later they also spied X-ray and radio emissions from it.

The combined data from all these "eyes" and "ears" left no doubt that two compact stellar cinders had been caught in the final act of spiraling together. The data also support the theory that this kind of creative destruction might have produced the bulk of the precious metals—silver, platinum, gold—here on Earth.

Thirty years ago, underground detectors registered two dozen elusive subatomic particles called neutrinos after a massive, bloated star exploded as a supernova in a satellite galaxy of the Milky Way. No neutrinos were seen in the recent event, because of its much greater distance.

Nevertheless, the era of multimessenger astronomy is here for real. Three major gravitational-wave detectors in the U.S. and Europe are now

working in concert, with a fourth under construction in Japan. The IceCube Neutrino Observatory, a network of thousands of sensors buried deep in the Antarctic ice, is ready and waiting. The James Webb Space Telescope, a larger successor to the Hubble optimized for infrared radiation, is set to launch in early 2019.

With a formidable arsenal of facilities lined up, researchers hope to welcome the trifecta of cosmic messengers from a single cosmic event in the near future.

Looking at the universe by all three means—electromagnetic radiation, gravitational waves and neutrinos—will surely reveal a more complete, and nuanced, view of our surroundings and origins. Which is why astronomers like me are looking forward to the next cosmic armageddon.

*Mr. Jayawardhana, an astrophysicist and dean of science at York University in Toronto, is author of "Neutrino Hunters."*

BOOKSHELF | By Diane Cole

## Selflessness Under Pressure

### Suzanne's Children

By Anne Nelson

(Simon & Schuster, 318 pages, \$26)

**M**y children are safe while others are threatened." That anguished thought gave Belgian heiress Suzanne Spaak the determination to risk everything to protect Jewish children in Nazi-occupied Paris from deportation to, and probable death in, concentration camps. Although absolute numbers are hard to come by, author and playwright Anne Nelson estimates in her immersive chronicle, "Suzanne's Children," that Spaak and her Resistance colleagues may have helped save hundreds of young Jewish lives.

At first glance, Spaak's pampered early life contains little that would suggest her later capacity for selfless courage. The beautiful daughter of a prominent Belgian financier, she had harbored idealistic tendencies as a child, but chose status when she married into a distinguished Belgian political family. Suzanne's husband, Claude, a suavely handsome writer and art connoisseur, became the patron of acclaimed

Belgian surrealist painter René Magritte. His provocative works dominated the couple's grand Parisian apartment, an address so prestigious that their downstairs neighbor was the celebrated author Colette, who gave the world "Gigi." Suzanne and Claude hobnobbed with the French writer Jean Cocteau, who also lived in the neighborhood, and a then little-known designer named Christian Dior made the costumes for a theatrical production that Claude had organized. To complete the idyllic picture, the couple doted on their young daughter and son, whom they fondly nicknamed Pilette and Bazou. Suzanne's pedigree and social standing seemed impeccable.

By 1939, however, the real picture had darkened considerably. Angered by her husband's self-centeredness and caddish infidelities, yet fearing the scandal a divorce would cause, a distraught Suzanne consented to share him in an awkward ménage à trois with his mistress—a woman who had once been her best friend and who would, after Suzanne's death, become Claude's second wife. Suzanne was further unnerved by the increasing likelihood of a coming war with Nazi Germany. Even her budding involvement with left-wing political groups seemed futile as the Nazi machine closed in on Jewish immigrant friends trying to escape Europe. With little solace to be found from either her personal life or the world around her, she suffered a breakdown. Ms. Nelson does not tell us what suddenly spurred Spaak to action—or more likely cannot, since Claude burned her correspondence and papers after the war—but with the fall of France and the start of the Nazi occupation, Suzanne gained new purpose. "What can I do?" became her constant refrain as she became ever more active in an ever-larger number of Resistance groups, working with Jews, Catholics and Protestants as well as communists, Soviet agents and followers of Free France's leader, Charles de Gaulle.

An unsung hero of the French Resistance, Suzanne Spaak risked everything to save Jewish children from deportation to Auschwitz.

Counting on her innocent demeanor and chic style to avoid suspicion, Spaak routinely acted as courier, concealing in her bodice or girdle a delivery of identity documents or leaflets warning Jews of the next Nazi round-up. Her upper-crust position apparently also deflected doubts as she employed Jewish refugees as "servants" on their way to finding safe passage out of Europe. She contributed her own money to the cause and called upon her wealthy acquaintances for additional funding. She herself provided temporary shelter to Jewish children en route to their new homes.

She was relentless, Ms. Nelson reports, seemingly oblivious to the risks involved, especially to herself and, whether or not she admitted it, to members of her own family. Sometimes with her adolescent daughter Pilette at her side, she would help prepare forged identity papers and ration cards that would allow Jewish children to survive under new guises. More astonishing was her method for identifying possible homes for these children. Suzanne, a lapsed Catholic, would take the train to a small town and, while taking confession at the local church, would matter-of-factly ask the priest if he knew families that might take in endangered children. Most audacious of all was her role coordinating an elaborate operation known as "le kidnapping." Sixty-three Jewish children whose parents had already been deported or disappeared were rescued from the barely survivable orphanages where they were being kept in advance of their own transport to Nazi death camps.

That rescue took place in February 1943. Over the next several months the Gestapo hunted her, interrogating and imprisoning her siblings, in-laws, and children, before finally arresting her that November. Suzanne revealed little; during her months in solitary confinement in Fresnes prison—described by Ms. Nelson as a "factory of despair"—she remained noble to the end. To keep herself busy, she unraveled the threads of her blanket and used toothpicks to knit a tie for her son; for her daughter, she created a doll from strands of her hair. Yet on August 12, 1944, amid the pandemonium just before the liberation of Paris, Spaak was taken to the prison courtyard and executed. In 1985, Israel's Holocaust memorial, Yad Vashem, honored her as one of the Righteous Among the Nations.

By placing Spaak's singular story in the broader context of the occupation, "Suzanne's Children" vividly dramatizes the stakes of acting morally in a time of brutality. Ms. Nelson's exhaustive research reveals in chilling detail the gruesome methods with which the Nazis nearly succeeded in ridding France of its Jews, and exposes the easy complicity with which too many French aided them in that goal. "Suzanne's Children" would be a richer work if Ms. Nelson had explored more deeply and with greater nuance the interior lives of Suzanne, Claude and their circle; some of these figures come across as two-dimensional, while others are mere cyphers. But if Suzanne's personality remains elusive, her actions do not. Among the sayings she scratched on the walls of her fetid cell were these words from Socrates: "My enemies can kill me, but they cannot harm me." Hers is a legacy worth reading about.

*Ms. Cole is the author of the memoir "After Great Pain: A New Life Emerges."*

## OPINION

### REVIEW & OUTLOOK

#### Assault on the Kurds

**A** central tenet of the Trump foreign policy, a work in progress, has been that the U.S. would rebuild its relationship with America's allies. That commitment is being put to the test in northern Iraq.

On Monday Iraq's army, assisted by Iranian forces, launched a major assault on the Kurds in the northern Iraqi city of Kirkuk. Across the length of America's recent history with Iraq, we have had no more reliable ally than Iraq's Kurds and their fighting force, the Peshmerga.

So far the Trump Administration has said little about the attack on the Kurds. "We're not taking sides, but we don't like the fact that they're clashing," President Trump told reporters at the White House Monday. "We've had, for many years, a very good relationship with the Kurds, as you know. And we've also been on the side of Iraq, even though we should have never been in there in the first place. But we're not taking sides in that battle."

But if the U.S. allows one of its most visible allies to be defeated in the Middle East, make no mistake: Other allies in the region will notice and start to recalculcate their relationship with the Trump Administration.

The Iraqi Kurds, to be sure, have contributed to their current plight. Kurdish President Masoud Barzani went forward with a needless independence referendum last month, despite pressure from the U.S. not to hold the vote. The pro-forma vote gave the Baghdad government a pretext to play the nationalist card and retake Kirkuk.

Kirkuk is a multi-ethnic city that lies just south of Iraq's Kurdistan, an autonomous region whose borders abut Iran and Turkey. The Kirkuk region is also rich in oil. The Kurds gained control of Kirkuk in 2014 after Iraq's army famously fled under attack from Islamic State, which seized control of Mosul in June that year.

After the Iraqi forces abandoned the region, the Peshmerga became the primary reason that Islamic State was never able to consolidate its control of northern Iraq. Arguably, the Kurds, backed by U.S. air power, saved Iraq by giving Iraqi Prime Minister Haider al-Abadi time to reconstitute his na-

tion's army into a fighting force capable of driving Islamic State out of Iraq's major cities, with the help of the Peshmerga.

#### Defeat for the U.S. allies in northern Iraq is a victory for Iran.

Possibly the phrase "no good deed goes unpunished" originated in the Middle East. Having taken back Mosul from Islamic State, Mr. Abadi now wants to drive the Kurds back into their northern Iraqi homeland. But the strategic details of this attack on the Kurds are important. Iraq's offensive includes Iran. According to the Washington-based Institute for the Study of War, Iranian-backed militias and the 9th Iraqi Armored Division moved toward Kirkuk last week to support the Iraqi army.

The Abadi government in Baghdad is under constant pressure from Shiite Iran to align itself against the interest of Iraq's Sunni populations in the north and west. It follows that after Iraq's progress on the battlefield against Islamic State, Iran would encourage the Iraqis to drive the Kurds out of Kirkuk.

Notice this is all happening within days of President Trump decertifying the Iran nuclear deal, based in part on the assumption that Europe will support U.S. efforts to resist Iran's ballistic-missile program and its penetrations across the Middle East. But what will the Europeans or our allies in the Middle East conclude if we abandon one of our oldest regional allies, the Iraqi Kurds?

The U.S. no doubt has lost much of the political leverage it had before the Obama Administration pulled out of Iraq in 2011. But abandoning the Kurds to an Iraq-Iran Shiite alliance would only deepen U.S. losses.

Before Iraq and the Kurds go to war, the U.S. could insist that Iraq reaffirm the autonomy of Iraqi Kurdistan and also that it work out an agreement to share revenue from the region's oil reserves. The alternative to such a modus vivendi for Prime Minister Abadi is a capable Kurdish fighting force in a state of permanent insurrection.

The U.S. owes a debt to the Kurds. Abandoning them now would damage America's credibility, and not least Mr. Trump's ability to enlist allies against Iran's expansion across the Middle East. The assault on Kirkuk matters.

#### Austria's Not So Scary Right Turn

**O**ne day Europe will be able to hold an election without a freak-out over a feared return of the far right. That day isn't here. So Austria's election on Sunday, in which voters rejected a center-left governing cartel in favor of a resurgent center-right, has the Continent rushing for the smelling salts.

Sebastian Kurz of the center-right Austrian People's Party (ÖVP) placed first in the parliamentary vote, with early results pegging him at 32%. The 31-year-old has served as foreign minister in a coalition government led by the center-left Social Democrats. Mr. Kurz abandoned that centrist coalition and positioned his party further to the right, especially on immigration after the surge of Middle Eastern and African migrants into Europe.

His strategy worked, especially in pulling voters from the far-right Freedom Party (FPÖ), the outfit that really gives Europeans palpitations. Leader Heinz-Christian Strache has tried hard but not always credibly to shed the FPÖ's reputation as a political haven for xenophobes and Nazi sympathizers. At the start of the year it polled at 35%, after its candidate for the ceremonial presidency won 47% last year. But on Sunday its share fell to about 20%

Mr. Kurz reversed the far-right's march by

co-opting some of its main policies. Those include tighter bars on asylum-seekers and intra-European Union migrants claiming social benefits, and a push to shut off the flow of migrants across the Mediterranean by returning most to refugee camps in North Africa. He added an economic platform of tax-rate cuts, especially on individual income to below 40% and a new focus on business-friendliness.

Some of our media friends present this as a resurgence of an ugly far-right party, and Mr. Kurz is likely to form a coalition with the FPÖ. But the FPÖ already has done a turn in a governing coalition, from 2000-2005, and it ended badly amid divisions about economic policy and leadership. The lesson was that voters care about results, and an electorate supporting a fringe party out of frustration won't blithely follow that party into an abyss.

Sunday's result confirms that conclusion, as voters came home to a centrist party that now aims to compete for votes rather than taking them for granted as part of an ideologically neutered left-right coalition. That should be good news for worried European politicians. Voters will give mainstream parties plenty of opportunity to reform themselves, but the parties have to listen to the voters.

#### Liberals Embrace 'Dark Money'

like Chuck Schumer demanding disclosure of all political donations.

#### Fusion GPS rolls out a novel excuse to block a House subpoena.

sources. The First Amendment doesn't protect attempts by foreign governments or agents to influence U.S. elections.

Foreign campaign contributions are banned under U.S. law, and in the 1990s Congress conducted extensive investigations into Chinese and other donations to the Clinton campaign. No one claimed the Riady family's donations were protected political speech because they financed Bill Clinton's re-election.

Fusion by its own admission has worked in the past on a lobby campaign for a Russian company with ties to the Kremlin. Investigators want to know if those clients or other foreign actors had anything to do with the commissioning or production of the Steele dossier.

The press corps is cheering investigations into whether the Russians worked with a Trump campaign to win the election—and we want those answers too. But it's also important to know if other Americans worked—wittingly or not—with Russian actors to collect and distribute accusations against Mr. Trump.

