

THE WALL STREET JOURNAL.

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What's News

Business & Finance

A Bain-led group that includes Apple and Dell surged to the front of the race to acquire Toshiba's memory-chip business with a bid valuing the unit at about \$19 billion. A1

◆ Trump blocked a Beijing-backed fund's attempt to buy U.S. chip maker Lattice. B2

◆ Tenet is exploring strategic options, including a possible sale of the hospital firm, in the face of shareholder-activist pressure. B1

◆ Equifax said criminals exploited web-server software in the data breach that affected potentially 143 million Americans. B1

◆ Apple is tying the success of its new iPhone X to the effectiveness of facial-recognition technology. B1, B5

◆ Brazil's Federal Police arrested the two brothers behind meatpacker JBS on charges that they illegally profited from a plea deal. B3

◆ China is laying the groundwork for its first sale of U.S.-dollar sovereign bonds in over a decade. B12

◆ The Dow notched its 37th record of the year, rising 39.32 points to 22158.18, lifted by energy shares. B13

◆ The EU pledged to pursue new rules for taxing internet giants such as Alphabet's Google and Facebook. B5

◆ A judge revoked ex-drug executive Shkreli's bail and ordered him to be detained in jail while he waits to be sentenced. B4

◆ D.E. Shaw is launching an activist campaign against energy firm EQT. B4

World-Wide

◆ Trump and congressional Democrats closed in on a deal to give legal status to undocumented immigrants who were brought to the U.S. as children. A1

◆ The president said the GOP tax proposal won't cut taxes for the wealthy, comments that appeared to contradict the plan being drafted. A4

◆ Senators proposed diametrically opposed health plans, reflecting an enduring split on health care despite calls for more bipartisanship. A4

◆ Saudi Arabia is clamping down on internal dissent as Crown Prince Mohammed moves to consolidate power ahead of his expected accession to the throne. A1

◆ Flynn promoted a controversial private-sector nuclear-power project in the Mideast while serving as national security adviser. A4

◆ Eight patients from a Florida nursing home died amid sweltering conditions after Irma knocked out the facility's air conditioning. A3

◆ Myanmar's military push to drive out Rohingya Muslims drew U.N. censure and a call to arms by al Qaeda. A6

◆ Venezuela is telling oil traders that it will no longer deal in dollars in a bid to circumvent U.S. sanctions. A6

◆ Federal agencies were ordered to remove Kaspersky Lab software from government computers. A2

◆ Russia said it sent the Trump administration a plan aimed at restoring ties but that Washington didn't respond in kind. A18

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At Florida Nursing Home, Toll Rises to Eight



SEEKING ANSWERS: Police officers talked to an employee at a nursing home in Hollywood, Fla., that lost air conditioning after Irma hit. Several patients died and more than 150 were evacuated on Wednesday. A3

Saudis Clamp Down As Prince Consolidates Power

By MARGHERITA STANCATI AND SUMMER SAID

Saudi Arabia is stamping out traces of internal dissent in a far-reaching campaign targeting influential clerics, liberal thinkers and even princes as Crown Prince Mohammed bin Salman moves to consolidate power ahead of his expected accession to the throne.

In the past week, Saudi authorities have detained more than 30 people, roughly half of them clerics, according to ac-

tivists and people close to those who have been detained. The campaign goes beyond many of the government's past clampdowns, both in the scope of those targeted and the intense monitoring of social media posts by prominent figures. It is not known if any charges have been filed.

"This is unlike anything Saudis have experienced before," says Jamal Khashoggi, a Saudi political commentator who left the kingdom recently and now lives in self-imposed exile in the

U.S. "It was becoming so suffocating back at home that I was beginning to fear for myself."

Saudi officials didn't comment about the crackdown.

The detentions are seen by some Saudi and Western observers as part of a wider effort by Prince Mohammed to shore up control over the kingdom.

In recent months, the government has also barred several senior princes from traveling abroad, according to several people close to the

Please see SAUDIS page A6

What's In It?
LaCroix Fans
Have No Clue
* * * *
Fizzy-water giant
won't say how it
creates its flavors

By ROB COPELAND

The makers of LaCroix sparkling water go to great lengths to explain what isn't used to create the beverage's 20 flavors. There are no calories, no sugars, no artificial ingredients, no castoreum, no genetically modified organisms and no added phosphoric acid, according to the company.

LaCroix nutritional labels contain only zeros.

LaCroix is less forthcoming about what is actually inside its ubiquitous neon cans. The company says the flavors, such as peach-pear and pomme bayâ, are derived from "natural essence oils." On some cans, LaCroix uses essence rather fancifully, as in "natural cola" essence sparkling water."

Essence is, essentially, the mystery behind a billion-dollar brand. As cases of LaCroix pile up to the ceiling of grocery stores across the U.S., die-hard fans admit they don't have a clue what's inside—and don't care, either.

"Essence is, like, a combination of hint and aftertaste," says Antony Merkel, a 31-year-old from Los Angeles. "You definitely recognize the flavors that are there, but it doesn't feel like you're drinking a product of that. It's not a grapefruit juice, or something of a grapefruit. It's a little intangible, which is kind of the appeal. I have no idea what it is." Mr. Merkel says he drinks up to 10 cans of LaCroix a day.

Fizzy water first emerged in the 18th century when the British theologian Joseph Priestley designed a recipe for the explorer James Cook, hoping the

Please see WATER page A10

A Streak for the Record Books

Cleveland's 5-3 victory over the Detroit Tigers Wednesday gave the Indians the American League record for consecutive wins. Next they will try to overtake the New York Giants for the major-league record. A14

Longest Major League Baseball winning streaks since 1900

New York Giants NL*	1916	26
Cleveland Indians AL†	2017	21
Chicago Cubs NL	1935	21
Oakland A's AL	2002	20
Chicago White Sox AL	1906	19
New York Yankees AL	1947	19

*National League †American League

Source: STATS

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IN INDONESIA, ISLAM HARDENS

Conservative groups build support for Shariah-inspired laws, and lawmakers follow

By JAMES HOOKWAY

In the Indonesian market town of Cianjur, new rules require government workers to clock in with their thumb prints at a downtown mosque to confirm attendance at morning prayers. That's on the order of district chief Irwan Rivano Muchtar, who also wants a 10 p.m. curfew for the town and is sending police to stop teenage girls and boys hanging out without parental supervision.

The 36-year-old elected official, who belongs to a mainstream, secular political party, likes traveling and listening to bands such as Coldplay. These days, he said, Islam is the key to political success.

Hard-line Islamic groups are using the country's democratic system to promote new,

Shariah-based laws, and have built support among citizens with charity work and public preaching. Being pulled in their wake are politicians such as Mr. Muchtar, and in concert, these forces are tipping a country known for its moderate brand of Islam toward the more politicized form associated with the Middle East.

"I didn't come from a pesantren, so I have to learn and follow the culture," said Mr. Muchtar, using the local term for an Islamic school. "I'm ready to recite the Quran, and sing rock n' roll."

Indonesia, the world's most populous Islamic country, has laws protecting the rights of Christians and other groups, a robust democracy and an open economy attracting investors such as Toyota Motor Co. and

Please see ISLAM page A10

Immigration Agreement Takes Shape

By LAURA MECKLER AND KRISTINA PETERSON

WASHINGTON—President Donald Trump and congressional Democrats closed in on a deal Wednesday to give legal status to undocumented immigrants who were brought to the U.S. as children.

The deal, if it materializes, would mark an extraordinary moment for lawmakers who have been unable to agree on any immigration legislation for many years. It would also mark a striking latest step on immigration for Mr. Trump. He promised a hard line against illegal migrants in last year's campaign and last week killed off a program that gave young illegal migrants safety from deportation. At the same time, he urged Congress to find a solution for those affected before the protections expire in six months.

Senate Minority Leader Chuck Schumer (D., N.Y.) and House Minority Leader Nancy Pelosi (D., Calif.) said in a joint statement that, over dinner at

the White House, they had agreed with Mr. Trump on the outlines of a deal to enshrine protections for these young immigrants into law "quickly" and to "work out a package of border security, excluding the wall, that's acceptable to both sides."

A White House statement called the dinner meeting constructive. But White House officials later disputed the Democrats' characterization that a deal had been reached. Marc Short, White House director of legislative affairs, called the Democrats' statement "misleading in a lot of ways."

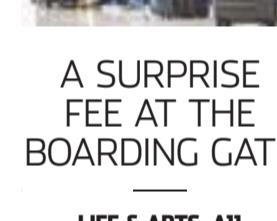
"We did agree to try to address DACA quickly. That doesn't mean we reached a deal on DACA in any way," he said in an interview.

Mr. Short said that the administration was "committed" to securing funding for Mr. Trump's promised southwest border wall but wouldn't

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◆ GOP nears release of details on tax plan..... A4

INSIDE



A SURPRISE FEE AT THE BOARDING GATE

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MONEY-MARKET GIANT RISES IN CHINA

BUSINESS & FINANCE, B1

Apple, Dell Join Bid For Toshiba Chip Unit

By DANA MATTIOLI AND DANA CIMILLUCA

A group including Apple Inc. and Dell Technologies Inc. surged to the front of a hotly contested race to acquire Toshiba Corp.'s memory-chip business, a crucial supplier to some of the world's biggest makers of electronic gear.

Toshiba said Wednesday it had signed a nonbinding agreement with the leader of the group, private-equity firm Bain Capital, and intends to reach a deal by the end of September. The bid values the business at about \$19 billion, according to people familiar with the matter.

The development is the lat-

est twist in a global auction that has pitted three major bidders against each other and exposed a rift between Toshiba and a key partner, Western Digital Corp., which is also vying for the business. At stake is control over a key building block in everything from smartphones to heavy-duty computing machines.

Toshiba is racing to strike a deal in the wake of huge losses at its U.S. nuclear unit, Westinghouse Electric Co., which filed for bankruptcy earlier this year. The Tokyo company has

Please see DEAL page A9

◆ White House blocks deal to acquire Lattice..... B2

Oracle #1 SaaS Enterprise Applications Revenue

#1
Oracle Cloud
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#2
Salesforce Cloud
12.4%

1,000+ Employees Segment, 2015

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Source: IDC "Worldwide SaaS Enterprise Applications Market Shares, 2015: The Top 15 by Buyer Size" doc ID#US41913816, Dec. 2016; Table 4. For the purposes of this report, SaaS enterprise applications include the following application markets: CRM, engineering, ERP, operations and manufacturing, and SCM.

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U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

The Fed's Bad Options for Too-Low Inflation



Unemployment and inflation are near their lowest levels in decades.

Who wouldn't love that?

Janet Yellen, for starters.

What looks like a dream economy could be a nightmare for the Federal Reserve chairwoman. Ms. Yellen's worldview assumes that when unemployment is this low—4.4% in August— inflation should move up to the Fed's target of 2%. Instead, it may have stabilized around 1.5%. That presents the Fed with some unpalatable options: deliberately overheat the economy for years to get inflation back up, then potentially induce a recession to stop it from overshooting; or give up on the 2% target, which could hobble its ability to combat future recessions.

This isn't scaremongering: It's the logical consequence of how central banks believe inflation operates. At the center of their model is the Phillips curve, according to

which inflation edges lower when unemployment is above its natural, equilibrium level and putting downward pressure on prices and wages. Below that natural rate, also known as full employment, inflation crawls higher.

This mostly describes how inflation fluctuates around its long-term trend over the course of the business cycle. Trend inflation, which prevails when the economy is at full employment, is determined largely by public expectations, which are in turn influenced by central banks and their inflation targets.

When consumers, businesses and workers expect 2% inflation, they set prices and wages in a way that makes actual inflation hit 2%.

Since the current expansion began in 2009, inflation has persistently fallen short of 2%. Most of the time, that could be chalked up to the ample economic slack left over from the recession. Today, though, unemployment is around a 16-year low and

below the Fed's estimate of its natural rate, 4.6%. Yet using the Fed's preferred gauge of "core" inflation, the price index of personal consumption expenditure minus food and energy, recently slipped to 1.4%.

There are three leading explanations.

One is that the economy actually isn't at full employment; either the natural rate has dropped or many unemployed aren't being counted properly. But history and mounting reports of labor shortages militate against that.

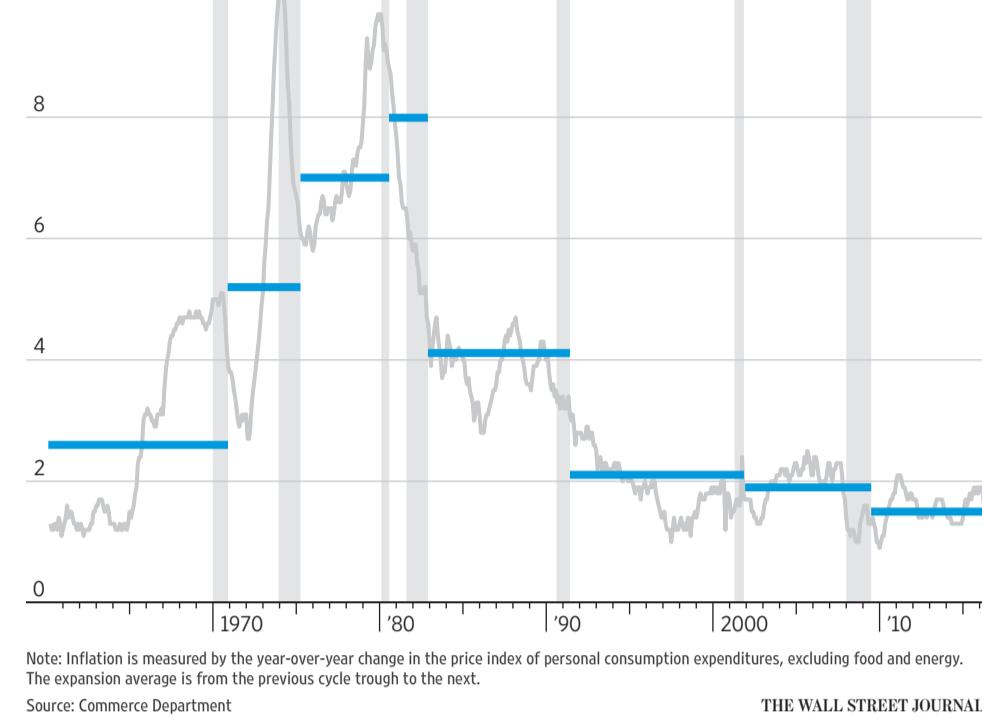
The second, Ms. Yellen's preferred theory, is noise: One-off drops in prices such as for cellphone plans are masking the underlying trend. But one-off movements can't explain years of undershooting. As Lael Brainard, a Fed governor, noted last week, some one-offs must be pushing the other way.

That leaves the third explanation: Trend inflation has fallen. Until recently, Fed officials noted surveys that suggest the public still expects inflation to return to 2% and credit their oft-repeated promise to hit their 2% target. But are they fooling themselves? Expectations of inflation are determined in great part by what inflation actually has been, and after every recession since 1982, core inflation has averaged less than in the previous business cycle.

To get inflation higher, the Fed would have to engineer a boom that drives unemployment below its natural

Inflation Ratchets Downward

After every recession since 1982, core inflation has averaged lower than in the previous business cycle and is now averaging below the Fed's 2% target.



Note: Inflation is measured by the year-over-year change in the price index of personal consumption expenditures, excluding food and energy.

The expansion average is from the previous cycle trough to the next.

Source: Commerce Department

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rate until inflation returns to 2%. To achieve this, Ms. Brainard suggests rates shouldn't rise much more, if at all.

Lower trend inflation has much graver implications for the economy than appreciated. In recent decades, it has taken ever bigger swings in unemployment to affect inflation.

Raising inflation half a point could require letting unemployment drop to around 3.5% and keeping it there for five years. Then, the Fed would have to slow the economy and guide un-

employment back over 4%. In theory it could do this gradually; in practice, the number of times since 1948 when unemployment has gone up that much without a recession is zero, according to Goldman Sachs.

This approach could aggravate another worry: financial excess. If stocks and property look bubbly now, imagine what five more years of very low interest rates would do.

The alternative is to ditch the 2% target and accept 1.5% as the new inflation

trend. Besides shredding the Fed's credibility, that would mean lower trend interest rates and thus less rate-cutting ammunition to fend off the next recession.

Both options are unappealing, but the second distinctly more so.

If Ms. Yellen eventually concludes lower inflation reflects a trend rather than noise, prepare for unemployment to drop much more and interest rates to stay low for a lot longer—with an attendant rise in financial and economic volatility.

Spinning a Shawl at the State Fair in New Mexico



ROBERT E. ROSALES/ALBUQUERQUE JOURNAL/ZUMA PRESS

COLORFUL DANCE: Raven Sanchez performed Wednesday at the Indian Village during the New Mexico State Fair in Albuquerque.

U.S. WATCH

NEW HAMPSHIRE

Communities Jolted By Racial Incidents

Two New Hampshire communities have been shaken in recent days by allegations of racial incidents involving children.

The city of Claremont is beginning "a community response to hatred," the city manager said this week, after allegations that an 8-year-old biracial boy was injured after other boys hanged him by the neck with a rope.

About 90 miles away in Durham, N.H., an elementary-school student endured racial taunts and physical aggression by another boy on a school bus at the start of the school year, Oyster River Cooperative School District Superintendent James Morse said in a statement on Tuesday.

Police haven't released details of the alleged hanging incident, citing the young ages of the boys involved.

Detectives will look at whether a hate crime occurred involving the 8-year-old boy, who was treated and released from the hospital, according to the police chief.

—Jennifer Levitz

HOMELAND SECURITY Agencies to Remove Kaspersky Software

The U.S. Department of Homeland Security ordered federal agencies on Wednesday to identify and remove products from the Russian cybersecurity firm AO Kaspersky Lab running on government computers, citing concerns that Russian intelligence could compromise U.S. systems through Kaspersky software.

The directive comes as the latest fallout from the U.S. intelligence community's assessment that Russia ordered a campaign to influence the outcome of the 2016 presidential election in favor of President Donald Trump.

DHS said Kaspersky products retain access to files and privileges on government computers that could be exploited by malicious cyber actors.

Kaspersky expressed disappointment with DHS's action but said it was grateful for the opportunity to provide additional information that would show the allegations being leveled against the Russian company unfounded.

Apple Inc. lowered the price of its Apple Watch Series 1 to \$249 from \$269. In some editions Wednesday, a sidebar accompanying a Page One article about new Apple products incorrectly said that the company lowered the price of the Apple Watch Series 2.

For Roman Catholics, there

is now one priest for every 1,800 Catholics in the U.S., compared with one priest for every 860 Catholics in 1970, which is a decrease in the ratio of priests to Catholics. A U.S. News article on Aug. 11 about Protestant seminaries incorrectly said that the ratio was more than twice what it was in 1970.

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

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U.S. NEWS

Death Toll Rises to 8 At Nursing Home

HOLLYWOOD, Fla.—Eight nursing home patients died here Wednesday amid sweltering conditions after Hurricane Irma knocked out the air conditioning, and more than 150 others had to be evacuated.

Florida Gov. Rick Scott or-

By Scott Calvert,
Melanie Evans
and Jon Kamp

dered a state health agency to issue an immediate moratorium preventing the facility from admitting new patients.

The order "is necessary to protect the lives and the safety of frail elders," the agency said in a statement. A criminal investigation by local police is also under way.

Mr. Scott, who has stressed that restoring power to hospitals and nursing homes is a priority, said the nursing home—Rehabilitation Center at Hollywood Hills—bears responsibility for residents' safety.

The evacuation followed "a prolonged power failure to the transformer which powered the facility's air-conditioning system as a result of the hurricane" said Jorge Carballo, administrator of the Rehabilitation Center at Hollywood Hills. The facility didn't lose power during the storm, but after losing the transformer, he said the administration notified the utility and reached out to first responders.

"We are devastated by these losses," he said.

The Broward County medical examiner said then victims ranged in age from 70 to 99.

Under state law, nursing homes must file emergency plans with their counties. U.S. law requires nursing homes to have an alternative source of energy to maintain temperature, protect residents' health and safety and power and other critical functions, such as sewage and waste disposal, according to a spokeswoman for the Florida Health Care Association, which represents the state's nursing homes.

Broward County signed off on the facility's latest emergency plan in July, according to county records.

The governor's office said officials in the state health department had been in contact with the Hollywood nursing home and its owners for the past three days. The facility reported Tuesday that it had power and access to fans and spot coolers provided by Memorial Healthcare, Mr. Scott's office said.

At no time did the nursing home alert state health officials that conditions had become dangerous or that patients were at risk, a health department spokeswoman said.

The facility didn't notify the department that its cooling system wasn't working until 7:30 a.m. Wednesday—hours after firefighters found dire conditions there.

According to the state, the nursing home became aware on Sunday that its air conditioner had stopped working effectively. It contacted the local electric provider and placed eight air coolers throughout the facility and put fans in the halls.

Several residents suffered respiratory or cardiac distress between 1:30 a.m. and 5 a.m. Wednesday, the state order said, and eight patients ultimately died. First responders directed the nursing home to evacuate the second floor due to the heat; the nursing home ultimately evacuated the whole building.

Hollywood Police Chief Tomas Sanchez said rescuers found "conditions were extremely hot" on the second floor of the facility.

Among the deceased was 70-year-old Gail Nova, who had lived at the facility for more than eight years after suffering a massive stroke, according to her son, Jeff Nova, who lives in Coral Gables, Fla.

Before Hurricane Irma hit, a nurse assured him his mother was in good hands, he said.