Fusion can dig up all the dirt it wants on clients and leak it to its media pals. That is its business model. But the company has no constitutional right to avoid a probe into foreign influence. The House's next move should be a vote for contempt of Congress.

#### Letters to the Editor

#### LETTERS TO THE EDITOR

#### The 'Science' of Implicit Bias Knows No Limit

Kudos to Heather Mac Donald for exposing and fighting "The False Science of Implicit Bias" (op-ed, Oct. 10), but implicit-bias stakes are much too high to let a few inconvenient facts about tainted research derail progressive remediation. Implicit bias provides the intellectual framework for addressing disparate impact—in bank lending, hiring, wages, college admissions, police shootings, incarcerations, etc.—that can only be the result of institutionalized racism. Disparate-impact analysis then is the engine that drives regulations and policies forward toward equal outcomes, the final destination desired by progressives. The beauty of an implicit-bias framework is that deniers such as Ms. Mac Donald who expose flawed research and offer other credible explanations for unequal outcomes are attacked as bigots and prevented from "spewing their hate" on college campuses where tomorrow's scientists are molded.

Police shootings of young, black men are tragic, but there are many more young, black men who are shot and killed by young, black men. One assumes that black men are not shooting each other because of skin color and implicit bias. Implicit-bias "science" based on biased or poorly conducted research, feeds a postmodernist agenda of democratic socialism. With progressive political leaders, the press and universities able to brand implicit-bias deniers as racists, bigots, deplorables and worse, the false science may be settled.

SCOTT PIERCE  
Hendersonville, N.C.

Ms. Mac Donald equates the flawed implicit-association test with implicit bias generally. We should recognize that not everyone in a race has the same "cultural values, family structure, interests or abilities." In fact, believing the opposite is the literal definition of racism. While I wholeheartedly agree that "the main obstacles to racial equality now lie not in bias but in culture and behavior," this doesn't mean that we shouldn't address the subconscious assumption that people will act the same as others with whom they share characteristics.

TYLER HESS  
Ashburn, Va.

Many years ago George Orwell shocked the world by inventing "thoughtcrime" as a tool of totalitarian tyranny. Implicit bias takes Orwell one step further: Now we have unconscious thought crimes.

EM. PROF. JOHN STADDON  
Duke University  
Durham, N.C.

Those who desperately seek to prove implicit bias as the cause of black disparity have a hard time explaining the economic and academic success of Asians in America. Are they not also people of "color," or does success disqualify them? An implicit bias appears to be preventing social scientists from seeing black, fatherless households as a major cause of black economic and academic disparity.

ANTHONY JERIC  
Hendersonville, N.C.

#### China: A Company Disguised as a Country

While we appreciate the history lesson offered by Bill Lane ("Lessons from the Sorry History of Steel Protectionism," op-ed, Oct. 11), the challenges the U.S. steel industry faces today bear little resemblance to those of the past. Today's challenge is the emergence of China as the world's top steel producer and exporter. China didn't achieve this position through market-based mechanisms but by having the government own and operate its steel industry. China's state-sponsored steel industry has fueled production overcapacity that is weighing down steelmakers across the globe. Last year China produced more steel than the next 48 steel-producing nations combined.

The Chinese government is a company disguised as a country engaged in economic warfare. The existing rules of international trade aren't equipped to deal with this situation or the overcapacity problem it has created. The administration's current

investigation into steel imports is looking at whether they threaten national security. Nearly every military platform and weapons system is dependent on American-made steel. If unfairly traded imports continue to threaten the health of U.S. steelmakers, it will compromise the domestic industry's ability to be reliable suppliers of steel for defense purposes. In a time of crisis, do we really want to rely on countries like China and Russia to provide steel for our national defense?

George Washington and Alexander Hamilton imposed tariffs to build our country's manufacturing base knowing our national security would be enhanced by producing our own goods for our military. President Trump understands this, too, and the Trump administration is right to consider tariffs or import quotas in response.

JOHN FERRIOLA  
Chairman and CEO, Nucor Corp.  
Charlotte, N.C.

#### Irrationality Explains Much About Economics

Regarding David Henderson's "This Year's Nobel Economist Makes Sense of Irrationality" (op-ed, Oct. 10): I find it fascinating that the Nobel committee and a majority of modern economists are so surprised that irrationality needs to be included in economic studies, and that irrationality doesn't fit into the mathematical models of most economic decisions. Ludwig von Mises published "Human Action" in 1949. The basic premise of his theory is that "self-interest" (whether rational or irrational) motivates economic

decisions. Von Mises spends a fair amount of time illuminating the fact that a mathematical approach (the basis of the "econ" man) is a fallacy. He further shows that most political action is merely intervention into the economic system generally based on cultural traditions and mores, no matter how rational or irrational.

It is no mystery that Richard H.

Thaler equivocates on the concept of price gouging if possibly not well steeped in the concepts presented by von Mises. Although price gouging is economically rational, it doesn't fit in with our cultural traditions and mores. The real question is what is the effect of the elimination of price gouging and are we as a society willing in the long run to accept the economic outcomes (both positive and negative)? How does such an action affect the government coffers and the individuals impacted by that action in the long run?

Kudos to Mr. Thaler in spending his \$1.1 million prize money "as irrational as possible."

LEE BORTON  
Williamsburg, Va.

The one issue I have with the behavioral approach is that it judges irrational behavior after the fact.

ANDREW J. SHERBO, Ph.D., CFP  
University of Denver

#### Pepper ... And Salt

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"Then the King rewrote the tax code so everyone could understand it, and all the CPAs went out of business."

## OPINION

# The Citizens United Disaster That Wasn't

By Floyd Abrams

**W**hen the Supreme Court announced its 2010 decision in *Citizens United v. Federal Election Commission*, the public condemnation from certain quarters was fierce. The notion that a corporation would spend large sums of money to support or denounce a political candidate struck many Americans as deeply troubling. Some saw the court's 5-4 ruling, which held that corporate political spending is protected by the First Amendment, as constituting a grave threat to the democratic fabric of society.

**Critics warned that a flood of corporate money would irreparably taint politics. No such thing happened.**

"Starting today, corporations with large war chests to deploy on electioneering may find democratically elected bodies becoming much more attuned to their interests," Justice John Paul Stevens wrote in a 90-page dissenting opinion. He retired from the Supreme Court at the end of that term and later suggested a constitutional amendment to overturn the ruling.

Many of *Citizens United*'s harshest critics imagined a nation controlled by multibillion-dollar corporations that would dictate business-friendly

legislation to paid-for lawmakers. A New York Times editorial predicted that the ruling would "thrust politics back to the robber-baron era of the 19th century" by allowing "corporations to use their vast treasures to overwhelm elections." The Washington Post warned that "corporate money, never lacking in the American political process, may now overwhelm both the contributions of individuals and the faith they may harbor in their democracy." The San Francisco Chronicle warned that "voters should prepare for the worst: cash-drenched elections presided over by free-spending corporations."

Since those predictions, two presidential and four congressional elections have come and gone. There's now solid data, filed with the Federal Election Commission, showing how much money corporations have spent in recent elections. It turns out the apocalyptic forecasts were not just inaccurate but utterly insupportable.

It is true that in the wake of *Citizens United* many groups sprang up that are permitted to spend unlimited sums supporting or opposing candidates and issues. These so-called super PACs have proved themselves a political force. But the money they have spent since 2010 has not come primarily—or even mostly—from corporations.

Super PACs across the political spectrum raised \$1.8 billion between Jan. 1, 2015, and Dec. 31, 2016, according to data analyzed by the Center for Responsive Politics. Of that, \$1.04 billion came from individual donors and \$242 million from

### Big Spenders

Top 20 donors to Super PACs, 2015-16

1. Thomas Steyer	\$89,544,744	11. Service Employees International Union	\$23,274,845
2. Sheldon G. and Miriam O. Adelson	\$77,900,000	12. Robert L. Mercer	\$22,551,000
3. Donald S. Sussman	\$38,645,000	13. Senate Leadership Fund	\$22,476,800
4. Fred Eychaner	\$35,250,000	14. One Nation	\$21,700,000
5. NextGen Climate Action	\$32,556,885	15. Laborers Union	\$21,530,385
6. Priorities USA Action	\$26,391,578	16. Republican Governors Association	\$20,725,000
7. James H. and Marilyn Simons	\$25,025,000	17. Dustin Moskovitz and Cari Tuna	\$19,915,000
8. Paul E. Singer	\$24,095,153	18. Carpenters and Joiners Union	\$19,507,737
9. National Education Association	\$23,773,966	19. George Soros	\$19,239,693
10. Michael R. Bloomberg	\$23,561,624	20. Richard Uihlein	\$19,128,500

Source: Center for Responsive Politics

11. Service Employees International Union  
12. Robert L. Mercer  
13. Senate Leadership Fund  
14. One Nation  
15. Laborers Union  
16. Republican Governors Association  
17. Dustin Moskovitz and Cari Tuna  
18. Carpenters and Joiners Union  
19. George Soros  
20. Richard Uihlein

THE WALL STREET JOURNAL

unions, trade associations, politically active nonprofits and other organizations. Only \$85 million was contributed by business corporations. The table nearby shows the top 20 donors. Among the Top 40 contributors to super PACs during the 2016 election cycle were eight unions and only one corporation.

These numbers do not include donations to campaigns from corporate political action committees.

That money comes not from the corporate treasury but from people employed by the company or otherwise connected to it. In any event, corporate PAC donations are on the small side compared with the numbers above—\$1.9 million to presidential candidates in 2008 (before *Citizens United*), \$855,348 in 2012 and \$942,116 in 2016.

The data suggest two conclusions. The first was summarized by

Brooklyn Law School Professor Joel Gora after the 2012 election: "The predicted wave of corporate financial political intervention never materialized. Of all the super PAC independent expenditure spending that escalated in the 2012 election, very little of it came from corporate contributions." That remained true in 2016 and probably will into the foreseeable future.

The second is that corporations remain conservative—with a small "c." Fear of public disapproval limits their appetite for potential controversy, so they do their best to steer clear of high-profile political entanglements. A comment often attributed to Michael Jordan captures this attitude: "Republicans buy sneakers, too." The unwillingness of large corporations to offend their actual or desired customers is difficult to overstate.

Despite the bombastic rhetoric and dire predictions, corporations and their vast treasures have not dominated elections post-*Citizens United*. In fact, corporations have donated a comparatively small percentage of the money spent in political campaigns since 2010. It would be nice if those who expected a darker world would acknowledge that fact.

*Mr. Abrams represented Sen. Mitch McConnell in the *Citizens United* case and participated in oral argument in the Supreme Court. An extended version of this article will appear as a chapter in "The Free Speech Century," to be published next year by Oxford University Press.*

## Behold the New Emperor of China

By Graham T. Allison

**T**he Chinese Communist Party's 19th Party Congress will convene Wednesday to select leaders for the next generation. Few events will have greater impact on the shape of world politics.

The script for the Party Congress hasn't been revealed, but I am betting that Xi Jinping will not only be "re-elected" to a second five-year term as the party's general secretary and China's president, but also that he will effectively be crowned China's 21st-century emperor.

Every member of the seven-man Politburo Standing Committee will be a reliable Xi loyalist. Among them will be Mr. Xi's closest associate, Wang Qishan, who spearheaded Mr. Xi's anticorruption inquisition. That campaign rewrote the rules for doing business in China and restored a sense of fear (of jail) among party cadres and the moneyed class.

Custom requires Chinese leaders to retire by 68, so the 69-year-old Mr. Wang's continued place on the committee—along with the conspicuous lack of any visible successor to Mr. Xi—will set the stage for Mr. Xi to remain China's leader for as long

as he chooses. As this new reality sinks in, Americans will ask: Who is Xi Jinping? For a start, let me offer five tweet-sized points.

First, he will increasingly be recognized as the most powerful leader of China since Mao Zedong. Mr. Xi is overshadowing even Deng Xiaoping, who buried Soviet-style economics and replaced it with the party-led market capitalism that has produced three decades of double-digit economic growth.

Second, Mr. Xi is the most ambitious leader on the international stage today. Long before Donald Trump pledged to "make America great again," Mr. Xi declared his intention to do the same for China. His 2012 banner stated his vision for the "Chinese Dream": "the great rejuvenation of the Chinese nation." To that end, he's undertaken four revolutions: turning China's export-led economy into a world leader in innovation and high-value manufacturing, fueled by the world's largest consumer middle class, while maintaining economic growth above 6.5%; reorganizing and rebuilding China's military so that it can, as Mr. Xi says, "fight and win" against a modern adversary (such as the U.S.); reviving

nationalism and pride in the restoration of a Great China; and, most critically, revitalizing the party and re-establishing its authority. Any one of these initiatives would overwhelm most heads of state. Mr. Xi is managing all four at once.

**Xi Jinping is the most powerful leader since Mao, and he is set to hold power for as long as he wants.**

Third, he is the most surprising leader on the international stage today. In a field that includes Vladimir Putin, Kim Jong Un and Donald Trump, this claim may seem exaggerated. But recall the conditions in 2012, when Mr. Xi was appointed to succeed Hu Jintao. Like Mr. Hu, Mr. Xi was expected to be a bland figurehead and technocratic spokesman of a nine-man collective leadership. The skill, speed and determination with which he has effected a regime transformation to charismatic one-man rule is stunning. Never before has a nation risen so far, so fast, on so many dimensions as

China has over the past generation. The same could be said of Mr. Xi, who went from a politically exiled peasant living in a cave to "Chairman of Everything."