"My mom died under the care of staff that were supposed to be there to protect her," he said. "I lost my mom and didn't get to say goodbye in a proper manner."

—Elizabeth Bernstein contributed to this article.

In the Keys, Damage Assessment Continues



HIT HARD: Damaged homes and RVs at the Sunshine Key RV Resort & Marina on Wednesday. Hurricane Irma passed over the Florida Keys as a category 4 storm.

JOE RAEDLE/GETTY IMAGES

Caribbean Tourism Faces Setback

Resorts and hotels don't know how long it will take to rebuild; 'everything is gone'

By CHRIS KIRKHAM
AND ANTHONY HARRUP

Chantal Piazz and her husband own an Italian restaurant in Anguilla that offers tourists delicacies like lobster ravioli, in a setting of palm trees and white Caribbean sands. But after Hurricane Irma tore through the island, the visitors are gone and only the restaurant's shell remains.

"Everything is gone: the equipment, kitchen, storage and decking," Ms. Piazz said on Wednesday, expressing hope they can rebuild enough to partially reopen by Christmas.

A week after one of the most powerful storms on record rampaged through the Caribbean, killing at least 38 people, officials from St. Martin to Barbuda to the U.S. and British Virgin Islands are scrambling to assess damage in a region that depends on tourism more than any other in the world.

Others are trying to stave off cancellations in areas that haven't sustained damage, such as St. Lucia, Aruba and Barbados further south.

"There's a perception issue that we constantly battle with," said Frank Comito, chief executive of the Caribbean Hotel and Tourism Association. "More than 75% of the Caribbean was not severely impacted and is open for business."

Still, the Category 5 hurri-



French President Emmanuel Macron visited St. Martin on Tuesday.

cane caused significant damage to small tourism-dependent islands in the Caribbean as well as larger, more economically diversified nations such as the Dominican Republic and Cuba, where the capital Havana and the beachside Vinales resort were damaged.

Some resort owners, like Sonesta International Hotels Corp., which has three properties on the Dutch side of St. Martin, have canceled all reservations through the end of the year.

The timing is particularly challenging, coming just months before the high season from November through April, when North Americans and Europeans seek to escape to warmer climes during their winter.

The hurricane also interrupted the normal late summer-early fall period of repairs and renovations for

many resorts.

"Do I think that the season is going to be off? Yeah, the season is going to be way off...The only question is 'how much?'" said Tim Warburton, CEO of Wimco Villas & Hotels, which has luxury vacation rental properties throughout damaged parts of the Caribbean.

Travel and tourism directly accounted for about 15% of gross domestic product in the region last year, compared with about 10% in the European Union and 8.4% in North America, according to the World Travel & Tourism Council, a global trade group.

The region has for years tried to diversify their economies with limited success because of their few natural resources, small populations and remote locations.

Tourism provides substantial indirect benefits, espe-

French to Step Up St. Martin Security

MARIGOT, St. Martin—French President Emmanuel Macron vowed to increase security and stop a growing epidemic of lawlessness amid food and water shortages following Hurricane Irma.

Mr. Macron said the government would boost the number of reinforcements of police and soldiers to 3,000 to maintain law and order on the French side of St. Martin, where looting has been rampant since the storm hit. "We will be extremely vigilant on this subject

given what has happened, which is unacceptable," he told reporters after meeting local officials on Tuesday.

Mr. Macron also outlined a plan to restore basic services on the island. He said running water would return only gradually, projecting that the water system would be at a third of capacity by Sept. 20.

To provide some immediate supplies of fresh water, the U.S. is sending two mobile desalination plants shortly to the island, he said. Mr. Macron said that 50% of mobile connections have been restored, and that the rest would return in the weeks to come.

—Matthew Dalton

bies, predicting the worst." But with power and water restored to his part of the islands this week, he said he thinks he can have the resort reopened to guests by October.

"There are a few scars here, a few rough edges we're going to polish, but to the naked eye you may not see it," he said.

The longer-term impact on the affected economies will depend on how much reconstruction costs and who pays for it, said Gabriel Torres, a country risk analyst for Latin America at Moody's Investors Service.

"What has happened in the past is that not all the hotels, for example, decide to rebuild, for different reasons. In that case what you have is a permanent decline in the amount of tourism," he said. "Often these countries and islands take years to recover."

Houston Tackles Storm's Mountains of Trash

By QUINT FORGEY

HOUSTON—Days after historic flooding crippled this city, heaps of debris nearly obscured hundreds of waterlogged homes in Hal Opperman's neighborhood.

Then, on Labor Day, he watched as a small army of workers from San Antonio, equipped with massive cranes and semi-trucks, hauled away appliances, drywall, flooring, furniture, personal belongings and other soaked junk. A giant oak tree that toppled in one neighbor's yard was carried off in only 15 minutes, Mr. Opperman said.

By the day's end, the crews had completely cleared the streets, allowing residents to navigate in and out of their driveways, and even raked some lawns.

"That was pretty impressive," said Mr. Opperman, a 74-year-old former sales manager for Exxon Mobil. "They've done a pretty good job of taking care of us out here."

As the floodwaters recede across Houston, they're leaving the city with another problem: mountains of trash.

Houston Mayor Sylvester



Volunteer Paul Hancock pushes an oven damaged by floodwaters onto a pile in Spring, Texas.

Turner has called debris removal his "No. 1 priority" as the city toils toward recovery, prompting Houston's Solid Waste Management Department to embark on an urgent effort to clear out a debris field the city estimates to measure 8 million cubic yards.

"This will be an unprece-

dented cleanup," Mr. Turner said last week. "People are literally emptying out their houses."

The cost of debris removal in Houston will total more than \$200 million, said Harry Hayes, director of the Solid Waste Management Department. Of that amount, the city will be responsible for paying 10%, or

\$20 million. The Federal Emergency Management Agency will shoulder the rest of the cost.

Mr. Hayes' department's main goal is averting a public health hazard caused by lingering debris from Harvey, which can attract insects and vermin if not collected as quickly as possible.

DAVID J. PHILLIPS/ASSOCIATED PRESS

Independent waste-services contractors and reinforcements from Austin and San Antonio are aiding Houston's Solid Waste staff as they make their first pass through the city.

A department spokeswoman couldn't confirm how many homes have already been cleared, but said it would be several months before all the disaster debris is collected.

Mr. Hayes estimated the storm affected roughly 126,000 houses in Houston, and collection efforts at each house, on average, yield more than 70 cubic yards of debris—enough to fill a 50-foot-plus trailer.

All that trash then goes to one of three temporary debris-management sites in Houston, where staff salvage any recyclable material.

The rubbish is a boost for local waste businesses.

"I think this is just the tip of the iceberg. Once everything is cleared out, there's going to be a lot of work," said Mike Mnoian, owner of Central Waste & Recycling in Austin. "The companies there that didn't lose their trucks—they're going to be busy for years."

U.S. NEWS

GOP Nears Release of Tax Details

Trump says proposal won't entail cuts for wealthy, appearing to contradict draft plan

By RICHARD RUBIN

WASHINGTON—President Donald Trump said Wednesday the emerging Republican tax proposal won't cut taxes for the wealthy, and they may go up, an assurance that appeared to contradict the plan that his administration and GOP leaders are drafting.

Mr. Trump, speaking before a meeting with a bipartisan group of House members, said he expects wealthy Americans "will not be gaining at all" under the tax overhaul he wants Congress to pass with a view toward creating new jobs and helping middle-class taxpayers.

"The wealthy will be pretty much where they are," Mr. Trump, a Republican, said. "If we can do that, we'd like it. If they have to go higher, they'll go higher, frankly."

GOP leaders, who are hoping to overhaul the nation's tax code by year's end, signaled they will release a more detailed framework for the high-priority initiative during the week of Sept. 25.

For months, Republican congressional leaders have been negotiating among themselves and with the White House behind the scenes, but their public comments have been vague. The looming announcement of tax details will set the stage for a series of tough votes pitting industries, geographic regions and GOP factions against one another.

If Mr. Trump insists that the wealthy don't benefit from the tax changes, it would shake up the tax debate. But he made similar comments before without altering the core of his tax proposals. For instance an April statement released by the White



President Donald Trump met Wednesday with a bipartisan group of Congress on measures to overhaul the nation's tax system.

House called for lowering top tax rates.

The comments were striking this time because they come so close to the release of the tax plan and on the heels of a narrow deal with Democrats last week on government funding, storm aid and raising the national-debt ceiling.

The contradictions point to the broader challenge the White House and congressional leaders face trying to unify a wide range of competing interests over taxes, even within the Republican Party.

Mr. Trump's comment Wednesday sparked immediate derision from some Democrats. In a tweet linked to a news re-

port quoting the president saying the rich won't benefit, Sen. Ron Wyden of Oregon wrote: "Right, and next year I'm playing in the NBA."

Republicans, including Mr. Trump, have been talking about repealing the estate tax, eliminating the alternative minimum tax, lowering taxes on capital gains and dividends, cutting taxes on corporations, reducing tax rates on individuals and creating a special lower tax rate for businesses that pay taxes on their owners' individual tax returns.

Those proposals tend to benefit high-income households and would be difficult to square with Mr. Trump's latest comments.

Republicans do want to eliminate the deduction for state and local taxes, which also benefits the top sliver of taxpayers and would counteract some of the other changes. However, they have identified few other changes that would prevent the top 1% of taxpayers from benefiting from rate cuts.

Republicans said the rate cuts on businesses and investment are essential to boosting the economy, and focusing on preventing tax cuts for the top 1% would drastically change their agenda.

"My goal is to lower taxes on every American if it's possible, help them keep more of what they earn and encourage them

to reinvest back in the local economy," Rep. Kevin Brady (R., Texas), chairman of the House Ways and Means Committee, said after Mr. Trump's remarks.

Mr. Brady outlined the fall schedule Wednesday. Republicans hope to finish the budget process—a prerequisite for fast-tracking a tax bill through the Senate without Democratic votes—by mid-October. The tax bill would come after that, and House Speaker Paul Ryan (R., Wis.) voiced confidence on Wednesday that the whole process could be done by the end of the year.

—Siobhan Hughes
and Kristina Peterson
contributed to this article.

Bipartisan Approach On Health Stumbles

By MICHELLE HACKMAN

WASHINGTON—Two groups of senators on Wednesday released the details of diametrically opposed health plans, reflecting an enduring partisan split on health care despite calls for more bipartisanship after the failed Republican effort to dismantle the Affordable Care Act.

A week after Republicans and Democrats held the first bipartisan hearing on ways to fix the 2010 health-care law, the Senate was once more divided on Wednesday, with one side continuing efforts to undo the ACA and the other pushing to expand government-sponsored health coverage.

Neither plan holds any appeal to the opposite party, and they lack even full support from their respective caucuses. That leaves in question how Congress can move ahead on health care amid a perception that the ACA is flawed and Republicans don't have a politically viable replacement.

Sens. Bill Cassidy (R., La.) and Lindsey Graham (R., S.C.) unveiled a bill to let states use federal ACA funds however they wish, possibly marking the final push in the current GOP effort to undo the ACA.

On the other side, Sen. Bernie Sanders (I., Vt.), along with 16 Democrats, debuted a plan to build a Medicare-like government insurance system that would cover all Americans.

Both proposals face such high hurdles that many health-care analysts believe Congress will be able to make incremental changes at best.

—Kristina Peterson
contributed to this article.

WASHINGTON WIRE

TRUMP

Continued from Page One
"prejudge" whether that funding needed to be included in DACA legislation.

In recent days, both sides appeared to be edging toward the formulation outlined by the Democratic leaders, with Democrats agreeing to include border-security measures, and the White House signaling it

would accept the immigrant protections without insisting that the legislation also include funding for the controversial southwest border-wall package.

Earlier in the day, Mr. Trump had courted Democrats on the subject at a bipartisan meeting, and the dinner Wednesday evening was at his invitation.

Even before the Democrats announced of an agreement, these overtures had conservatives worried that the president would agree to a plan without strong immigration enforcement that Republicans favor. In response to those concerns, Mr. Trump said he was hoping for a bipartisan deal and planned to continue talking.

"Some of the greatest legislation ever passed, it was done on a bipartisan manner. And so that is why we're going to give it a shot," he told reporters.

Mr. Trump also raised the subject of the young immigrants at a bipartisan meeting of lawmakers that had been billed as a discussion on a tax overhaul.

Rep. Josh Gottheimer, a New Jersey Democrat who sat next to Mr. Trump during that meeting, said in an interview afterward that Mr. Trump

Trump Makes Deal Priority Over Party

WASHINGTON—President Donald Trump's negotiation toward a second agreement with congressional Democrats in a week confirmed his willingness to partner with Democrats to push his legislative agenda and further muddled the political calculus on Capitol Hill.

The emerging immigration deal made clear that Mr. Trump prioritized legislative progress and momentum over party alliance. The new dynamic left congressional Republicans uncertain how Mr. Trump would act in the coming push to overhaul the tax code, as well as the expected fight when the government's current funding expires in early December.

After an August recess marked by frequent barbs from Mr. Trump aimed at Republican lawmakers, Congress returned to Washington this month to find a president far more eager

made "clear that he is open and eager to get bipartisan legislation" to resolve the issue of these immigrants.

Other Democrats at the meeting said Mr. Trump appeared willing to consider the border-wall funding separately from the discussion of the young immigrants but suggested he may want a package to include new limits on legal immigration.

Rep. Henry Cuellar (D., Texas) said that Mr. Trump also urged quick action. "I don't want to wait six months; people forget about it in six months," Mr. Cuellar said, quoting the president.

The issue has taken on ur-



The deal would involve protections for young immigrants.

to work with Democrats after lambasting them as "obstructionist" earlier in the year. Since his return, the president has sided with the opposing party

on a proposal to raise the government's borrowing limit for just three months, signaled he wants a bipartisan approach to tax reform, and invited more than a dozen Democratic law-

makers to the White House just this week.

Still, Wednesday night's development marked less of an undermining of congressional GOP leaders than the previous week's accord, when Mr. Trump overrode the objections of his own Treasury secretary and a group of GOP leaders in a meeting in the Oval Office to strike the short-

term deal on the debt limit.

Democrats have said their ability to unify their rank-and-file has helped boost their leverage in discussions with Mr. Trump. House Speaker Paul Ryan (R., Wis.) acknowledged that the intraparty divisions within the GOP have weakened his negotiating firepower.

"Yeah, that does affect us," Mr. Ryan said in an interview with the Associated Press streamed live Wednesday.

The deal raises questions about the president's relationship with his conservative base. Some Trump supporters were already complaining that the president hadn't vowed to veto any bill that included "amnesty" for the so-called Dreamers.

"Unbelievable!" Rep. Steve King (R., Iowa) tweeted in reply to one of Mr. Trump's tweets on Wednesday night. "Amnesty is a pardon for immigration law breakers coupled with the reward of the objective of their crime."

—Kristina Peterson
and Rebecca Ballhaus
contributed to this article.

legal status to any illegal immigrants should come with new immigration enforcement, including measures to find and deport people living in the U.S. illegally. They argue that they have significant leverage to force Democrats to accept this since DACA protections will begin to expire in March.

"Democrats have to get on board and realize they're not going to get anything they want if they don't help us fix the border-security issues and the interior security issues," Rep. Raul Labrador (R., Idaho), said Tuesday.

—Siobhan Hughes
and Rebecca Ballhaus
contributed to this article.

Ex-National Security Adviser Flynn Promoted Deal While in White House



JIM LO SCALZO/EUROPEAN PRESSPHOTO AGENCY

As President Donald Trump's national security adviser, retired Lt. Gen. Mike Flynn promoted a controversial private-sector nuclear power project in the Middle East that once involved Rus-

sian companies, according to former security council staffers and others familiar with the effort.

While working at the White House, Mr. Flynn advocated for a

group of former senior U.S. military officers with whom he had worked while in the private sector. The project, which the former military officers were helping promote on behalf of several U.S. companies, envisions building and operating dozens of nuclear plants in Saudi Arabia and across the Middle East, the people familiar with it said.

The sprawling construction project was valued at hundreds of billions of dollars and described as a Marshall Plan for the region, according to the people familiar with it. Mr. Flynn declined to comment, as

a private citizen before entering the White House, had advised U.S. companies that aimed to provide security for the project.

White House disclosure forms indicate that Mr. Flynn's year-and-a-half work on the project ended in December 2016, but Mr. Flynn in fact remained involved in the project once he joined the Trump administration in January, discussing the plan and directing his National Security Council staff to meet with the companies involved, the former staffers said. A lawyer for Mr. Flynn declined to comment, as

did a White House spokeswoman.

The activity continued even after NSC ethics advisers directed Mr. Flynn to remove himself from the project, former and current officials said.

During his brief tenure in office, Mr. Flynn sought to meet with the former military officers, an administration official said. While the official confirmed a meeting between the former officers and NSC staff did occur, Mr. Flynn "was instructed that it would be inappropriate for him to attend and he did not attend."

Now, congressional investigators say they are examining details about Mr. Flynn's relations with companies involved in the plan after he joined the Trump administration, as well as any previous travel.

Mr. Flynn was forced to resign in February for failing to disclose his conversations with the Russian ambassador about U.S. sanctions and is now under investigation by special counsel Robert Mueller, who declined to comment. Mr. Flynn's lawyer hasn't commented on the Russia probe.

By Christopher S.
Stewart, Rob Barry
and Shane Harris

Retired Lt. Gen. Mike Flynn

U.S. NEWS

Lawsuit Targets Phone Seizures

By JOE PALAZZOLO

A diverse group that includes an artist, an engineer, a journalist and a limousine driver is challenging the U.S. government's power to search smartphones at border crossings without warrants or even suspicion of wrongdoing, alleging in a lawsuit filed Wednesday that the practice violates the constitutional right to privacy.

The lawsuit, filed in U.S. District Court in Boston, seeks to taper an exception to the Fourth Amendment that allows customs and border agents to rummage through luggage, take apart cars, inspect personal devices and more.

Courts have ruled the Fourth Amendment's protections against unreasonable searches and seizures are weaker at or near the border and points of entry because authorities need broad powers to screen for dangerous people who could be trying to enter the U.S.

But the advent of smartphones has made it possible for international travelers to carry the contents of their lives with them in electronic form, and federal courts have begun to question whether the Fourth Amendment permits border authorities unfettered access to such troves.

The American Civil Liberties Union and San Francisco-based Electronic Frontier Foundation are representing the 11 plaintiffs, all U.S. citizens or permanent residents, who say federal officers seized and searched their electronic devices at U.S. ports of entry without cause to believe they had violated any law.

A spokeswoman for the Department of Homeland Security declined to comment on the lawsuit.



CAYCEE CLIFFORD FOR THE WALL STREET JOURNAL

A plan in Utah to divert water from the Bear River, which feeds the Great Salt Lake and the Migratory Bird Refuge, pictured above in August, has drawn criticism.

Utah Searches for Water Solution

By JIM CARLTON

SALT LAKE CITY—Mormon pioneers believed they'd found a promised land when they arrived at the Great Salt Lake here 170 years ago. Since then, that body of water has shrunk to a depth of about 14 feet—nearly half its former average. Under a controversial engineering plan, the lake would receive even further.

State engineers want to siphon off some of the river water that flows into the lake and use it for the Salt Lake City area's booming population. Proponents say the plan, which calls for lapping up a fifth of Bear River's current unused flow, is essential for meeting the region's needs.

But critics note that the diversion would cause the lake to drop by almost a foot, according to state estimates, eventually exposing 30 square miles of lake bed and potentially worsening dust storms and ruining a fragile wetlands.

The debate echoes concerns heard in many other arid parts of the world. Salt lake ecology is delicate and requires a cer-

Plan to Divert River Is Back in Spotlight

In 1991, Utah's state legislature first passed legislation directing the development of Bear River, which accounts for more than half the flow of water into the Great Salt Lake. At the time, state officials predicted they would need to access the river water by 2015. But conservation and other techniques have helped stretch current sources, and officials

now estimate they won't need to tap the river until 2050.

Last year, the plan re-entered the spotlight when the legislature passed a bill creating a funding mechanism for the project through a sales tax.

Then in April, PacifiCorp's Rocky Mountain Power unit announced a plan to expand storage at its hydroelectric facilities along the river with the intent of augmenting local water supplies—an initiative seen by many opponents as an endorsement of the diversion, which would require more stor-

age. Company spokesman David Eskelsen said the proposal represents a "conceptual" discussion about "what can we do better to facilitate wise management of the Bear River among competing water users."

The moves pushed opponents to ramp up efforts to stop the project.

"With that kind of infrastructure, once you start breaking ground there's no turning back," said Denni Cawley, executive director of Utah Physicians for Healthy Environment.

—Jim Carlton

tain amount of fresh water to maintain a saline balance.

In the Middle East, diversion of the Jordan and other rivers that feed the Dead Sea has shriveled the famous body of saltwater and its once robust tourism. The Aral Sea between Kazakhstan and Uzbekistan has shrunk to about 10% of its original size after diversions.

Over the past 150 years, 530 square miles of the Great Salt Lake have already been exposed, largely to help fuel

urban and agricultural development in the area, according to officials at the Utah Division of Water—although the lake remains the largest in the U.S. outside the Great Lakes.

Critics, including environmental groups and affected businesses, say that under the new diversion plan lake-dependent businesses and farmers upstream would suffer.

In all, the lake accounts for an estimated \$1.3 billion in annual economic output, accord-

ing to Utah State University.

The plan would also destroy wetlands that provide food and habitat for an estimated eight million birds, said Zach Frankel, executive director of Utah Rivers Council, an environmental group opposed to the project.