Moreover, his choice to upend Deng's policy—"hide China's capabilities and bide our time"—has blindsided the international community. From China's new Asian Infrastructure Investment Bank, which has overshadowed the World Bank, to his massive geoeconomic master plan known as "One Belt, One Road" financing 900 infrastructure and business projects at a cost exceeding \$1.4 trillion (the equivalent of 12 Marshall Plans), he is nothing if not audacious.

As the U.S. has retreated from its traditional role on the world stage, Mr. Xi has moved swiftly to fill the void, shocking the Davos elite in 2017 when he proclaimed himself, to little dissent, champion of the new global liberal economic order.

Fourth, Mr. Xi is the most effective global leader today. Assess China's performance over his first five years: revitalizing a party that many Western analysts believed would soon fall to the "inevitable" march of democracy, maintaining robust economic growth when so many expected crisis

and collapse, and asserting China's power abroad against all competitors, getting his way from the South China Sea to the Himalayas.

Finally, of all the leaders on the international stage, Mr. Xi will be the most consequential. This is not simply because he rules a nation of 1.4 billion people and an economy that overtook the U.S. in 2014 to become the largest in the world (measured by purchasing power parity, which both the International Monetary Fund and CIA regard as the single best yardstick). By the end of his second term, China's economy is on pace to be 40% larger than America's.

At that point he will have firmly established Beijing as the capital and Xi Jinping as the man to whom a world looking for growth and stability turns first. China will have been restored to its position as the "sun" around which the nations of Asia orbit—as they did in earlier millennia. And Mr. Xi will have become the modern emperor of China.

*Mr. Allison, a professor of government at Harvard, is author of "Destined for War: Can America and China Escape Thucydides's Trap?" (Houghton Mifflin Harcourt, 2017).*

## How to Make a Good Tax-Reform Plan Even Better

By Edward Lazear

**T**he "Big Six" tax framework announced in September will be Congress's primary focus for the rest of the year. The plan proposes substantial cuts to personal and business tax rates and immediate expensing of capital investments for business. For the plan to pass Congress, its backers must provide affirmative answers to two key questions: Will it boost the economy enough to cover most of the revenue cost? And will it help the middle class? The answer to both questions is yes, although some key changes can make achieving these goals likelier.

The Senate Republican budget blueprint allows \$1.5 trillion in tax cuts over 10 years. Many lawmakers are rightly concerned about the deficit implications. Tax cuts rarely pay for themselves, but positive revenue effects are produced primarily

through cuts in business taxes like those in the proposed plan. Under reasonable scenarios, much of the lost revenue can be made up by added growth.

A sensible target for growth-induced revenue is \$1 trillion. Current tax law will likely be revised each year to extend expiring tax cuts even without tax reform. The Joint Tax Committee scores those extensions at about \$500 billion, so the shortfall, net of what would occur anyway, is \$1 trillion, not \$1.5 trillion.

Growth doesn't need to increase astronomically to get to \$1 trillion. Suppose the tax plan boosted growth by 4% over 10 years, a roughly 0.4-point increase in annual growth. I estimate that would result in \$968 billion in additional revenue. GDP growth over the past three years averaged 2.2%. My estimate calls for a bump to 2.6%. If one assumes a rate as low as 1.8%, then 2.2% growth would

generate about the same amount of additional revenue.

Plans similar to the Big Six proposal have been scored in the past. In 2005 the Advisory Panel on Federal Tax Reform (of which I was a member) proposed a plan that would create about 5% additional growth. When I served in the White House as chairman of the Council of Economic Advisers in 2006-09, the Treasury Department estimated that going to full expensing—in which businesses can deduct immediately all investment expenditures from taxable earnings—would produce the same 5% growth.

The Big Six plan has a combination of full expensing and business rate cuts that make it look similar to these plans, with one major distinction. In the Big Six plan, full expensing is temporary. It expires after five years, which has the primary effect of moving investment forward as companies seek to take advantage of the more favorable tax treatment. It also means less investment during the second five years, when unlimited expensing vanishes. Experts disagree on how much growth tax cuts will produce, but there is general agreement

that permanent expensing would produce more-sustained growth. It would also imply an additional reduction in tax revenue.

One way to offset that would be to use a more targeted approach to reducing the taxes paid by small and midsize businesses. The Big Six propose to reduce the rate on pass-through income to 25%. Instead, small and medium-size companies could be

**The GOP framework would boost growth and help the middle class—even more with one simple tweak.**

given tax reductions that are more pro-growth and cost less. Currently, businesses are allowed to expense immediately up to \$2 million in qualifying income. That cap could be raised permanently, say, to \$5 million for non-C-corp business. (C-corps, companies that are taxed separately from their owners, already benefit from the proposed plan because their top rate would fall to 20% from 35%).

## Notable & Quotable: Welcome

*House Majority Leader Kevin McCarthy at a Sept. 21 naturalization ceremony in Bakersfield, Calif.*

Every one of you has a story—an American story now. You come from many countries—but today the Pilgrims are your ancestors. You've known many leaders—but today George Washington is your Founding Father. You've experienced many hardships—but today Valley Forge is your winter.

The Declaration is your inspiration

and the Constitution is your inheritance. Lincoln is your liberator. . . . The GIs of D-Day are your heroes. Martin Luther King Jr. spoke of your dreams. The moon bears your flag. And our future is your future.

You are adopted sons and daughters of America with every right, every privilege, every duty and every national memory of those blessed with citizenship by birth. I pray that as you grow into your place as a citizen, that what you would feel more than anything else is gratitude.

Nothing like the Big Six plan has ever been implemented, so it is impossible to give precise estimates of its effects. Still, lawmakers should support the effort—especially with the modifications I suggest—because it is conceptually sound, would boost the economy without breaking the budget, and would help the middle class.

*Mr. Lazear, who was chairman of the President's Council of Economic Advisers (2006-09), is a professor at Stanford University's Graduate School of Business and a Hoover Institution fellow.*

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PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, October 17, 2017 | B1

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## P&G Apparently Beat Peltz by a Sliver

Expensive proxy fight is now headed to a weeks-long recount to determine outcome

By DAVID BENOIT  
AND SHARON TERLEP

Procter & Gamble Co. said it beat Nelson Peltz by 6.15 million votes, only about 0.2% of its shares outstanding, a slim difference that is now headed to a weeks-long recount to determine the final outcome of the most-expensive proxy fight in history.

The consumer giant had announced at its annual meeting in Cincinnati last week that its preliminary tally of votes showed the 11 board nominees were elected. The announcement surprised the activist camp whose own tally seemed too close to call.

The company hadn't released the actual preliminary tally until Monday, when it disclosed in a securities filing that Mr. Peltz received 973 million shares and that the P&G director with the least number of votes, Ernesto Zedillo, won 979.2 million. Mr. Peltz's campaign

had sought to replace Mr. Zedillo, the former president of Mexico, though the activist investor pledged to attempt to add him back if Mr. Peltz won.

Mr. Zedillo got 48.9% of the shares voted at the meeting, while Mr. Peltz received 48.6% of the vote, according to P&G's preliminary tally.

"Trian continues to believe that the election is too close to call," Mr. Peltz's **Trian Fund Management** said on Monday, adding that the initial results are based "on estimates and incomplete information." For its tally, the com-

pany had to estimate votes by individuals that supported Mr. Peltz and cast their ballots directly to his fund.

P&G said Monday that it could take several weeks for an independent inspector to confirm the results. "P&G shareholders have spoken," a company spokesman said. "Our focus continues to be on delivering the results shareholders expect of us and we expect of ourselves—and we're on the right track."

"We are confident in the conclusion that we reached last week," he said.

Trian said last week it

wouldn't concede until an independent arbiter had a chance to certify the votes, a process that now looms.

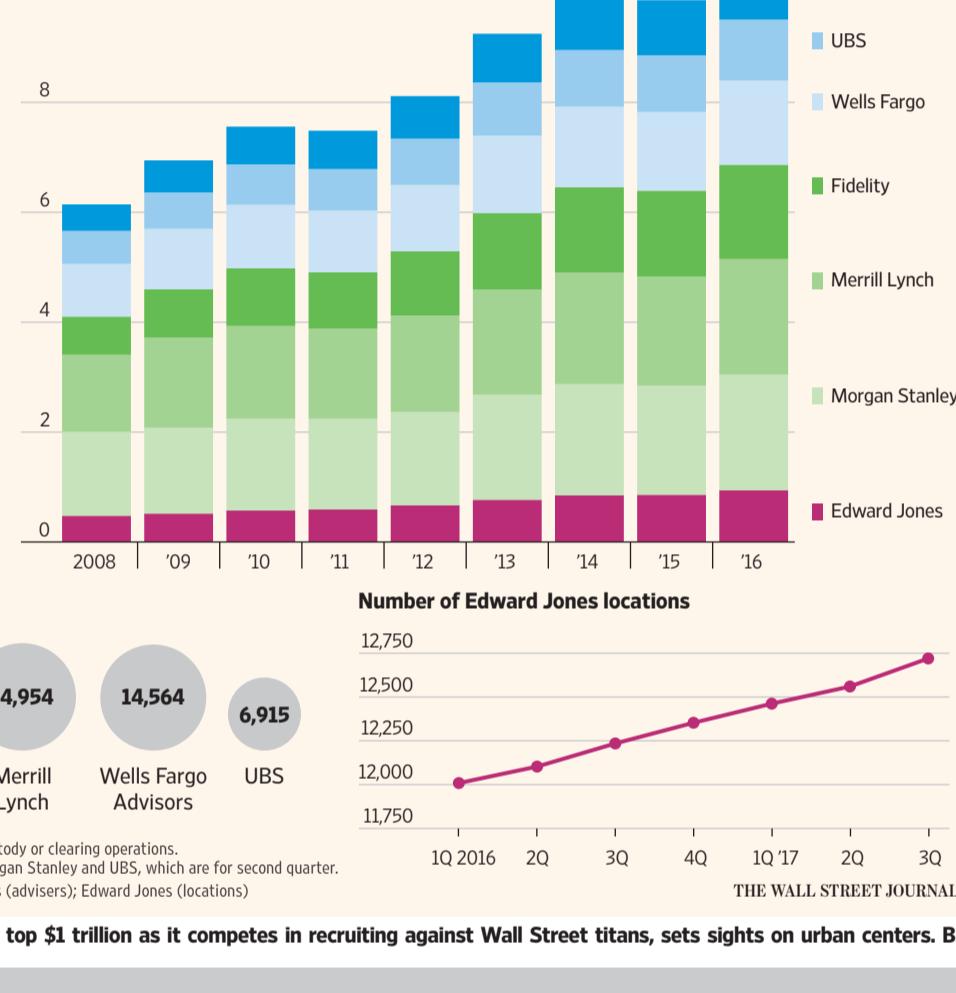
Mr. Peltz said last week that, by Trian's count, his side was ahead by 175 million votes on the morning of the shareholder meeting. It was aware some big shares, including the roughly 7.5% that was controlled by employee plans, hadn't yet been counted. "Whether we won or lost, it will be by less than 1%," he said.

P&G executives were subdued in their response immediately after the vote. "The

preliminary proxy results is all I had," P&G Chief Executive David Taylor said when asked last week about Trian's contention that he declared victory too soon. Mr. Taylor won re-election with 1.93 billion shares voted for him.

Shareholder voting is already a complicated and opaque process but the uncertainty of the P&G vote was increased by an unusual amount of shares held by small investors, leaving both sides scrambling for support from some 2.5 million shareholders instead of just a few dozen.

## Edward Jones Joins the Trillion-Dollar Club



<sup>\*</sup>Schwab and Fidelity data don't include custody or clearing operations.

<sup>†</sup>All figures are for third quarter except Morgan Stanley and UBS, which are for second quarter.

Sources: Aite Group (assets); the companies (advisers); Edward Jones (locations)

The regional broker's assets now top \$1 trillion as it competes in recruiting against Wall Street titans, sets sights on urban centers. B10

## Colony in Talks to Buy Weinstein Co.

Colony Capital is in talks to buy the assets of **Weinstein Co.**, the two companies said Monday, a move that could put studio co-chairman Bob Wein-

stein at odds with the other board members and owners as they try to contain the fallout from sexual-assault allegations against Harvey Weinstein, Bob's brother.

After a frenetic weekend of negotiations, Colony, the private-equity arm of investment firm **Colony NorthStar Inc.**, now has an exclusive negotiat-

ing window to buy "all or a significant portion" of the assets of Weinstein Co., the companies said. As part of the agreement, Colony also has given the studio behind "The Imitation Game" and "The King's Speech" an undisclosed amount of cash.

The news comes just three days after Bob Weinstein issued a statement saying: "It is untrue that the company or board is exploring a sale." Mr. Weinstein's statement came in response to a Wall Street Journal article that the company intended to do so.

Another board member, Tarak Ben Amarr, announced the Colony agreement Monday.

"There are a lot of moving pieces right now that need to responsibly come to rest and my only course of action at this time is to preserve and protect the current stakeholders, talent, shareholders, creditors including potential claimants and employees," Bob Weinstein said in a statement.