But proponents say the diversion of up to 72 billion gallons of water—enough to meet the needs of a city of one million for a year—is needed to forestall anticipated shortages for one of the fastest-growing

regions in the country.

The state's population has tripled since 1970 from one million to three million. By 2050, Utah is projected to hit five million residents and Wasatch Front metropolis, which includes Salt Lake City, is expected to nearly double its population of about two million.

"If Utah continues to grow, it's not a matter of if but when we are going to need more water," said state Sen. Stuart Adams, who sponsored a bill to begin funding the estimated \$1.5 billion project.

Part of the controversy stems from the fact that Salt Lake City's water supply is currently considered stable. Irrigation supplies once consumed by farms have been freed by development in recent years, according to a 2015 state legislative audit.

"The need for the project is just not there at all," said Utah Rivers' Mr. Frankel.

Officials at the Utah Division of Water Resources, however, said water from farmland conversion isn't expected to be enough on its own, making the Bear River diversion necessary.


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WORLD NEWS

Myanmar Faces Outcry Over Crackdown

Military push to drive Rohingya out draws international scrutiny and militant call to arms

A push by the Myanmar military to clear Rohingya villages and drive hundreds of thousands of members of the Muslim ethnic group into Bangladesh drew censure on Wednesday from the United Nations Security Council.

By Farnaz Fassihi
at the United Nations
and James Hookway
in Yangon, Myanmar

The council called on Myanmar to end the military operation, amid charges that the military leadership that runs the country alongside Nobel Peace Laureate Aung San Suu Kyi is pursuing a campaign of ethnic cleansing.

Ms. Suu Kyi on Wednesday canceled her trip to the U.N. General Assembly to deal with the situation, the Myanmar government said.

The Council limited its action on Wednesday, however, to avoid criticizing Ms. Suu Kyi and empower her to confront her country's military, diplomats said.

After U.N. officials briefed Security Council diplomats at a closed-door meeting on Wednesday on what they described as graphic details of the unfolding "catastrophe," the council expressed concern about reports of excessive violence during security operations and called for steps to end the violence, re-establish law and order, and ensure the protection of civilians.

Myanmar says it is battling a group of "extremist militant terrorists," the Arakan Rohingya Salvation Army, or ARSA.

Adding to the threat of prolonged conflict, al Qaeda's central leadership urged Muslims to travel to Myanmar and support the Rohingya "financially, militarily, and physically."

"The savage treatment meted out to our Muslim brothers in Arakan by the government of Myanmar...shall not pass without punishment," it said through its media arm, according to SITE Intelligence Group.

ARSA and its founder, Ata Ullah, say it is defending the Rohingya and highlighting decades of repression the Mus-



Newly arrived Rohingya refugees from Myanmar wait for building material for shelters that were distributed by aid agencies in Bangladesh.



Rebel Group in Center of Conflict

Extremists recruit volunteers from other Asian nations

YANGON, Myanmar—The government calls the Arakan Rohingya Salvation Army "extremist militant terrorists."

The group, known as ARSA, and its founder, Ata Ullah, say it is defending Muslim Rohingya.

"In the coming year, Myan-

mar will suffer from a full-blown insurgency unless it works with the international community to resolve an escalating conflict," said Rohan Guanaratna, head of the International Center for Political Violence and Terrorism Research at the S. Rajaratnam School of International Studies in Singapore.

Indonesian Islamist groups are calling for volunteers to fight in Myanmar. In the southern Philippines, Islamist radicals are training militants from

Southeast and South Asia for combat in Myanmar, an intelligence official there said.

Before the recent military purge, around 1 million Rohingya lived in Rakhine State.

Myanmar's government calls Rohingya illegal immigrants from Bangladesh, a throwback to British rule when migrants from the subcontinent began moving to what was then Burma. The Rohingya are denied citizenship, rudimentary schooling and health care.

—James Hookway

lim group has endured in Buddhist-majority Myanmar, where most have lived along the border with Bangladesh.

The U.N. said Myanmar's military has disproportionately attacked and killed civilians, burned villages, conducted mass arrests and laid land mines in response to an attack on the police by ARSA militants on Aug. 25.

The drive has pushed more than 370,000 Rohingya into Bangladesh, according to the

International Organization for Migration.

The militant group at the center of the crisis, ARSA, and its founder, Ata Ullah, say it is defending the Rohingya and highlighting decades of repression the Muslim group has endured in Buddhist-majority Myanmar.

The U.N. human-rights chief, Zeid Ra'ad al-Hussein, said the Myanmar operation "seems like a textbook example of ethnic cleansing."

The U.N. Secretary-General António Guterres said on Wednesday that he couldn't find a better expression than "ethnic cleansing" to describe the situation, and called for Myanmar to end military action and recognize the right of return of those who had to leave the country.

Mr. Guterres called Myanmar and North Korea the top two crisis items on the agenda when world leaders gather for the U.N. General Assembly

next week.

He had written to the Security Council on Sept. 2 urging it to act—the first time since 1981 that a sitting secretary-general had written a letter to the Security Council, Mr. Guterres said.

The council's statement, however, delivered orally after the conclusion of the meeting, is the weakest form of diplomatic action at its disposal.

Possible heftier measures include a presidential statement, an open debate and a

resolution.

"There is no excuse for [the Security Council] to sit on their hands....They don't need to walk on egg shells," said Louis Charbonneau, the United Nations director at Human Rights Watch.

Security Council diplomats have said that while they can't remain silent, they don't want to fully abandon support for Ms. Suu Kyi.

A Security Council diplomat said that Ms. Suu Kyi was "under the thumb" of the military and that her allies in the West "were seeking to embolden her" to take a stand.

China, diplomats said, opposed stronger Security Council action or public pressure on Ms. Suu Kyi.

The Nobel laureate leads Myanmar in name but under the terms of the army-drafted constitution cedes much of her power to the military.

U.K. Ambassador Matthew Rycroft said it was time for Western diplomats with connections to Ms. Suu Kyi to use their relationship to get action and prevent violence.

SAUDIS

Continued from Page One
royal family. They include a brother of King Salman. The princes were unreachable for comment.

Prince Mohammed leapfrogged an older cousin in June to become first in line to succeed King Salman, his octogenarian father. Prince Mohammed has become the country's de facto day-to-day ruler.

King Salman is planning to abdicate in his son's favor, say people close to the royal court. But the timing isn't clear.

"Mohammed bin Salman is definitely preparing to become king," said a Saudi adviser to the government. "He wants to tackle the internal debate about him becoming the king and focus on consolidating his power, rather than doing that while being distracted by dissidents."

The government has denied an abdication is planned, but several people close to the royal family say preparations have already started. The transfer of power, which several people close to the royal family had expected to occur this month, is likely to take place late this year or early next year, these people say.

King Salman is due to travel to Russia and the U.S. on official trips, in October and January, respectively.

The clampdown on dissent "is symptomatic that the transfer of the throne is nearing, even if it will not be as imminent as we thought," said a Gulf-based Western diplomat.

Most of the people detained in the past week have two things in common: They have a large social media following and haven't supported the Saudi government in its months-long dispute with neighboring Qatar. Many are close to Egypt's Muslim Brotherhood movement.

The Saudi government ear-



BALKIS PRESS/SIPA/ASSOCIATED PRESS

King Salman and his son Mohammed bin Salman, now crown prince, attended a military drill last year.

Timeline: Campaign Against Dissent

June 5: Saudi Arabia and other Arab countries break diplomatic ties with Qatar, citing its support for Islamist groups and alleged ties to terrorist organizations, a claim Qatar denies.

June 21: King Salman designates his son, Prince Mohammed bin Salman, as heir to the throne, replacing Prince Mohammed bin Nayef as crown prince. Prince

Mohammed bin Nayef is placed under effective house arrest.

Sept. 9: Saudi authorities detain prominent clerics Salman al-Odah and Awad al-Qarni.

Sept. 12: The government says it has arrested people for having helped "foreign parties" against the national interest.

Sept. 13: Saudi activists say more than 30 people have been arrested over the past week as part of the crackdown on dissent.

—Margherita Stancati

bilize Saudi Arabia," said a person familiar with the matter, referring to the people who were detained.

The clampdown also comes ahead of antigovernment protests that activists based outside Saudi Arabia are planning for Friday.

"How can the grandsons of the Prophet and his Compan-

"They want to give a strong warning to all Saudis: You are either with us or you are against us," said a Saudi activist.

Those detained include 15 Saudi clerics, according to activists. Many are former religious fundamentalists who took part in the antigovernment Islamic Awakening movement in the 1990s and who have ties to the Muslim Brotherhood, a group banned in Saudi Arabia, and whose views have since moderated. The most prominent among them is Salman al-Odah, who has some 14 million Twitter followers. He couldn't be reached for comment.

The Saudi government crackdown on clerics has drawn the attention of extremist groups, such as al Qaeda. On Wednesday, the group urged the Saudi religious establishment to challenge the Saudi royal family.

"How can the grandsons of the Prophet and his Compan-

ions become slaves of the Family of Saud and its fool headed tyrants?" the terrorist group said, according to SITE Intelligence group, which monitors extremist activity.

Some people who spoke out against a program to transform the oil-dependent Saudi economy, which is spearheaded by Prince Mohammed, were also detained.

Among them is Essam Al-Zamil, a popular commentator, who cast doubts on how much the government could raise with a sale of up to 5% of Saudi Arabian Oil Co., the national oil company, according to activists and people who know him. Prince Mohammed has said the sale could value the company at \$2 trillion at least. Mr. Al-Zamil couldn't be reached.

Prince Mohammed has taken care to ensure the pace of economic changes doesn't cause too much pain for ordinary people. The Saudi government has backed away from some measures, such as a planned increase in fuel prices.

Within the royal family, the meteoric rise of Prince Mohammed has sowed divisions. Some members opposed the decision to sideline the former crown prince, Prince Mohammed bin Nayef, a powerful former minister of interior who was close to Washington. His movements have been limited since the line of succession was reshuffled in June, according to people close to the royal court. The government denies restricting his movements.

In addition to leading the economic overhaul, Prince Mohammed has backed muscular foreign-policy moves, such as waging a war in neighboring Yemen and imposing an embargo on rival Qatar.

Saudi Arabia and other Arab countries broke ties with Qatar in June, citing its support for Islamist groups and its alleged ties to terrorist organizations, a claim Qatar denies.

Venezuela Stops Oil Payments In Dollars

BY ANATOLY KURMANAEV

CARACAS, Venezuela—The government of this oil-rich but struggling country is telling oil traders that it will no longer receive or send payments in dollars, people familiar with the new policy have told The Wall Street Journal.

Oil traders who export Venezuelan crude or import oil products have begun converting their invoices to euros. The state oil company Petróleos de Venezuela SA, or PdVSA, has told its private joint venture partners to open accounts in euros and to convert existing cash holdings into Europe's main currency, said one project partner.

The measure is designed to bypass financial sanctions President Donald Trump's administration leveled against Venezuela's government last month for jailing political opponents and creating a super body of pro-government delegates that bypasses all institutions.

PdVSA and the country's energy ministry didn't respond to requests for comment.

The new payment policy hasn't been publicly announced, but President Nicolás Maduro's government had hinted it was moving in this direction after the U.S. Treasury Department banned any U.S. company or citizen from buying new Venezuelan debt.

Venezuela has become increasingly isolated as Mr. Maduro responded to antigovernment protests by ordering a crackdown that led to the deaths of more than 120 people.

WORLD NEWS

Malaysia Aircraft Purchase Is Less Than Was Touted

BY DOUG CAMERON
AND GAURAV RAGHUVANSHI

President Donald Trump this week lauded what he described as a deal to sell between \$10 billion and \$20 billion worth of aircraft and jet engines to Malaysia's flag carrier, in comments that highlight the opaque business of selling jetliners.

Mr. Trump made the announcement Tuesday at the White House alongside Malaysian Prime Minister Najib Razak. The prime minister estimated the potential deal at \$10 billion. But by Tuesday evening, a tentative deal as outlined by Boeing Co. and Malaysia Airlines Bhd came to around \$3 billion—before the discounts airlines usually secure for large aircraft purchases—plus an unspecified amount of maintenance work.

The disparity between the sale value described by the political leaders and the actual deal being worked out between Boeing and Malaysia Airlines Bhd reflects a number of sometimes complicated factors in the aircraft industry, including existing sales agreements, potential future agreements, the options covered under each and the schedule

of aircraft deliveries.

On Wednesday, the White House said the deal was worth a potential \$4 billion. It didn't explain the discrepancy with Mr. Trump's earlier comments.

The earlier, more favorable portrayal by Mr. Trump mirrored a similar gap after the White House said it brokered \$110 billion in military sales to Saudi Arabia during a state visit in May. Many of those deals were already in the works, or remain unaccounted for by defense companies or the Trump administration.

Boeing said late Tuesday that it had reached a memorandum of understanding to sell Malaysia Airlines eight of its 787-9 Dreamliner long-range jets with a total list price of \$2.2 billion, as well as eight 737 Max single-aisle planes.

However, the potential order involved converting eight of a previous order of 25 Boeing 737 jets reached last year into orders for the Dreamliner, plus the right to buy eight more of the smaller planes.

Malaysia's Mr. Najib said at the White House that the airline could seek 25 more of the 737 jets over the next five years, plus options on 25 more, with a combined list price of around \$5.6 billion.

Singapore Installs President

BY JAKE MAXWELL WATTS
AND P.R. VENKAT

SINGAPORE—The predominantly ethnic-Chinese city-state of Singapore will swear in its first minority Malay president in 47 years after strict new qualifying criteria, aimed at balanced racial representation, made the former speaker of Parliament and longtime member of the ruling party the only candidate.

Halimah Yacob, 63 years old, will also be the first female holder of the largely ceremonial presidency of the Southeast Asian country of some 5.6 million. It would normally be decided by direct election, but that was canceled because she would have been the only one on the ballot.

The office of Prime Minister Lee Hsien Loong, who is the country's most powerful politician and leads the ruling People's Action Party, said Ms. Yacob will take the oath of office on Thursday for a six-year term.

Her installation will conclude a contentious process after Parliament voted to change qualifying rules so that if one of Singapore's main ethnic groups—Chinese, Indians or Malays—isn't elected to the presidency in five consecutive terms, the next election is reserved for candidates of that group.

The rules also require candidates to have served in senior government office or as top executive of a profitable company averaging at least 500 million Singapore dollars (US\$371 million) in equity for three years.



WALLACE WOOD/REUTERS/SHUTTERSTOCK/EUROPEAN PRESSPHOTO AGENCY

Supporters greeted Halimah Yacob in Singapore on Wednesday.

These changes effectively reserved the election for a Malay candidate, barring other candidates including an ethnic Chinese, Tan Cheng Bock, a popular former government minister who has declared himself independent of the ruling party, which has been in power since independence in 1965.

The last Malay president was Yusof Ishak, who left office in 1970.

Though widely liked, Ms. Yacob won in a process that "has been contentious from the day it has been first mooted," said Gillian Koh, deputy director of research at the Institute of Policy Studies at the Lee Kuan Yew School of Public Policy.

Ms. Koh noted that only

about 700 companies in Singapore were large enough to meet the qualification.

Bertha Henson, a writer for political blog The Middle Ground, said she was angry at the government for promoting affirmative action. The election "should be an open one to help disprove the notion that Singaporeans vote on the basis of skin color," she wrote.

Other comments on political blogs called the process a charade, a pretense at supporting minorities in a country where racial harmony is a specific government policy since racial riots in the 1960s. Ethnic Malay citizens, about 13% of the population, have tended to fare worse economically in the prosperous city-state than the Chinese majority.

But most Singaporeans have shown few signs of objecting. A survey in 2016 found that two-thirds approved of the changes to eligibility criteria.

Prime Minister Lee has argued that reserving the election for a Malay candidate would "safeguard to ensure that we regularly elect presidents from different ethnic groups." The government says its strict criteria will ensure fair representation and ensure that only qualified people can take the job.

In a speech on Wednesday, Ms. Yacob said she recognizes doubts about the process. "Although this is a reserved election, I am not a reserved president," she said. "I am a president for everyone regardless of race, language, religion or creed. I represent everyone."

New Zealand Lawmaker Taught Chinese Spies

BY BEN COLLINS

WELLINGTON, New Zealand—A Chinese-born New Zealand lawmaker has acknowledged he once taught English to Chinese spies, an admission that comes as his party faces a closer-than-expected fight in a general election 10 days away.

Jian Yang, a member of Parliament in Prime Minister Bill English's National Party since 2011, said that when he lived in China, he taught English to students so they could monitor communications and collect information for the Chinese government. He said he wasn't trained as a spy himself.

Mr. Yang was responding to

reports in the Newsroom and the Financial Times. He said the reports were an attempt to damage his party's chances before the election on Sept. 23.

Mr. Yang isn't accused of breaking New Zealand law.

The prime minister said he was aware Mr. Yang had "military training, including military intelligence."

"I was a civilian officer, paid by the military, but I had no rank. I was a lecturer," Mr. Yang said, adding that his students were monitoring communications rather than conducting clandestine intelligence operations overseas. "If you define those cadets or students as spies, then yes, I was teaching spies," Mr. Yang said.



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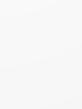
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WORLD NEWS

EU Envisions a Future of Wider Trade

Reporting on state of union, Juncker accents reciprocity, defense of strategic interests

The European Union's top executive called for the bloc to expand its economic links from the Asia-Pacific region to Latin America, articulating the EU's ambition to champion free trade in the wake of President Donald Trump's "America First" policies.

By Valentina Pop
in Strasbourg, France,
and Emre Peker
in Brussels

Spurred by positive data and an uptick in EU popularity after a decade of economic and political crises, European Commission President Jean-

Claude Juncker outlined his vision of a bigger and more cohesive union that would carry its weight in the world.

"Europe has always been an attractive economic space," Mr. Juncker said on Wednesday in his annual State of the European Union address in Strasbourg, France. "But since last year, I see that our partners all over the world are knocking at our door in order to sign trade agreements with us."

Mr. Juncker proposed starting free-trade talks with Australia and New Zealand and completing a number of agreements by late 2019, when his mandate ends.

The EU has "a very good chance" of striking a deal on trade with Mexico and South American countries by the end of 2017, Mr. Juncker said. EU officials are in talks to update

Trade Offensive

The European Union is seeking to slash tariffs and boost commerce with some of its top trading partners, tapping a leadership vacuum in the wake of protectionist U.S. policies.

TRADE PARTNER	START OF NEGOTIATIONS	ANNUAL VALUE OF TRADE WITH EU in billions of euros	SHARE OF EU TRADE
Japan	2013	€125	3.6%
Mercosur*	2000	85	2.5
Mexico	2016	54	1.6
Singapore	2010	51	1.5
Australia	Pending	46	1.3
Vietnam	2012	42	1.2
New Zealand	Pending	8	0.2

*South American trade bloc Note: €1 = \$1.19 Sources: European Commission; Eurostat

a 17-year-old free-trade accord with Mexico and sign its first accord with Mercosur—composed of Argentina, Brazil, Paraguay and Uruguay. In July, Brussels and Tokyo struck a political agreement on a com-

prehensive trade deal.

Mr. Juncker said he also wanted to bolster the EU's trade defenses including by screening foreign investments—a policy aimed at protecting European assets and

companies from acquisitions. Chinese business representatives expressed disappointment at the proposal. "Obviously, it is targeting China," said Duan Wei, chief executive of the Chinese Chamber of

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Commerce in Germany.

France, Germany and Italy have advocated increasing the bloc's trade defenses, but ran into opposition from some EU members when French President Emmanuel Macron pushed proposals in June.

"We are not naive supporters of free exchange; Europe has always got to defend its strategic interests," Mr. Juncker said. "Europe is open to trade, yes, but there has to be reciprocity."

Mr. Juncker also laid out steps to increase the bloc's security in coming months. He proposed the creation of a European intelligence unit that would share information and an EU prosecutor able to prosecute cross-border terrorist crimes. All his proposals are subject to approval by national governments and the European Parliament.

DEAL

Continued from Page One

said it needs to sell the profitable memory unit to bring its shareholder equity back into positive territory by the end of its fiscal year in March 2018. Otherwise, its shares would face delisting under Tokyo Stock Exchange rules.

Besides Apple and Dell, the Bain group includes disk-drive maker Seagate Technology PLC and others, and more tech and financial players may join, according to people familiar with the matter. It also includes South Korean chip maker SK Hynix Inc., as well as Innovation Network Corp. of Japan, a fund backed by the Japanese government, and government-owned Development Bank of Japan, other people said.

The scrum highlights the strategic importance of the Toshiba business, which makes NAND flash memory chips used for data storage in smart-

phones, computers and other electronics.

Apple and Dell, which would likely supply debt financing for a Bain bid, want to ensure the Toshiba unit remains a viable supplier, according to people familiar with the matter. The tech heavyweights also want the unit to stay competitive with Samsung Electronics Co., the leader in flash memory chips and a major rival to Apple.

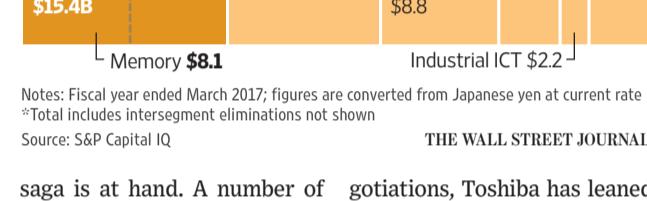
"This shows the dire situation that the flash memory industry is in with high prices and low availability over an extended period of time," said Patrick Moorhead, president of Moor Insights & Strategy. "Companies need this storage to ship and sell products at a profit."