"And going forward I reserve my comments on any aspects outside of this until the pieces of this puzzle are more clearly defined."

Weinstein Co. has been in chaos after former co-chairman Harvey Weinstein was accused by more than a dozen women of sexual misconduct and assault. In the wake of

those accusations and moves by A-list talent and others in Hollywood to distance themselves from anything Weinstein-related, several people close to the studio believe it can no longer continue as an independent entity.

The company fired Harvey Weinstein on Oct. 8 as reports of additional sexual-assault allegations continued to emerge. Following his ouster, Weinstein Co. tapped advertising agencies to help it find a new name.

**Moelis & Co.**, which advised Weinstein Co. last year on an unsuccessful attempt to sell its television arm, has

Please see COLONY page B2

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## INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

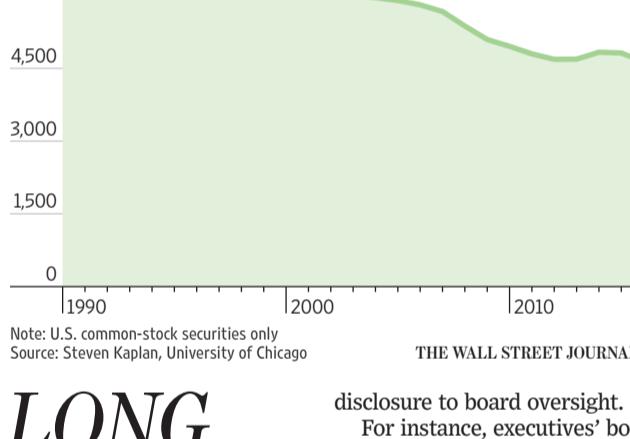
A	Equifax.....	B4		
Airbnb.....	B1	F	Facebook.....	B6
Airbus.....	B6	G	Founders Fund.....	B2
Alibaba.....	A10	Gavekal Dragonomics.....	A10	
Aluminum of Corp. of China.....	A10	General Motors.....	B3	
Amazon.com.....	B10	Goldman Sachs Group.....	B1	
American Express.....	B10	Greylock Partners.....	B2	
Amneal Pharmaceuticals.....	B6	H	Holland & Knight.....	B6
Andreessen Horowitz.....	B1	Honeywell International.....	B3	
Apache.....	B11	Huawei Technologies.....	B1	
Apple.....	B1, B11	Hueston Hennigan.....	B6	
Ash Grove Cement.....	B12	I	Impax Laboratories.....	B6
Baidu.....	A10	Intercontinental Exchange.....	B11	
Bank of America.....	B10, B11	J	J.P. Morgan Chase.....	B10, B11
Baoshan Iron & Steel.....	A10	L	LCH.Clearnet Group.....	B11
Boeing.....	B6	M-N	Long-Term Stock Exchange.....	B1
Bombardier.....	B6	T	TBH.....	B6
CBS.....	A2, B6	P	Tencent.....	A10
China Guodian Group.....	A10	U	Trian Fund Management.....	B1
Chinalco.....	A10	V	Uber Technologies.....	B1, B4
China Unicom.....	A10	W	Viacom.....	B6
CME Group.....	B11	X	Visa.....	B10
Colony NorthStar.....	B1	Z	Volkswagen.....	B3
CRH.....	B12		Walt Disney.....	B2
D			Weinstein Co.....	A2, B1
Daimler.....	B3		Wells Fargo.....	B10
Delta Air Lines.....	B6		Wuhan Iron & Steel.....	A10
Dow Chemical.....	A6			
E				
Edward Jones.....	B10			

## INDEX TO PEOPLE

A	Klieger, Robert.....	B6			
Amarr, Tarak Ben.....	B1	Korff, Tyler.....	B6		
Andreessen, Marc.....	B1	L	Lauer, Josh.....	B4	
B			Loftus, Emma.....	B10	
Barrack, Thomas Jr.....	B2	M	Katzenberg, Jeffrey.....	B4	
Benigno, Mark.....	B12	N	Mason, Andrew.....	B2	
C			P	Nordstrom, Peter.....	A1
Case, Steve.....	B2	R-S	Palaniappan, Ram.....	B4	
Clayton, Jay.....	B2	R-S	Priddy, Greg.....	B12	
D			Redstone, Shari.....	B6	
Diamond, Mindy.....	B10		Redstone, Sumner.....	B6	
G			Rhimes, Shonda.....	B2	
Gambarini, Simona.....	B11	Y-Z			
H-K					
Herzer, Manuela.....	B6				
Huffington, Arianna.....	B4				
Hutcher, Larry.....	B2				

### Shying Away

The number of U.S. public companies has fallen by nearly 50% since the 1990s, partly because of firms staying private for longer.



**Continued from the prior page**  
nologies Inc. to go public, at a time when many market veterans and regulators fear the process of going public has lost its luster.

But skeptics wonder whether the LTSE is just another way for tech founders and elite Silicon Valley investors to maintain control at the expense of other shareholders. The LTSE is funded by a range of venture-capital firms, including Peter Thiel's **Founders Fund**, Andreessen Horowitz, **SV Angel** and **Greylock Partners**, and individual investors including former Twitter Inc. CEO Dick Costolo, AOL co-founder Steve Case and Groupon Inc. founder Andrew Mason. The firm says it has raised \$19 million from around 70 investors in all.

Now, the LTSE needs to convince bureaucrats in Washington to sign off on its unorthodox approach, as it prepares an application for stock-exchange status with the Securities and Exchange Commission.

That effort may get a boost from the White House's pro-business agenda. SEC Chairman Jay Clayton has voiced concerns about the nearly 50% drop in the number of U.S. public companies over the past two decades—a trend that is partly due to companies choosing to stay private for longer.

Mr. Ries said he had been in preliminary discussions with SEC staffers for nearly two years and was encouraged by their early reactions. Still, winning exchange approval is a daunting process, potentially taking a year or more.

The LTSE effectively creates a new approach to corporate governance by requiring its companies to adopt tenure voting and many other policies in areas ranging from executive pay to

disclosure to board oversight. For instance, executives' bonuses couldn't be tied to financial-performance targets over periods of less than one year. If the executives are paid in company stock, the shares couldn't fully vest for at least five years.

LTSE-listed firms would still publish quarterly results—an SEC requirement—but they would be barred from releasing quarterly earnings guidance, a practice that some critics say fosters short-term thinking.

Meanwhile, tenure voting would be available to any shareholder of an LTSE-listed company. If an investor opted into the system, the voting power of his or her shares would grow over time, capped at 10 times the power of ordinary common stock after a decade. If the shares were sold, the voting power would be reset for the new owner.

The net effect, said Mr. Ries, is to create an ecosystem for companies that want to pursue a long-term vision, bound by a common set of rules. "Even if we fail, we'll go down swinging and fighting the good fight," he said. "This is an experiment worth running."

Not everyone agrees. The voting structure will depress the share price of any company listed on the LTSE, said Neal Woloff, former CEO of the American Stock Exchange. "Fewer people will want to buy into a company where there's entrenched management," he said.

Mr. Ries disputes the idea that the LTSE is good for founders and bad for everyone else. In his view, tenure voting is better than the solution favored by some Silicon Valley firms: severely limiting the voting power of ordinary shareholders through two or more share classes.

"We don't think it's right," Mr. Ries said. "Unlimited power monarchies haven't had a very good track record historically."

## BUSINESS & FINANCE

# Netflix Subscriber Growth Surges

By AUSTEN HUFFORD

**Netflix** Inc.'s wagers on original programming and international expansion are paying off as the streaming service again posted strong subscriber growth amid an increasingly competitive streaming video market.

The Los Gatos, Calif., company ended its third quarter with 104 million paid streaming subscribers globally. It added 5.3 million streaming users in total, outpacing the 4.4 million net additions it had projected.

Netflix has been pouring money into original programs such as "Stranger Things" and "The Crown" to fend off competition from other streaming services and continue to attract new subscribers around the world. The company now says it plans to spend as much as \$8 billion on content next year—up from an earlier estimate of \$7 billion—far outstripping the investments expected from rivals Hulu, **Amazon.com** Inc. and HBO.

Revenue increased 30% to \$2.99 billion in the third quarter, slightly topping analysts' estimates, and the company's operating margin expanded.

Shares in Netflix rose nearly 13% in after-hours trading Monday. The stock has gained 64% this year though Monday, giving the company a market value of about \$87.5 billion.

The company said it now has \$17 billion in streaming-content obligations, a measure of current and future costs for content acquisition, licensing and production, an increase from \$14.4 billion in the same quarter last year.

Competition for viewers' attention has been getting more fierce. Some content owners, such as **Walt Disney** Co., are planning to offer their own streaming services, pulling some content from Netflix. Amazon, meanwhile, is boosting its own spending to lure talent and create original shows. Hulu took home best drama at this year's Emmy Awards for "The Handmaid's Tale"—becoming the first streaming service to win the coveted prize. New competitors are on the horizon, with Apple looking to spend roughly \$1 billion to procure and produce original content over the next year.

In a letter to shareholders, Netflix said the "long-term trends are clear" that the com-

pany's "future largely lies in exclusive original content, and less on licensing programs from other content suppliers in Hollywood."

Netflix said more than one-quarter of its content spending will go toward original content this year, an amount that could eventually reach more than 50%.

"It's an exciting period, and

multiyear exclusive agreement to develop shows.

"It gets very competitive for the handful of superstars, but overall player personnel costs are pretty predictable," Netflix Chief Content Officer Ted Sarandos said on a video chat with an analyst, using a sports metaphor to refer to how Netflix is able to manage content costs.

Netflix in August announced its first acquisition, buying comic-book publisher Millarworld.

Netflix has been pursuing global expansion as its core U.S. market matures and as it works to offset growing content costs and original programming investments.

The company added 4.45 million international subscribers in the quarter, compared with its forecast of 3.65 million. It added 850,000 U.S. subscribers, compared with its target of 750,000.

Netflix posted a third-quarter profit of \$130 million, or 29 cents a share, compared with a profit of \$52 million, or 12 cents a share, in the same quarter last year.

◆ Heard on the Street: Netflix needs to feed the beast... B12

30%

The streaming-video company's third-quarter revenue increase

## COLONY

*Continued from the prior page*  
been hired by the company's board as an adviser on the potential sale. Weinstein Co.'s programs include "Project Runway" and "Waco" a coming miniseries about the David Koresh stand-off.

Before the current scandal, Weinstein Co.'s board of directors believed its television business alone was worth about \$650 million. Now, the TV and film business combined may be worth less than that, said a person close to the company.

Larry Hutcher, a co-managing partner at Davidoff Hutcher & Citron LLP who specializes in corporate buyouts and disputes, estimates that Colony could get as much as a 40% discount if it buys Weinstein Co., based on the damage already done and the urgent timeline of the sale.

"No respectable business or talent would touch him," Mr. Hutcher said of Harvey Weinstein. Before Harvey Weinstein's firing, the brothers owned a combined 42% of the company; it is unclear whether recent events have affected their control. "The only alternative is to find somebody to come in and take out Harvey's position, so they can say, 'Look, we're wiping the slate clean,'" Mr. Hutcher said.

Thomas Barrack Jr., executive chairman of Colony Capital, said in prepared remarks that with his firm's investment

in Weinstein Co., "We will help return the company to its rightful iconic position in the independent film and television industry."

Bankers who have worked with Weinstein Co. have previously said the company could be sold off as three separate assets: a movie studio, a TV arm and a library of hundreds of titles.

The television division is considered the most valuable. The library could prove attractive to buyers who want to license the movies to streaming services such as Netflix Inc. The movie studio, which is the best-known of the company's divisions, could be trickiest to unload since it was most closely associated with Mr. Weinstein and his

ability to attract A-list talent.

The deal reintroduces Mr. Barrack to the Weinstein world. Mr. Barrack, a billionaire real-estate magnate, was chairman of Miramax, the Weinstein brothers' former studio, after Colony and other investors bought it from Walt Disney Co. for \$660 million in 2010.

Colony's focus was on finding ways to generate new revenue from Miramax's library of 700 titles, which includes modern-day classics such as "Pulp Fiction" and "Shakespeare in Love." The firm licensed those movies to streaming services.

In 2013, Mr. Barrack and the brothers discussed merging Weinstein Co. and Mira-

max but the deal never materialized. Last year, Colony sold Miramax to Qatar-based BeIN Media Group for an undisclosed amount.

Since then, Mr. Barrack's national profile has risen due to his friendship with President Donald Trump. Mr. Barrack hosted fundraisers for Mr. Trump in Los Angeles and raised tens of millions of dollars for a super PAC backing the then-candidate.

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## BUSINESS NEWS

# Self-Drive Cars Planned In New York

BY MIKE COLIAS  
AND TIM HIGGINS

**General Motors** Co. plans to become the first company to test self-driving cars in New York City, a move aimed at asserting leadership in the race to develop autonomous cars and a potentially important step toward commercializing the technology.

GM will deploy a fleet of self-driving Chevrolet Bolt electric cars early next year in a 5-square-mile section of lower Manhattan that engineers are

**GM to test fleet of Chevrolet Bolt electric cars early next year in lower Manhattan.**

mapping, said Kyle Vogt, chief executive of Cruise Automation, the driverless-car developer GM acquired last year. The move could be seen as a threat to the thousands of taxi drivers piloting yellow cabs around New York, as autonomous robot-taxis operated by GM and its rivals are seen eventually displacing human drivers.

GM said a safety operator will be at the wheel of each car to gather data and take over if something goes wrong.

GM's Cruise operation has been testing more than 100 self-driving Bolts in various markets, but its work in San Francisco is seen as particularly valuable because it offers a congested environment with a high concentration of hairy situations that fully automated cars must learn to navigate. New York will pres-

ent similar challenges and offer new hurdles, including bad weather and more-aggressive drivers, which will "improve our software at a much faster rate," Mr. Vogt said.

"Anyone else who's driven in New York City knows that it's going to present some unique challenges," he said in an interview. Cruise will open a research facility in the city but declined to discuss details.

GM is racing to develop vehicles that drive themselves as tech companies try to perfect technology that could shuffle the power players in the auto industry. One-quarter of miles driven in the U.S. by 2030 could be through shared, self-driving vehicles, according to an estimate from the Boston Consulting Group.

Most companies have focused testing in Silicon Valley—42 companies hold permits to test autonomous vehicles on California's public roads. That includes Google parent Alphabet Inc. through its Waymo unit, which is testing around its corporate campus in suburban Mountain View. It is also scaling up operations in the Phoenix area, where it offers rides to nonemployees in 500 Chrysler minivans, with a safety operator at the wheel.

Cruise and other new competitors are making up for lost time against Waymo, which is considered the leader after spending eight years collecting more than 3.5 million autonomous miles in more than 20 cities.

GM executives argue that hard-earned city driving is more useful for the car to learn how to handle unusual situations that human drivers take for granted, such as how to handle broken traffic lights at an intersection.



From left, Daimler CEO Dieter Zetsche with Volkswagen Chairman Matthias Müller and Baden-Wuerttemberg Gov. Winfried Kretschmann in Berlin in August. Mr. Zetsche said Monday that companies need to 'continuously evolve and adapt' to rapid change.

STEFFI LOOS/GETTY IMAGES

## Daimler Charts Leaner Approach

BY WILLIAM BOSTON

**BERLIN**—Daimler AG has decided that less is more.

After months of study, the automotive company that owns the Mercedes-Benz car brand said Monday it is taking preparatory steps to reorganize, consolidating its five business divisions into three separate registered companies. The company said the move would give the units greater entrepreneurial freedom and "better utilize the potential for growth and earnings" in their respective markets.

The reorganization, which still requires approval from the supervisory board and shareholders, could set the stage for Daimler to break up the company into separate publicly listed enterprises later. The auto maker said there were no current plans to spin off units.

Daimler's announcement comes amid a recent wave of industrial spinoffs, including announcements last week by **Pfizer** Inc. and **Honeywell International** Inc. to hive off major business units.

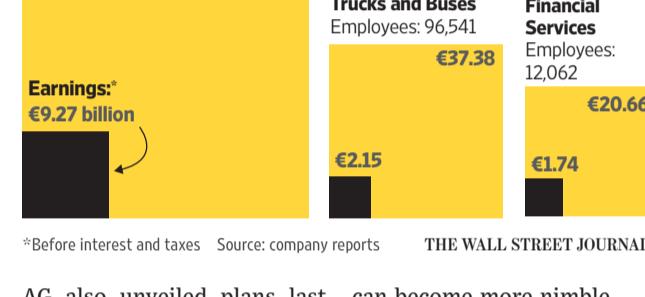
Daimler rival **Volkswagen**

### A Streamlined Structure

Daimler intends to consolidate into three separate companies.

#### Mercedes-Benz Cars and Vans

Employees: 163,976



\*Before interest and taxes Source: company reports

THE WALL STREET JOURNAL.

AG also unveiled plans last week to group components manufacturing of its dozen different brands into a cohesive unit, a first step toward a potential spinoff farther down the road. Volkswagen said there were no plans to split off the unit.

Dicing big conglomerates into more manageable businesses has its advantages, say analysts. The businesses tend to outperform the broader stock market. Untethered from the larger corporation, they

can become more nimble.

That is an important factor for auto companies that have to ramp up production of electric vehicles and face competition from Silicon Valley over the development of self-driving car technology.

"Whoever aims for sustainable competitiveness and profitability must continuously evolve and adapt to rapidly changing surroundings—technologically, culturally and also structurally," Daimler Chief Executive Dieter Zetsche said

in a written statement.

Daimler now has five separate businesses that generated €153 billion (\$181 billion) in revenue last year and €8.8 billion in net income. The reorganization plan calls for creating three independent companies that would be wholly owned subsidiaries of the parent, Daimler AG.

Daimler would merge Mercedes-Benz Cars and Mercedes-Benz Vans into one company. It would group Daimler Trucks, one of the largest truck makers in the world and owner of Freightliner in the U.S., and Daimler Buses into a second company.

The third company, Daimler Financial Services, already exists. The unit consists of Daimler's bank that is used to finance car leasing and loans, as well as the company's stable of new mobility services such as the Car2Go car-sharing service, the largest in Europe.

"We are creating the conditions for greater customer and market focus and therefore more growth opportunities," Bodo Uebber, the company's chief finance officer, said in a written statement.

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C-0917-12370 09-15-18



# TECH'S MOST AMBITIOUS MINDS, ON STAGE AND ON THE RECORD

## 2017 LINEUP OF SPEAKERS

BILL ACKMAN Founder and CEO, Pershing Square Capital Management	JEREMY JOHNSON Co-Founder and CEO, Andela	JESSICA O. MATTHEWS Founder and CEO, Uncharted Play, Inc.
SAM ALTMAN President, Y Combinator	PEGGY JOHNSON EVP, Business Development, Microsoft	TARIQ MEYERS Head of Inclusion and Diversity, Lyft
DAN AMMANN President, General Motors Company	JEFFREY KATZENBERG Partner, WndrCo	STEVEN MOLLENKOPF CEO, Qualcomm Incorporated
CHIP BERGH President and CEO, Levi Strauss & Co.	PHILIP KRIM Co-Founder and CEO, Casper	JENNIFER NASON Global Chairman, Investment Banking, J.P. Morgan
BARRY DILLER Chairman and Senior Executive, IAC and Expedia, Inc.	BRIAN KRZANICH CEO, Intel	JONAH PERETTI Founder and CEO, BuzzFeed
JOELLE EMERSON Founder and CEO, Paradigm	GEORGE KURTZ Co-Founder and CEO, CrowdStrike	MATTHEW PRINCE Co-Founder and CEO, Cloudflare
DAVID EUN President, Samsung NEXT	JENNY LEE Managing Partner, GGV Capital	CHUCK ROBBINS CEO, Cisco
CHRISTINA LEWIS HALPERN Founder and Executive Director, All Star Code	MAX LEVCHIN Co-Founder and CEO, Affirm	MARK SAGAR Co-Founder and CEO, Soul Machines
JOHN HANKE Founder and CEO, Niantic, Inc.	ROBIN LI Co-Founder, Chairman and CEO, Baidu, Inc.	JOSEPH TSAI Executive Vice Chairman, Alibaba
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## BUSINESS NEWS

# Bombardier, Airbus to Join

TORONTO—Plane maker **Airbus SE** announced plans to partner with **Bombardier Inc.** in what could be the biggest shake-up of the commercial jet-liner business in 30 years, challenging a crippling tariff ruling pushed by **Boeing Co.** and the U.S. despite sluggish sales of a Canadian-made aircraft.

*By Jacquie McNish,  
Doug Cameron  
and Paul Vieira*

Bombardier and Airbus said Monday that in August they rekindled failed talks dating several back years and that the European company planned to take a majority stake in a joint venture to market Bombardier's CSeries jets. The pact included assembly of the plane in Mobile, Ala., but wouldn't affect employment in Bombardier's main Montreal plant.

Airbus Chief Executive Tom Enders said the company wasn't investing upfront for its majority stake in the venture, which he said would allow sales to U.S. airlines without the 300% tariff proposed for CSeries imports by American trade authorities.

The proposed deal would intensify competition between Airbus and Boeing and potentially inflame a trade dispute between the U.S. and Canada over alleged state subsidies to Bombardier by having some Canadian-developed jets assembled on American soil.

"This looks like a questionable deal between two heavily state-subsidized competitors to skirt the recent findings of the U.S. government," Boeing said in a statement.

The U.S. Commerce Department's preliminary decision to hit Bombardier with tariffs that would quadruple the price of a CSeries aircraft in the U.S. came after Boeing complained of predatory pricing. A final decision is expected next year.

Bombardier CEO Alain Bellemare said the partnership would allow the company to sidestep heavy tariffs imposed by the U.S. government in recent weeks over allegations that it selling CSeries planes at below market prices.

Although many people familiar with the deal said the Boeing action spurred the talks, Mr. Bellemare denied it was the primary motivation.

## Ruby Tuesday to Be Taken Private



MARY ALTAFFER/ASSOCIATED PRESS

Restaurant chain **Ruby Tuesday Inc.** is being taken private as it struggles with unprofitability and declining same-restaurant sales amid broader changes in casual dining.

Private-equity firm **NRD Capital Management**, which has recently invested in other restaurant companies, is buying the casual-dining chain for about \$146 million, or

\$2.40 a share.

The price is a 21% premium to where Ruby Tuesday traded at Friday's close and 37% above where the stock was in early March before the company announced it was exploring strategic alternatives. The deal is expected to be completed during the first quarter of 2018.

Ruby Tuesday shares rose

19% to \$2.36 on Monday.

In recent years, the company has closed locations and worked to refocus on boosting sales at its namesake Ruby Tuesday. As of September, there were 599 Ruby Tuesday restaurants in 41 states and 14 foreign countries, down from 736 locations in 2015. Most restaurants are company-owned.

—Austen Hufford

# Redstone's Ex-Companion Files RICO Suit

BY KEACH HAGEY

mafia.

In the suit, Manuela Herzer claims that Shari Redstone and her son, Tyler Korff, conspired with Mr. Redstone's nurses and staff members to eavesdrop on Ms. Herzer and Mr. Redstone's communications with his attorneys, to break into her computer to plant documents and gather information, and to spy on her with security cameras in Mr. Redstone's mansion, among other actions.

Ms. Redstone, along with

the help of family and staff, is accused of forcing Ms. Herzer from Mr. Redstone's life "as a direct means of gaining control of his estate plan and his media companies"—**National Amusements**, **CBS Corp.** and **Viacom Inc.**, according to the complaint.

Mr. Redstone, 94, is the controlling shareholder of Viacom and CBS through his National Amusements holding company. Viacom and CBS declined to comment.

"Having gotten nowhere in

her previous three lawsuits against Sumner, his family, and his nurses and household staff, Ms. Herzer has concocted a work of pure fiction designed for media spectacle," Robert Klieger, an attorney for Ms. Redstone who works at **Hueston Hennigan**, said in a statement. "Shari unequivocally rejects the fantastical allegations dreamt up by the latest in Ms. Herzer's revolving door of lawyers."

Tyler Korff's lawyer, Dan Small, of **Holland & Knight**,

said in a statement that the filing "is yet another flimsy attempt by Ms. Herzer to demean the Redstone family through court filings filled with fictional allegations and outrageous claims."

"Just as all her past lawsuits have failed, we are confident that this latest installment will meet the same fate," the statement said.

Ms. Herzer's latest lawsuit ratchets up a continuing legal battle between herself and the Redstones.

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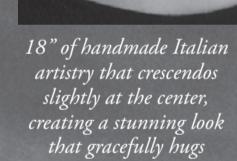
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## Facebook Targets Teens in App Deal

BY DEEPA SEETHARAMAN AND KATHERINE BINDLEY

**Facebook Inc.**, which is trying to make inroads with younger users, said Monday that it bought **TBH**, an anonymous polling app that has become an overnight sensation among teens.

Launched less than three months ago, TBH has rapidly gained traction among U.S. teens, a group that analysts say is abandoning Facebook's core social network for services like **Snap Inc.'s Snapchat** and Facebook-owned Instagram.

A Facebook spokeswoman said TBH, which stands for "To Be Honest," will continue as a standalone app under Facebook. The app's creators will become Facebook employees and continue to oversee the app's expansion. The spokeswoman declined to disclose the price.

The TBH deal is another example of Facebook's willingness to acquire or mimic rival services that pose a threat to its dominance. The social-media company keeps a close eye on potential threats through an internal "early bird" warning system, The Wall Street Journal previously reported.

The app, created by the app development company **Midnight Labs**, launched on Aug. 3 in the state of Georgia. It quickly rose to the top of the iOS App Store, even though it still hasn't rolled out to all 50 U.S. states.

More than five million people have downloaded TBH and sent more than a billion messages, the app's developers said Monday in a blog post announcing the Facebook deal.

TBH describes itself as "an app for giving anonymous feedback to friends." Unlike other anonymous apps, TBH says the feedback offered to users is strictly positive.

## Drug Firms Near Merger Pact

BY JONATHAN D. ROCKOFF AND DANA CIMILLUCA

**Impax Laboratories Inc.** and **Amneal Pharmaceuticals LLC** are close to agreement on a merger that would create the nation's fifth-largest generic-drug company by revenue, according to people familiar with the matter.

The companies are in advanced negotiations on an all-stock deal that would hand Impax shareholders 25% of a new, publicly traded company and owners of closely held Amneal the remainder, the people said. The combined company is expected to be worth \$6.4 billion, or about \$9 billion with debt, some of the people said.