The Bain consortium's plan would be to take the chip business private as an independent entity and bring it public again at a later date in Japan, one person said.

It is far from clear that a resolution to the months-long

Chip Sale

An investor group led by Bain Capital said it intends to buy Toshiba's memory-chip business.



Notes: Fiscal year ended March 2017; figures are converted from Japanese yen at current rate

*Total includes intersegment eliminations not shown

Source: S&P Capital IQ

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saga is at hand. A number of constituents with disparate interests have to agree before a deal can be completed, and a host of regulators would have to sign off. In June, Toshiba selected a group including Bain and SK Hynix as the preferred bidder before those talks stalled. Toshiba, which said Wednesday that Bain had made a new offer, added in its statement that the memorandum doesn't preclude talks with other bidding groups.

At various points in the ne-

gotiations, Toshiba has leaned toward another bidding group that includes Western Digital, a U.S. maker of hard-disk drives that is the Japanese company's partner in the memory-chip business. But the parties haven't been able to agree on how much influence Western Digital would have following a deal.

They are now openly at odds, with Western Digital insisting it has veto rights over any sale and Toshiba saying that isn't true. The two sides are headed for international ar-

bitation.

A spokeswoman for Western Digital, which has joined buyout giant KKR & Co. on a bid, said the company is "disappointed" by Toshiba's move and still wants to reach a deal.

Meanwhile, the Japanese government has raised objections to another bid led by Foxconn, formally known as Hon Hai Precision Industry Co., because of the company's extensive operations in China. Some government officials believe Foxconn's China ties could result in Japanese technology leaking to that country.

Given how the deal has captivated Wall Street, some of those working on it have taken to calling it privately the "RJR Nabisco of tech"—a reference to the 1980s-era leveraged buyout memorialized in the book "Barbarians at the Gate."

Toshiba's flash-memory chips are used not just in smartphones but also in servers for cloud services, internet-connected devices and other products, demand for which is on

the rise. Whether Toshiba sells the unit to one of the three bidder groups or decides not to sell after all—still a significant possibility—that robust demand is the backdrop for the spirited sales process.

In Toshiba's results for the April-June quarter, sales for the segment that includes memory chips rose 23% and operating profit for that segment was greater than the company's total operating profit.

About 30% of the NAND supply in the new iPhones Apple unveiled this week comes from Toshiba—with 30% from Western Digital, 25% from SK Hynix and the rest from Samsung and Micron Technology, Inc., according to estimates by Susquehanna International Group. A Western Digital acquisition of Toshiba could give the U.S. company increased leverage at a time when NAND prices are already rising, some customers worry.

—Tripp Mickle
and Rachael King
contributed to this article.

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IN DEPTH

WATER

Continued from Page One

brew would prevent scurvy. It didn't. The beverage has found a new market over the past decade among health-conscious consumers in the U.S. and Europe.

LaCroix (rhymes with: toy) was created in 1981 by a brewing company in La Crosse, Wis. Named after the city and nearby St. Croix River, it remained a mostly regional brand until publicly traded National Beverage Co. relaunched it six years ago in bright, multicolored cans.

Ask LaCroix executives for a definition of essence and you may receive something short of a clear response. "Essence is our picture word," LaCroix spokesman Rod Liddle said in a written response to questions.

LaCroix's marketing consists largely of social-media images of young women posing with cans of the product or sipping

it out of straws. In several photographs, the women kiss the cans.

National Beverage shares, which trade under the ticker FIZZ, are up 138% this year. National Beverage doesn't hold public earnings calls or answer analyst questions. Company executives declined to be interviewed for this article.

"Essence is—FEELINGS and Sensory Effects!" Mr. Liddle wrote. He added, "hope this answers your inquiry."

Hart Perez, a 31-year-old video director, became curious about what was inside the product after he spent six months drinking only sparkling water, mostly LaCroix, and "wasn't feeling as sharp as usual."

He determined that the product contained "a natural flavor—and natural flavor can really mean anything." Mr. Perez never figured out more. "I've had two this morning al-

ready," he said on a recent weekday.

"Essence is something mysterious," says Robin Scott, a 56-year-old rancher in Templeton, Calif., who has been drinking LaCroix for 30 years. When traveling, her first stop after the airport is often a supermarket—to stock up on seltzer. "I know what flavors I like but I have no idea what kinds of chemicals are in there and I don't care. I know it tastes good."

A laboratory of EAG Inc., a scientific-services company, said more than \$100,000 of testing would be required to independently determine that LaCroix contains only natural essence oils.

Essence isn't defined in U.S. Food and Drug Administration regulations, an FDA spokeswoman said. Yet the FDA permits companies to use the word when describing "flavoring constituents derived from a

spice, fruit or fruit juice, vegetable or vegetable juice, edible yeast, herb, bark, bud, root, leaf or similar plant material, meat, seafood, poultry, eggs, dairy products, or fermentation products thereof," according to food-labeling rules.

"I think it's the sweat of a fruit that you mix with oil," said Liz Earle, a 29-year-old Nashville creative director.

That's not so far off.

Essence is actually a clear, concentrated natural chemical that's been used for decades in products as varied as gravy, ice pops, coffee, shampoo and even insecticide, according to industry executives and scientists.

Natural chemicals are neither uncommon nor unsafe. For instance, ascorbic acid, better known as vitamin C, is a chemical found in fruit.

Corn flake scion John L. Kellogg invented the process for producing a "fruit beverage extract" in 1915, a patent shows. Three decades later, a pair of Pennsylvania chemists cited Mr. Kellogg's work in a patent for "apple essence containing

substantially all of the volatile flavors present in fresh apples."

Essence is created by heating at high temperatures the skin, rinds or broken down remnants of fruits or vegetables. Alcohol is sometimes added to the mixture. The vapors that rise off the stew are captured, condensed and eventually sold by the 55-gallon barrel.

A similar process is used to make concentrated orange juice and pasteurized milk that needs no refrigeration.

"When you make tomato sauce and you get that wonderful aroma in the room, that's the essence boiling off," says Tony DeLio, chief innovation officer of Ingredion Inc., which manufactures essence for sparkling water and other uses. The company declined to say if it makes essence for LaCroix. "It's a hyper-complicated chemical, but it's all natural and we see it every day."

The LaCroix spokesman didn't pour cold water on that interpretation, but wouldn't provide cut-and-dried details of

its manufacturing process.

SodaStream, Polar Beverages and others are rolling out their own essence products, hoping for a sip of LaCroix's success.

"The essence wars—that's what we have essentially been seeing in the market," says Marcus Smith, chief executive of Talking Rain Beverage Co., a Seattle company that sells bottled "Sparkling Ice Essence of Tangerine," among other flavors. Promotional materials say Sparkling Ice is "a thirst-quenching punch right to the taste buds."

Such descriptors are less than illuminating to water enthusiasts.

"Essence is fairies in a warehouse somewhere dancing with fruits, and suddenly you have this amazing drink," said Miranda Wicker, 35.

The Atlanta social-media manager was poolside recently with a cold can of pamplemousse (that's grapefruit) LaCroix. "There are just some things we don't need to know," she said.

ISLAM

Continued from Page One

Samsung Electronics Co. There is a Hooters restaurant in Jakarta, where female staff in skimpy outfits serve up spicy chicken wings and frosted glasses of beer.

In recent years, lobbying groups such as the Islamic Defenders Front have helped introduce more than 400 Shariah-inspired laws, including those that penalize adultery and force women to wear headscarves.

They are supported by a popular mood that has turned more religiously conservative. Protesters last month forced officials to cover a 100-foot statue at a Confucian temple they called an affront to Islamic traditions. Over the past year other conservatives have demolished statues in Java and Sumatra depicting characters from traditional, pre-Islamic folk tales.

Women wearing headscarves are more visible, and the wait time for the limited permits to attend the Hajj to Mecca have risen to 30 years, from two years in 2000, according to government data.

Local elections take place across the country next year, and a presidential vote is scheduled for 2019. Some political analysts and local leaders expect conservative Muslims to expand their footprint. Some potential challengers to President Joko Widodo, a religious moderate, are aligning themselves with hard-liners. "They are playing the long game," said Sidney Jones, a director at the Institute for Policy Analysis of Conflict in Jakarta.

The FPI rises

One successful group is the Islamic Defenders Front, known locally as FPI. In April it helped engineer the electoral defeat of Jakarta's governor, Basuki Tjahaja Purnama, a Christian and ally of Mr. Widodo.

The group and other conservative Muslims accused Mr. Purnama of blasphemy, a criminal offense, and organized mass protests to demand his prosecution. He lost re-election, was convicted and is serving a two-year prison sentence.

"The [Jakarta] governor election turned the FPI into something bigger than it had ever been before," said Ms. Jones. "No one would have thought of it as a political power broker, and now that's the role it has assumed."

The FPI's vision is clear. "The end goal is for [Indonesia] to be based on Shariah," said Slamet Maarif, the group's spokesman. That includes being whipped for violating rules concerning alcohol and extramarital sex.

"If you want to practice Islam, you cannot just be cherry picking. You should follow everything," he said.

Others involved in the Purnama protests question the economic influence of Indonesia's minority ethnic-Chinese population, many of whom are Christian. Islamic leader Bachtiar Nasir, leader of the National Movement to Safeguard the Fatwa of the Indonesian Ulemas Council, wants Indonesia to follow its neighbor Malaysia by introducing an affirmative-action program to provide indigenous Indonesians with better access to capital and contracts.

Mr. Widodo, the president, was caught off guard by the strength of the Purnama protests, which were among the largest in Indonesia's history,



A man in an FPI uniform watched evening prayers at Indonesia's national mosque in Jakarta in June.

From Vigilantes To Kingmakers

The FPI's rise in Indonesia has been steeped in violence

1998: Rizieq Shihab founds the Islamic Defenders Front.

2003: Mr. Shihab is sentenced to seven months in prison for inciting his followers to violence. He is jailed again in 2008.

2012: Lady Gaga, singer and gay-rights advocate, canceled a concert in Jakarta after FPI threats.

2015: Indonesia bans some alcohol sales after pressure from the FPI and other Islamist groups.

according to a person familiar with his thinking.

After not engaging with protesters for weeks, Mr. Widodo joined them at a prayer rally once Mr. Purnama's political survival seemed in doubt.

More recently, his adminis-

tration banned Hizbut Tahrir, a group that dreams of making Indonesia part of an international Islamic caliphate. During his annual state of the nation speech to parliament last month, the president, dressed in a traditional sarong instead of the usual business suit, said the country must unite behind its founding principles of respect for different faiths.

Police are investigating FPI founder Rizieq Shihab on suspicion of breaking Indonesia's pornography laws, which were approved partly at the FPI's behest several years ago, after he allegedly exchanged lewd text messages and images with a female admirer. Mr. Shihab, who has taken refuge in Saudi Arabia, denies wrongdoing.