Impax currently has a market value of about \$1.5 billion. The Wall Street Journal re-

ported last month that the two companies were in talks.

The new group, to be based in Bridgewater, N.J., and called Amneal Pharmaceuticals, would be in a better position to tackle the changing marketplace for generic drugs. The extra bulk could help it negotiate with the wholesalers and retailers that distribute and sell the lower-priced copies. The middlemen have become an increasingly powerful force in the \$84 billion market.

Drug wholesalers and retailers have linked up in recent years to form three "buying groups" that analysts say are so large they have been able to use their leverage during negotiations to squeeze generic-drug makers.

The result has been falling prices for generic drugs overall, while the smaller manufac-

turers have been unable to win contracts with some of the buying groups.

To boost their bargaining power, generic-drug companies, including powerhouse **Teva Pharmaceutical Industries Ltd.**, have been consolidating. Last year, Teva bought Allergan PLC's generic-drugs business for \$40 billion.

Paul Bisaro, an Allergan board member who took over as Impax chief executive in March, is expected to become CEO of the combined company. He has been outspoken about the need for generic makers to add heft to better cope with the buying groups and find new ways to sell their medicines.

His challenge was coming up with a way to do deals given Impax's limited cash—it had less than \$200 million as of June. Impax, based in Hayward, Calif., had revenue last year of \$824 million.

In Amneal, Mr. Bisaro found another undersized generic-drug maker with more than 300 medicines estimated to be in development, as well as expertise making higher-margin injectable drugs.

The combined company would have about \$2 billion in

**\$6.4B**

Value of combined Impax-Amneal company, without debt

yearly revenue and a pipeline including biosimilar versions of the Neupogen and Neulasta cancer-care treatments and of the Copaxone multiple-sclerosis drug.

Amneal, of Bridgewater, was founded 15 years ago by Chintu and Chirag Patel, brothers who immigrated to the U.S. in 1987. They are to be co-chairmen of the combined company. Last year, Amneal notched what analysts estimated to be \$1.2 billion in sales.

The companies are aiming to secure benefits from increased diversification, double-digit growth in revenue and earnings, and annual cost savings of about \$200 million in three years.

### ANNOUNCEMENTS

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## MARKETS DIGEST

### EQUITIES

#### Dow Jones Industrial Average



#### S&P 500 Index



#### Nasdaq Composite Index



Current divisor 0.14523396877348

Bars measure the point change from session's open

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

#### Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
	Dow Jones	Industrial Average	Transportation Avg	Utility Average	Total Stock Market	Barron's 400	Nasdaq Composite	Nasdaq 100		
Industrial Average	22960.12	22887.12	22956.96	85.24	0.37	22956.96	17888.28	26.9	16.2	12.5
Transportation Avg	9971.88	9819.94	9857.15	-79.07	-0.80	10038.13	7967.02	23.1	9.0	7.1
Utility Average	738.90	727.52	734.91	-2.34	-0.32	754.80	625.44	12.1	11.4	9.6
Total Stock Market	26553.79	26477.41	26525.47	39.49	0.15	26525.47	21514.15	20.6	14.0	11.0
Barron's 400	688.28	684.98	686.37	1.24	0.18	687.05	521.59	27.4	14.1	11.6

#### Nasdaq Stock Market

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
Nasdaq Composite	6632.50	6607.03	6624.00	18.20	0.28	6624.00	5046.37	27.4	23.1	16.2
Nasdaq 100	6115.53	6095.63	6114.53	22.07	0.36	6114.53	4660.46	27.5	25.7	17.5

#### Standard & Poor's

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
500 Index	2559.47	2552.64	2557.64	4.47	0.18	2557.64	2085.18	20.3	14.2	11.1
MidCap 400	1825.65	1817.97	1819.46	0.64	0.04	1819.96	1476.68	19.8	9.6	11.5
SmallCap 600	913.30	906.03	908.14	-0.23	-0.03	918.72	703.64	23.6	8.4	13.2

#### Other Indexes

	Russell 2000	NYSE Composite	Value Line	NYSE Arca Biotech	NYSE Arca Pharma	KBW Bank	PHLX® Gold/Silver	PHLX® Oil Service	PHLX® Semiconductor	CBOE Volatility
	1511.29	1499.64	1502.68	0.02	0.002	1512.09	1156.89	24.2	10.7	11.4
	12377.25	12343.18	12359.52	7.52	0.06	12362.06	10289.35	17.8	11.8	6.9
	544.51	542.05	542.59	-0.22	-0.04	545.78	455.65	15.4	7.2	5.8
	4326.21	4249.39	4272.94	11.40	0.27	4304.77	2834.14	41.0	39.0	12.7
	556.39	551.03	552.16	-1.15	-0.21	555.86	463.78	11.8	14.7	4.1
	99.59	98.90	99.52	0.63	0.64	100.76	70.93	40.3	8.4	14.4
	87.94	85.91	86.14	-1.14	-1.31	96.72	73.03	4.8	9.2	2.8
	140.00	138.11	138.32	0.23	0.16	192.66	117.79	-15.3	-24.7	-16.9
	1225.10	1216.73	1224.99	5.77	0.47	1224.99	802.88	52.2	35.1	29.0
	10.02	9.75	9.91	0.30	0.32	22.51	9.19	-38.9	-29.4	-26.7

\$Philadelphia Stock Exchange

Sources: SIX Financial Information; WSJ Market Data Group

#### Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

#### Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	% chg	After Hours High	Low
SPDR S&P 500	SPY	5,525.8	255.26	-0.03	-0.01	255.41	254.85
VanEck Vectors Gold Miner	GDX	5,373.4	23.45	-0.01	-0.04	23.50	23.41
Netflix	NFLX	3,908.6	205.20	2.52	1.24	211.00	195.30
iShares Russell 2000 ETF	IWM	2,903.8	149.32	0.08	0.05	149.45	148.85
Marathon Petroleum	MPC	2,816.2	55.72	...	unch.	55.90	55.72
First Select Sector SPDR	XLF	2,699.9	26.30	...	unch.	26.31	26.27
iShares MSCI Brazil Cap	EWZ	2,397.9	42.94	...	unch.	43.00	42.93
Parsley Energy C/A	PE	2,215.2	26.79	...	unch.	26.79	26.79

#### Percentage gainers...

Company	Symbol	921.2	3.10	0.29	10.32	3.14	2.81
TransEnterix	TRXC	921.2	3.10	0.29	10.32	3.14	2.81
Immuno Design	IMDZ	6.5	11.10	1.00	9.85	11.45	10.10
Impax Laboratories	IPXL	6.0	21.20	1.25	6.27	21.20	19.95
Spirit Airlines	SAVE	34.7	35.01	1.54	4.60	35.35	33.18
Myriad Genetics	MYGN	5.9	37.22	1.12	3.10	37.22	36.10

#### ...And losers

Company	Symbol	9.5

## COMMODITIES

[WSJ.com/commodities](http://WSJ.com/commodities)

### Futures Contracts

#### Metal & Petroleum Futures

	Contract				Open	High	Low	Settle	Chg	Open interest
Copper-High (CMX)-25,000 lbs.; \$ per lb.										
Oct 3.1380 3.2275 ▲ 3.1380 3.2240 0.1055 1,314										
Dec 3.1335 3.2595 ▲ 3.1120 3.2390 0.1055 177,551										
Gold (CMX)-100 troy oz.; \$ per troy oz.										
Oct 1302.00 1303.80 1299.90 -1.60 256										
Dec 1306.00 1308.40 1292.50 1303.00 -1.60 405,887										
Feb'18 1310.30 1312.70 1296.90 1307.30 -1.60 66,827										
April 1312.80 1316.50 1301.00 1311.40 -1.60 13,258										
June 1316.90 1320.70 1305.50 1315.40 -1.60 11,581										
Dec 1330.50 1333.00 1319.80 1327.90 -1.20 10,771										
Palladium (NYM)-50 troy oz.; \$ per troy oz.										
Oct 985.00 985.00 985.00 977.40 -9.20 1										
Dec 983.25 1005.00 ▲ 966.75 976.30 -9.20 31,546										
March'18 983.95 993.10 ▲ 956.40 964.80 -11.10 2,658										
Platinum (NYM)-50 troy oz.; \$ per troy oz.										
Oct 940.00 940.00 940.00 939.40 -5.80 18										
Jan'18 947.00 950.90 930.60 942.10 -5.80 70,084										
Silver (CMX)-5,000 troy oz.; \$ per troy oz.										
Oct 17.420 17.430 17.280 17.315 -0.40 401										
Dec 17.425 17.495 17.135 17.369 -0.042 144,173										
Crude Oil, Light Sweet (NYM)-1,000 bbls.; \$ per bbl.										
Nov 51.43 52.37 51.35 51.87 0.42 222,493										
Dec 51.70 52.65 51.63 52.14 0.41 519,527										
Jan'18 51.92 52.85 51.84 52.34 0.40 283,409										
March 52.19 53.05 52.19 52.59 0.38 237,540										
June 52.27 52.97 52.27 52.57 0.34 198,865										
Dec 51.82 52.34 51.71 51.94 0.17 257,556										
NY Harbor LBD (NYM)-42,000 gal.; \$ per gal.										
Nov 1.7975 1.8314 1.7975 1.8129 0.159 79,136										
Dec 1.7994 1.8302 1.7968 1.8118 0.157 101,150										
Gasoline-NY RBOB (NYM)-42,000 gal.; \$ per gal.										
Nov 1.6222 1.6463 1.6144 1.6169 -0.053 84,440										
Dec 1.6045 1.6248 1.5969 1.5994 -0.004 119,495										
Natural Gas (NYM)-10,000 MMBtu.; \$ per MMBtu.										
Nov 2.960 2.977 2.908 2.946 -0.054 174,914										
Dec 3.122 3.141 3.071 3.108 -0.052 211,017										
Jan'18 3.238 3.254 3.189 3.227 -0.044 193,882										
Feb 3.251 3.262 3.201 3.237 -0.042 77,353										
March 3.207 3.224 3.167 3.202 -0.039 166,787										
April 2.948 2.970 2.931 2.960 -0.011 121,124										

#### Agriculture Futures

	Open	High	Low	Settle	Chg	Open interest
<b>Corn (CBT)</b> -5,000 bu.; cents per bu.						
Dec 352.75 353.25 349.75 350.50 -2.25 784,307						
March'18 366.00 366.75 363.50 364.25 -2.25 292,929						
Oats (CBT)-5,000 bu.; cents per bu.						
Dec 267.00 269.50 258.00 259.50 -7.25 4,702						
March'18 267.50 270.25 259.25 262.50 -4.75 1,392						
Soybeans (CBT)-5,000 bu.; cents per bu.						
Nov 998.00 999.00 990.25 991.00 -9.25 260,895						
Jan'18 1008.00 1009.00 1000.50 1001.50 -8.75 221,840						
Soybean Meal (CBT)-100 tons; \$ per ton.						
Dec 327.70 328.10 324.10 324.50 -4.10 151,570						
Jan'18 329.80 329.90 326.30 326.70 -4.00 83,716						
Soybean Oil (CBT)-60,000 lbs.; cents per lb.						
Dec 33.60 33.91 33.55 33.59 -10 169,392						
Jan'18 33.78 34.06 33.70 33.75 -10 97,704						
Rough Rice (CBT)-2,000 cwt.; \$ per cwt.						
Nov 121.00 122.00 121.00 121.00 -6.50 6,072						
Jan'18 124.70 125.00 124.00 124.50 -6.00 3,722						
Wheat (CBT)-5,000 bu.; cents per bu.						
Dec 44.00 44.25 43.50 43.60 -3.00 258,038						
March'18 458.25 461.25 454.25 455.00 -3.00 101,058						
Wheat (KCI)-5,000 bu.; cents per bu.						
Dec 436.00 440.75 432.50 433.75 -2.50 141,536						
March'18 453.50 458.50 450.75 451.75 -2.75 82,452						
Wheat (MPLS)-5,000 bu.; cents per bu.						
Dec 615.00 620.00 608.50 609.50 -5.50 36,060						
March'18 629.00 633.75 622.50 623.50 -5.50 24,013						
Hogs-Lean (CME)-40,000 lbs.; cents per lb.						
Dec 62.500 63.875 62.300 63.700 1.500 119,060						
Feb'18 67.550 68.475 67.475 68.300 .850 46,091						
Lumber (CME)-110,000 bd ft.; \$ per 1,000 bd ft.						
Dec 424.60 433.50 ▲ 424.50 429.80 5.50 4,058						
Jan'18 410.20 419.70 ▲ 410.20 417.50 7.50 2,309						
Milk (CME)-200,000 lbs.; cents per lb.						
Oct 16.71 16.78 16.71 16.76 .04 3,943						
Nov 16.13 16.20 16.08 16.15 .02 4,524						
Cocoa (ICE-US)-10 metric tons; \$ per ton.						
Dec 2,087 2,092 2,073 2,044 -43 105,588						

#### Interest Rate Futures

	Open	High	hilo	Low	Settle	Chg	Open interest
March'18 2,095 2,101 2,050 2,057 -42 81,803							
Coffee (ICE-US)-37,500 lbs.; cents per lb.							
Dec 126.10 126.45 123.70 123.75 -2.70 113,253							
March'18 130.05 130.05 127.55 127.60 -2.60 58,926							
Sugar-World (ICE-US)-112,000 lbs.; cents per lb.	</td						

# BIGGEST 1,000 STOCKS

## How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX BXSM (formerly Boston), Chicago Stock Exchange, CBOE, National Stock Exchange, ISYE and BATS. The list comprises the 1,000 largest companies based on market capitalization. Underlined quotations are those stocks with larger changes in volume compared with the issue's average trading volume. Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

**Footnotes:**

- F-New 52-week high.
- F-New 52-week low.
- d-Dividends lost in the most recent four quarters.
- FD-FIRST day of trading.
- H-Does not meet continued listing standards.
- If-Late filing.
- q-Temporary exemption from Nasdaq requirements.
- t-NYSE bankruptcy.
- v-Trading halted on primary market.
- w-In bankruptcy or receivership or being reorganized under the Bankruptcy Code, or securities assumed by such companies.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Monday, October 16, 2017

Net Stock Sym Close Chg

NYSE

AbbVie ABB 24.97 -0.17

AES AES 11.27 0.02

Aflac AFL 18.18 -0.17

AT&T T 36.17 -0.17

AbbottLabs ABT 54.63 -0.02

AbbVieBbvB ABBV 91.04 -0.37

Accenture ACN 139.09 -0.11

AcuityBrands AYI 164.89 -2.36

Adient ADNT 85.07 -0.29

AdvanceAuto ADV 86.01 0.50

AdvSemEngng ASX 6.38 -0.01

Aegon AEG 5.75 0.03

AerCap AER 52.44 -0.09

Aetna AET 151.44 -1.62

AffiliatedMtrs AMG 195.30 -0.17

AgileTechs AEM 69.91 -0.08

AgnicoEagle AEM 45.52 -1.17

Agricultr AGLU 108.77 0.86

AirProducts APD 152.52 -0.24

AirbusAkr AirAlas AIR 43.29 -1.55

Albermarle ALB 140.16 -1.22

Alcoa ARA 48.28 -0.53

BerkHathaway BRK 187.96 0.59

BectonDixCo BD 42.30 -0.17

BectonDixCo BD 31.52 0.31

BanCantoSanctander SAN 6.52 -0.01

BancoDeAmerica BAC 26.24 0.10

BancoDeMontreal BMO 77.90 -0.23

BardCorporation BHD 42.19 -0.16

BanCoblaBvz BBLV 42.91 -0.16

BanCoblaBvz BBLV 8.51 -0.17

BanCoblaBvz BBLV 35.76 -0.18

BanCoblaBvz BBLV 35.91 -0.02

BanCoblaBvz BBLV 127.09 -0.01

BanCoblaBvz BBLV 52.70 -0.50

BanCoblaBvz BBLV 14.03 -0.04

BanCoblaBvz BBLV 14.33 -0.17

BanCoblaBvz BBLV 43.30 -0.25

BanCoblaBvz BBLV 33.70 -0.01

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## BANKING & FINANCE

# Edward Jones Joins the Club

Regional broker tops \$1 trillion in assets, plans to push deeper into some larger cities

By LISA BEILFUSS

Client assets at **Edward Jones** have surpassed \$1 trillion, the regional brokerage said, as it competes in recruiting against Wall Street titans such as Merrill Lynch and **Morgan Stanley**.

The St. Louis-based brokerage, known for its thousands of storefronts across the U.S., is pursuing clients in urban centers that have traditionally been the domain of the biggest brokerages. And the closely held firm is pushing to beef up its broker ranks by recruiting experienced advisers from rivals, as larger competitors pull back on some costly recruiting practices.

Market gains in recent years have helped account balances grow at Wall Street firms, asset managers and regional brokers, but this year net new assets account for about half of overall client-asset growth at Edward Jones, said Jim Weddle, head and managing partner.

Assets under management now stand at \$1.06 trillion, up 9.9% from the start of the year. Net new assets rose by \$30.9 billion through August, he said, on track to hit the firm's

\$47.1 billion target for net new assets in 2017. "We are not confusing [asset growth] with a bull market," Mr. Weddle said.

For nearly a century, Edward Jones relied on career changers and new college graduates to expand its broker ranks. Now, with a plan to field 20,000 brokers and push deeper into cities such as Chicago, Boston and Dallas, where its rivals are entrenched, Edward Jones is looking to attract experienced brokers from big-name shops.

Of the roughly 700 brokers the firm has hired this year, Mr. Weddle said about 130, or almost 19%, are from other firms. That compares with roughly 40 experienced advisers Edward Jones brought in last year. Mr. Weddle said he expects to hire as many as 200 more advisers by the end of 2017, translating to 6% growth in the overall adviser count for the year to about 16,000.

Merrill Lynch's adviser force stood at about 15,000 at the end of the most recent quarter. Morgan Stanley has roughly 16,000 financial advisers.

Big U.S. brokerages **Bank of America** Corp.'s Merrill Lynch, **Morgan Stanley** and **UBS Group AG** have in recent quarters pulled back on paying big bonuses to lure brokers from rivals—a costly and long-criticized recruiting practice known as "prisoner exchange"—in part to comply with a new re-



Managing partner Jim Weddle is luring brokers from big-name shops.

tirement-savings rule that requires advisers to act in clients' best interest. The poaching could potentially lead to problems for firms under the rule, because it in part mandates "reasonable compensation."

This pullback on poaching has given Edward Jones an opening to lure smaller-revenue producers from firms including Merrill Lynch. While the bonuses pale in comparison with the multimillion-dollar checks often commanded by veteran brokers who join the biggest brokerages, they come as rivals have scaled back hefty recruitment deals and redirected much of the money to retention.

The recruiting retrenchment at big firms "is an opportunity

for a firm like Edward Jones to compete," said Mindy Diamond, president and founder of Diamond Consultants, a recruiting firm for financial advisers. "The playing field has been leveled," she said.

How far into big-city markets Edward Jones can reach remains to be seen. "They have a better shot now than they had a year ago," Ms. Diamond said. "Edward Jones appeals to a very niche kind of financial adviser," typically someone who isn't in a major city, she said, and so the firm isn't a "major player" when it comes to recruiting.

Edward Jones said part of its recruitment effort is centered on drawing women into an industry that leans heavily toward men.

# Wells Fargo to Pay \$3.4 Million Over Advisers' Flub

By GUNJAN BANERJI

**Wells Fargo & Co.** agreed to compensate customers after recommending exchange-traded products linked to stock-market volatility without fully understanding the securities' risks.

The Financial Industry Regulatory Authority ordered a brokerage division of Wells Fargo that has financial advisers around the country to pay \$3.4 million for recommending the volatility ETPs between July 2010 and May 2012.

"Certain Wells Fargo representatives mistakenly believed that the products could be used as a long-term hedge on their customers' equity positions in the event of a market downturn," Finra said Monday.

In fact, the volatility ETPs are for short-term trades and their value can erode significantly over time, said Finra. The ETPs shouldn't be used as part of a long-term buy-and-hold investment strategy, according to the regulator.

The Wells Fargo charge marks the first time that Finra has made a case related to volatility ETPs, a spokeswoman for the regulator said. The first volatility ETP launched in 2009, and they have surged in popularity among both institutional and individual investors.

The products are linked to the widely watched measure of volatility for stocks, the CBOE Volatility Index, or VIX.

The iPath S&P 500 VIX Short-Term Futures Exchange-Traded Note, or VXX, was one of the first and is among the most traded securities in the U.S. stock market, according to The Wall Street Journal's Market Data Group.

Wells Fargo has settled the claims with Finra and ceased offering some volatility ETPs in retail brokerage accounts, a spokeswoman for the firm said in an email.

"We are committed to helping our clients achieve their investment goals through advice that is regularly reviewed and aligned to their objectives and risk tolerances," the spokeswoman said.

Besides the iPath S&P 500 VIX ETN, other products that Wells Fargo doesn't offer include the iPath S&P 500 VIX Mid-Term Futures Exchange-Traded Note, which has plunged more than 40% this year, and the ProShares VIX

*The charge marks the first time Finra has made a case related to volatility ETPs.*

Short-Term Futures Exchange-Traded Fund, which is down about 65% in 2017.

Wells Fargo didn't give its representatives the adequate training regarding volatility ETPs, violating Finra rules, according to the regulatory body.

This isn't the first time Wells Fargo has been ordered to compensate customers regarding ETPs. In 2012, Finra fined the firm more than \$2 million for violations related to leveraged, inverse and inverse leveraged products, and ordered it to pay over \$600,000 in restitution to customers.

Wells Fargo is also facing \$1 billion in charges over a regulatory investigation into its crisis-era mortgage practices.

# Top Court to Review Challenge to AmEx

By ANNAMARIA ANDRIOTI  
AND BRENT KENDALL

WASHINGTON—The Supreme Court intervened in a high-stakes case for the credit-card industry Monday, saying it will review a government antitrust challenge to **American Express** Co. rules that bar merchants from steering customers to cards that charge lower fees.

The court's move marks the latest turn in a long-running antitrust case against the credit-card giant. At issue are the fees that AmEx charges merchants when consumers use its cards at their stores. AmEx's card policy says that merchants that choose to accept AmEx cards can't steer consumers to use cards on other networks, like **Visa** or **Mastercard**.

Federal and state antitrust enforcers have argued the AmEx rules are an unlawful restraint on trade. AmEx disputes the allegations and says its rules are good for cardholders.

The company appeared to have the upper hand in the litigation last year after winning a major decision from the Second U.S. Circuit Court of Appeals in New York. That ruling reversed a trial judge who said AmEx violated U.S. antitrust law because it didn't allow stores that accept AmEx cards to encourage shop-

pers to use cheaper cards.

"The earlier decision by the Second Circuit panel protects a consumer's right to choose how they pay, prevents our card members from being discriminated against and promotes competition in the payments industry," a spokesman for AmEx said in a statement. "With the Supreme Court's decision to take up this case, we will continue to vigorously defend the Second Circuit's decision in favor of American Express."

Retailers and states praised the Supreme Court's decision. "Retailers have long said AmEx's rules are an antitrust violation that deny consumers truthful information about their credit cards," according to a statement Monday from the Retail Litigation Center.

"The issues in this appeal involve anticompetitive practices that hinder Ohio consumers and Ohio retailers and merchants. We look forward to making our arguments before the court," Ohio Attorney General Mike DeWine said.

Visa and Mastercard settled similar government antitrust claims in 2010, agreeing to drop their policies that barred merchants from using discounts, rebates or other incentives to encourage customers to pay with cheaper cards.



An exhibit at a conference on cryptocurrencies in St. Petersburg, Russia. J.P. Morgan is rolling out a pilot program on blockchain.

# For Dimon, Love-Hate Relationship

By EMILY GLAZER

**J.P. Morgan Chase & Co.** Chief Executive James Dimon recently trashed the digital currency bitcoin as a fraud that will blow up. But he is still enamored with the technology that underpins it and other virtual currencies.

The latest sign came Monday, when the nation's largest bank by assets rolled out its next pilot program to use the record-keeping technology, known as blockchain. The initiative will enable the faster, more secure transfer of cross-border payments between J.P. Morgan, Royal Bank of Canada and Australia & New Zealand Banking Group Ltd.

The new program doesn't use and won't trade bitcoin, in some cases, global transactions from

which has generated skepticism from a wide variety of financiers, including Mr. Dimon and BlackRock Inc. CEO Laurence Fink. But it will use technology that underpins the second-largest virtual currency behind bitcoin, ethereum.

Both cryptocurrencies have soared this year in part due to optimism about the blockchain technology they use to track trades. In J.P. Morgan's case, executives say the technology can significantly speed up global payments.

Processing cross-border payments today means dealing with a complex web of layers of communication between various participants to verify and process transactions.

In some cases, global transactions from individuals or large corporations that could take as long as 15 days now could be shaved down to hours.

The new network will essentially link bank information together through a secure distributed ledger. That better connects the parties, which will continue to keep reams of their own information on separate private servers.

Connecting the data through the shared network should significantly reduce the number of steps needed, for instance, to check and rectify mismatches in a cross-border payment.

J.P. Morgan receives on average 150,000 inquiries on payments annually. Those inquiries can range from getting the full client name, address

or date of birth to a digit missing from an account number, said Emma Loftus, head of global payments and foreign exchange for J.P. Morgan Treasury Services.

Ms. Loftus said the bank will also use its traditional payment methods as it tests the pilot program.

RBC and ANZ are the first two banks to join the network, dubbed Interbank Information Network, but J.P. Morgan hopes to increase the number of bank partners to about two dozen in the next six to 12 months, she said.

Executives at RBC and ANZ said they joined with J.P. Morgan in efforts to improve their cross-border payments.

—Ryan Tracy

contributed to this article.

## Mutual Funds | WSJ.com/fundresearch

### Explanatory Notes

Data provided by **LIPPER**

Top 250 mutual-funds listings for Nasdaq-published share classes with net assets of at least \$500 million each. **NAV** is net asset value. Percentage performance figures are total returns. Figures don't reflect sales charges ("loads") and after subtraction of annual expenses. Returns don't reflect sales charges ("loads") and after subtraction of annual expenses. **NET CHG** is change in NAV from previous trading day. **YTD%RET** is year-to-date return. **3-YR%RET** is trailing three-year return annualized.

e-Ex-distribution. f-Previous day's quotation. g-Footnotes x and s apply. j-Footnotes p and r apply. k-Recalculated by Lipper, using updated data. p-Distribution cost apply. 12b-1: r-Redemption charge may apply. s-Stock split or dividend. t-Footnotes x, e and s apply. NA-Not available due to incomplete price, performance or cost data. NE-Not released by Lipper. data under review. NN-Fund not tracked. NS-Fund didn't exist at start of period.

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# MARKETS

# Oil Rises With Global Political Tensions

Skirmishes, uncertain Trump policy start to drive up prices as supplies get tighter

By ALISON SIDER

The oil market is once again grappling with geopolitical risk.

**COMMODITIES** Oil prices rose Monday to an almost three-week high on escalating tensions in the Middle East and shifting U.S. policy toward Iran that could interrupt the flow of crude.

Geopolitical skirmishes typically raise fears of shortages and cause oil prices to push higher. But for more than three years, a global supply glut in crude blunted the impact from such conflicts to prices.

That is starting to change as global oil supplies become tighter, analysts said.

"It is the first time since 2014 that we have had geopolitical risk add a premium to the oil price in a reflection that the oil market is getting tighter," said Bjarne Schielsdrop, chief commodities analyst at SEB Markets.

Clashes between Iraqi forces and Kurdish fighters in the oil-rich province of Kirkuk early Monday helped push prices higher Monday, analysts and traders said.

U.S. crude futures settled up 42 cents, or 0.8%, at \$51.87 a barrel. Brent, the global benchmark, rose 65 cents, or 1.1%, to \$57.82 a barrel on ICE Futures Europe.

"It's something you can't ignore," said Mark Benigno, co-director of energy trading at INTL FCStone.

Iraqi Kurdistan has built its own oil industry in defiance of Iraq's central government in Baghdad. It exports nearly 600,000 barrels of oil a day, mostly through a pipeline that

## Supply Threats

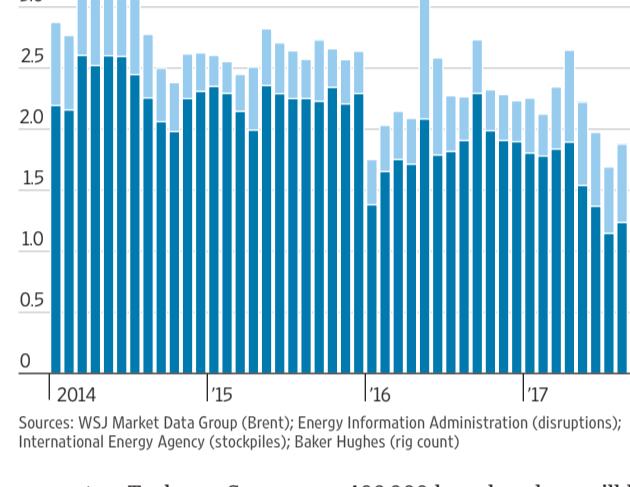
The price of Brent crude rose Monday, after a clash between Kurdish fighters and Iraqi fighters raised concerns among traders that oil supplies from the region could be constrained.

Brent crude-oil price



The conflict marks the return of geopolitical risk after a period of fewer disruptions to oil output.

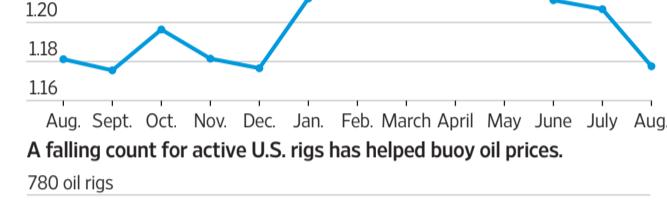
Unplanned supply disruptions



Sources: WSJ Market Data Group (Brent); Energy Information Administration (disruptions); International Energy Agency (stockpiles); Baker Hughes (rig count)

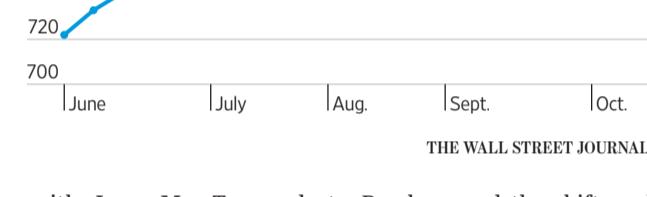
Prices have also climbed recently on signs that the global supply of crude is tightening.

OECD stockpiles



A falling count for active U.S. rigs has helped buoy oil prices.

780 oil rigs



THE WALL STREET JOURNAL.

crease in oil supply from Iran in the medium term," the Barclays analysts wrote.

The growing anxiety reflects a shift in the market. Investors had been "somewhat complacent" about the risks that military clashes or natural disasters could choke off oil supplies, said Giovanni Staunovo, a commodities analyst at UBS Wealth Management.

But now there is a growing risk that production outages could lift prices by a few dollars, Mr. Staunovo wrote in a client note Monday.

Oil prices have been on the rebound since the summer, as confidence has grown in efforts by the Organization of the Petroleum Exporting Countries and other exporters to hold production down all year.

OPEC has said that petroleum inventories in the OECD states stand about 170 million barrels above the five-year average—about half the size of the overhang at the start of the year. Russia and Saudi Arabia recently signaled that they will work to extend the oil-production cap beyond March 2018.

The ability of U.S. shale producers to quickly respond to higher prices has been a big reason that oil prices haven't been reacting much to turmoil, said Greg Priddy, director of global energy at Eurasia Group. That is likely one reason oil prices haven't reacted much yet to Mr. Trump's threats to end the Iran deal, he said.

But there are signs that shale growth is slowing. Oil prices turned positive toward the end of last week following data that showed a larger-than-expected fall in weekly U.S. crude-oil inventories. That was buttressed by Baker Hughes data showing that the number of rigs drilling for oil in the U.S. fell by five to 743 last week.

—Biman Mukherji and Neanda Salvaterra contributed to this article.

runs to Turkey. Concerns about the flow of that oil have been mounting since the region voted to break away from Iraq in an independence referendum last month.

With Iraqi forces now controlling some Kurdish oil fields, it seems likely that some shipments—as much as

400,000 barrels a day—will be stopped, at least until Iraq repairs its own pipeline to Turkey or the two sides reach a revenue-sharing agreement, according to Eurasia Group.

The oil market is also gauging the impact of U.S. President Donald Trump's threat to end a 2015 nuclear agreement

with Iran. Mr. Trump last week refused to certify to Congress that Iran was complying with its obligations under the agreement. Congress has 60 days to decide whether to reimpose sanctions on Tehran.

Iranian oil exports have returned to their pre-sanction levels, according to analysts at

Barclays, and the shift could cast a chill over Iran's oil industry.

The lack of clarity on the nuances of President Trump's new policy sets the stage for heightened uncertainty in energy markets during the fourth quarter and casts doubt on the likelihood of any in-

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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## Netflix Needs To Feed The Beast

Perhaps Netflix could name one of its new shows: "Easy Come, Easy Go."

Investors would appreciate the irony. The streaming media company announced price increases two weeks ago. Those increases are expected to generate more than \$600 million in extra revenue next year. Investors greeted the price bump by giving Netflix shares a 10% bump of their own since the announcement.

The money, alas, will only go so far. In its third-quarter results announced late Monday, Netflix said it plans to spend between \$7 billion and \$8 billion on original content next year. That would be after dropping a record \$6 billion this year. The company said it will continue to tap the debt market for the funds. Long-term debt has risen 45% since the first of the year to \$4.9 billion.

Yet Netflix investors covet growth above all other metrics, so the shares shrugged off the new spending forecast after the company once again saw a strong jump in streaming subscribers for the third quarter. That enthusiasm comes despite the fact that Netflix said it expects to add 6.3 million new subscribers in the fourth quarter, below the 7.1 million added in the year-ago period.

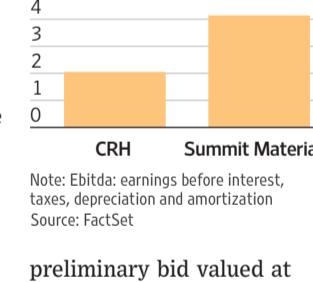
Slower growth probably is due in part to the price increases. Netflix still will end the year with more than 115 million global subscribers. That means more money needs to keep flowing out the door to fund the kinds of shows that keep these users engaged and willing to pay. In a market becoming more competitive by the day, Netflix can't afford to have its users change the channel.

—Dan Gallagher

## Cement Firm Has a Solid Choice

### Risky Mix

Net debt to Ebitda ratios



Note: Ebitda: earnings before interest, taxes, depreciation and amortization

Source: FactSet

combination of both.

Ash Grove, which will need to approve either offer, must be pleased that its assets are in such high demand, but it should weigh more than the total transaction value when considering its options.

The underlying industry's fortunes depend on the strength of the broader economy. That means a comparison of each suitor's balance sheet and earnings power is in order.

CRH pays a dividend yield of 2%, which is well covered by the profit it generates. It booked nearly \$3.5 billion in earnings before interest, taxes, depreciation and amortization, or Ebitda, in the 12 months ended in June, according to FactSet. It had about \$7 billion in net debt as of June 30.

Summit, by contrast, doesn't pay a dividend and carries significantly more debt relative to its profitability. It showed nearly \$1.5 billion in net debt on the balance sheet as of June 30, against \$358 million in trailing 12-month Ebitda.

Granted, an all-cash offer would limit risk for Ash Grove shareholders. But Summit would still need to arrange financing, which carries inherent risks before a deal could be closed. And including stock in any deal would mean Ash Grove shareholders hitch their wagon to a heavily indebted firm in a cyclical industry.

Abundant capital is a good thing for investors as long as the companies you own don't overextend themselves.

—Charley Grant

## OVERHEARD

Think the market has been quiet? It may be about to get quieter still.

For all the political turmoil in Washington and the world lately, stocks are remarkably stable. The VIX, popularly known as the stock market's "fear gauge," is near its lowest level on record.

Now that earnings season is under way, market movements could get more muted. Companies that had bad earnings news have for the most part already warned.

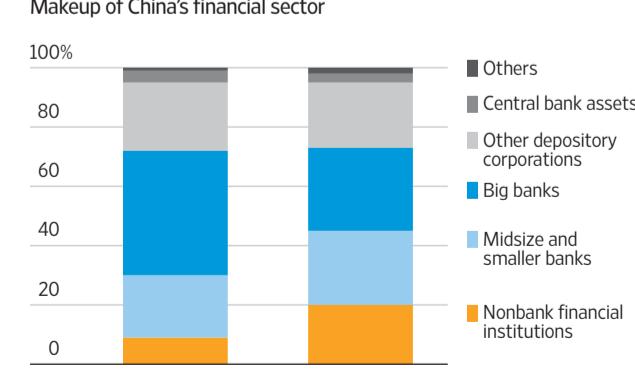
Strategists at Cornerstone Macro point out that during peak earnings season, volatility has lately tended to decline.

The one real risk may be that when everybody expects the market to not run into trouble they can be awfully surprised if it does.

## China's Greatest Challenge Is Balancing Revamp, Growth

### Gaining Ground

Makeup of China's financial sector



Source: Moody's Investors Service

THE WALL STREET JOURNAL.

Ending China's dependence on debt-fueled growth may be the easy part of Beijing's financial overhauls. Dismantling the complex and opaque system that arose to satisfy the country's insatiable demand for borrowing will be harder and more dangerous.

Chinese President Xi Jinping has been trying to get a grip on the country's financial system since he took office five years ago, with Beijing's efforts ramping up in the past year. The government pricked asset bubbles by pushing up interest rates while injecting cash to contain the damage. It issued new rules to rein in largely unregulated financial products that boosted lending.

Yet the scale of the problem remains daunting. China's economy has become dependent on its shadow banking sector for credit,

boosting its assets to nearly \$20 trillion at the end of last year, according to Nomura, a sixfold increase in six years.

Banks have been the biggest enablers of the growth of the system's dark underbelly. Recently, they have found important allies in nonbank financial

institutions—a raft of trust companies, insurers, fund-management companies and securities firms that collectively hold some 20% of Chinese financial assets, according to Moody's, up from 9% in 2010.

Steady financial systems, nonbanks help fill

gaps left by banks. In China, though, they add to the system's peculiar distortions. Banks can sell bad loans to a nonbank. It can then package them as investments that it can resell back to the bank.

Such transactions help banks artificially reduce nonperforming loan levels and capital requirements. Nonbanks have also helped banks issue wealth-management products. Banks sell these high-yielding investments to Chinese savers, pocketing the fee income but shuffling the funds off the balance sheet.

There are two main risks.

These products are usually

short-term, leveraged

investments that often put

their money in longer-term

assets like bonds, creating

potential maturity

mismatches. And while

banks have explicitly

guaranteed only about a

third of the products, there's

a high probability customers would demand compensation if the investments fail.

Mr. Xi's big task is to rein in credit growth and eliminate the distortions in China's financial system without slowing economic growth. That will be tricky. So far, every time China has tightened liquidity, cracks have appeared and markets have tumbled until the government eases its grip.

If banks are forced to start recognizing more bad loans, they will likely cut back new lending. And clamping down on wealth-management products will cut bank's income.

If Mr. Xi doesn't take the pain needed to tame the financial system now, its hydra-like growth will add further distortions to the economy. If he does, the risk is that the Chinese economy slows significantly.

—Anjani Trivedi