Mr. Widodo has encouraged moderate Muslim groups to join his efforts to reassert Indonesia's older, more inclusive traditions. One group, Nahdlatul Ulama, or Awakening of the Muslims, was formed in 1926 to resist ascetic strains of Islam from the Arabian peninsula. It provides safe houses for people who have come under attack from the FPI.

Indonesia began tilting toward a more austere version of Islam about two decades ago. A sprawling nation of 18,000 is-

lands, it has long had a hard-line minority kept in check by a strong central government.

After the fall of autocrat Suharto in 1998, Jakarta devolved some powers to local provinces to prevent the rise of another dictator. Around the same time, Saudi Arabia began spending hundreds of millions of dollars to build mosques and schools in Indonesia to export its fundamentalist strain of Islam. FPI's founder, Mr. Shihab, attended a Saudi-funded Islamic university in Jakarta and later studied in Saudi Arabia.

Many hard-liners view Aceh province, on the northern tip of the island of Sumatra, as a role model. After the 2004 Indian Ocean tsunami, which killed nearly 170,000 people in the province, Indonesia's government offered even more autonomy to local leaders to help speed reconstruction. The leaders introduced Shariah laws, based on Islamic teachings. In 2015, the laws were further tightened to permit caning for a wide range of moral offenses, from selling alcohol to gay sex.

A public caning there in May made national headlines. Ten people, including two men who had sex with each other, and an unmarried heterosexual couple who had been alone together, were struck by hooded enforcers in front of a roaring crowd.

Aceh remains the only place in Indonesia where Shariah forms the basis of the criminal code. Polling data is sparse, but a 2013 Pew Research Center survey found that 72% of Indonesian Muslims favored applying Shariah principles nationwide.

The FPI, with its cell-like organization and its followers' white, paramilitary-style uniforms, is the most visible example of the growing strength of Indonesia's conservative religious groups.

In its early days the group was known for smashing up Jakarta bars or scrawling graffiti such as "Jew-Free Zone."

U.S. diplomats have said the FPI served as a kind of paramilitary force for the police to extract bribes from brothels and other illegal businesses.

Mr. Maarif, the group's spokesman, acknowledges working with police "like brothers" but denies being paid to do so.

It successfully lobbied Indonesia's Supreme Court in 2013

to overrule the government and allow local authorities to restrict sales of alcohol, arguing it was eating away at traditional Islamic values. In 2015, national authorities banned convenience stores selling beer and liquor, contributing to the decision of the local franchisee for 7-Eleven to close its 160-plus stores in the country earlier this year.

"They're still helping us. It's important just to know that someone is there because this situation is so stressful," said Suyitono, a 63-year-old. (Many Indonesians use one name.)

The outreach programs reinforce Islamic values in many areas, said Fatah Sulaiman, a vice rector at Sultan Ageng Tirtayasa University in Serang, a city just east of Jakarta where the FPI also has a strong presence. "The politicians don't have much choice but to follow," he said.

Governor in trouble

The FPI had been looking for a way to oust Mr. Purnama, the former Jakarta governor, for years because it objected to the city of 14 million being ruled by a Christian. When Mr. Purnama last year made a lighthearted reference to a Quran verse that said Muslims shouldn't be led by members of other faiths, the FPI accused him of blasphemy.

The group helped organize protests in Jakarta, including one with an estimated 500,000 people, many dressed in white, to demand his prosecution.

When campaigning began for the April elections, the FPI backed Anies Baswedan, a former university rector with a reputation as a moderate who cultivated the group's support by meeting with them and reassuring them he had a conservative stance on social issues such as gay rights.

Mr. Baswedan won the vote comfortably. His political mentor, Prabowo Subianto, a politician who ran against Mr. Widodo for president in 2014 and is a likely presidential candidate in 2019, publicly thanked the FPI for its help in the win.

Islam and the Income Gap

Rising inequality of income in Indonesia is credited with fueling a turn toward more conservative Islam despite a growing economy and consumer class.

■ Gini coefficient*

0.425

0.400

0.375

0.350

0.325

0.300

0.275

*A measure of income distribution in which a smaller score represents more equal society.

Source: World Bank

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An FPI member hands out food in a North Jakarta neighborhood in June. The party has built support through charitable works.

GREATER NEW YORK

Newark to Regain Control of Its Schools

State education board lets the city take back reins after 20 years; Mayor: 'A beautiful day'

BY LESLIE BRODY

More than 20 years after the state took over Newark's public schools due to academic failure and corruption, New Jersey officials agreed Wednesday that the city is ready to regain full control of its classrooms.

While Newark leaders and parents celebrated, challenges loom for the district, including deciding who will run it and how to avoid any reversal of its recent progress.

Some residents worry that special-interest groups might gain too much clout in school elections that have often had low turnout, and nepotism could sway hiring and contract decisions in a district with a roughly \$1 billion annual budget.

But Mayor Ras Baraka expressed optimism that local and state educators, university partners, nonprofits and the private sector will work together to help students.

"It's a beautiful day for the residents of our city," said the mayor, who made restoring local control of schools a key piece of his 2014 campaign. His comments came shortly after a 12-member state board of edu-



Newark Mayor Ras Baraka pressed to restore local school control.

cation in Trenton voted unanimously to start the process for a handover of governance.

A former principal, Mr. Baraka said city residents had a democratic right to run their own schools. "It doesn't mean we won't make mistakes...but we have the right to correct them ourselves, like most Americans."

The state will now create a transition plan and timetable with the district's input. A public referendum, likely in the spring, will decide whether the school board will be elected by voters or appointed by the mayor, or per-

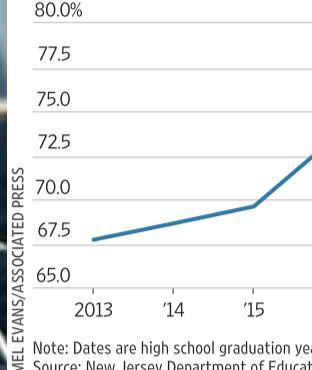
haps a hybrid model. The new board will have to search for a replacement for Superintendent Chris Cerf, who said he wouldn't ask to renew his contract, which ends in June.

The district has about 36,000 children in prekindergarten through 12th grade, and another 15,400 attend charters, which are taxpayer funded and independently operated.

Among the most important challenges will be attracting a top superintendent and high-quality members for a newly empowered board, said Shavar Jeffries, who was chair of Newark's school advisory

Making Progress

Percentage of ninth-grade students in Newark's district public schools who earned diplomas in four years



Note: Dates are high school graduation year.
Source: New Jersey Department of Education
THE WALL STREET JOURNAL.

board from 2010 to 2011 and now is president of Democrats for Education Reform, a national advocacy group.

"Sadly we have a long history in Newark of school board members and other public officials prioritizing jobs, contracts, patronage and political favors instead of kids," said Mr. Jeffries. "We also have a tradition of elected officials working tirelessly for kids. I hope the latter wins out."

When Mr. Cerf was appointed superintendent by the state in 2015, he said he was committed to leading Newark back to local control. A former

New Jersey education commissioner, he argued that the original goals set for Newark to regain autonomy were unreasonable. State and local officials agreed the district should be judged by gains rather than proficiency targets.

Performance at many city schools remains low, but Newark students have made strong strides and a higher share pass state tests than in most poor urban districts in New Jersey.

According to preliminary scores from the district, last spring 31% of Newark's students in grades three through eight passed state tests in English, up from 22% two years before. In math, almost 23% passed last spring, up from 17%. Most of its students are poor, and black or Hispanic.

District officials expect its graduation rate to be about 77% when state data are finalized for the Class of 2017, a big jump from 54% when the state took over in 1995, and about 60% six years ago.

Mr. Cerf expressed confidence the trajectory would continue. He said the district had strengthened the workforce, staff training and curriculum, and the advisory board had prepared to assume new responsibilities. "We have worked really hard to get everybody aligned around a common purpose," he said.

Big Task Ahead for District Leaders

Dale Russakoff, author of "The Prize," a 2015 book about efforts to reform Newark schools, said the biggest challenges ahead for the district after it resumes full control of its system are fiscal and political.

The district, she noted, has faced a financial crisis from the growth of charters, requiring downsizing, school closings and layoffs.

"The loss of secure district jobs that once sustained families has been politically explosive even under state control, when no locally elected politicians were calling the shots," she said.

"Once [Newark officials] take over, it will be 100 times more difficult to make those kinds of decisions. But for the district schools to survive, and for the maximum amount of money to reach children in classrooms, there is no getting around those choices," she said. "It is going to take a superintendent who has extraordinary trust from the community to lead this very fraught process."

—Leslie Brody

Barry Diller Drops Hudson Park Project

BY KEIKO MORRIS

Media tycoon Barry Diller said he is ending a \$250 million project to build a man-made island and park on the Hudson River off Manhattan, citing a series of lawsuits and escalating costs from the ensuing delays.

In an email sent Wednesday to those working on the project dubbed Pier 55, Mr. Diller said that 2½ years of lawsuits brought by a "tiny group" had interrupted progress, which boosted costs, and had cast efforts to build the park and performance space in a controversial light.

Mr. Diller and his wife, fashion designer Diane von Furstenberg, were the main financial backers of the proposed 2.4-acre park near West 13th Street.

Amid talks with the park's opponents, Mr. Diller decided he couldn't go forward. "I felt we had done nothing wrong and that to give the victory to these people was in itself wrong," Mr. Diller wrote.

"Because of that, and the huge escalating costs of the project, based greatly on the delays catalyzed by the lawsuits and what would be the inevitable continuing controversy over the next three years throughout the building pro-

cess, my family and I have decided it is no longer viable to proceed," he wrote.

The park was to be set on a rolling landscaped surface of hills and sloping paths, and include a 750-seat amphitheater surrounded by almost 400 species of plants.

The project encountered opposition from the City Club of New York, a civic group that argued the island-like park would block views of the river. The group also claimed the plan wasn't subject to sufficient environmental review, but an appellate division of the state Supreme Court in Manhattan struck down that argument.

Mr. Diller's decision, reported earlier by the New York Times, was a blow for the Hudson River Park Trust, which envisioned the park would become a major destination and resource for the community and New York City.

"We are deeply saddened by this news—not simply because this would've been one of the world's greatest piers, but because this was a project the community so resoundingly wanted, and that millions would one day enjoy," said Madelyn Wils, Hudson River Trust Park president and chief executive, in a statement.



A rendering of the Pier 55 project on the Hudson River.

One Last Flourish as New York Fashion Week Wraps Up



ELEVATED STYLE: Models walked the runway showing the Michael Kors collection on Wednesday, the last day of the semiannual event.

Lauded Coding Teacher Gets Visa Just in Time

BY LESLIE BRODY

The fourth time was the charm.

Bo Feng, a Chinese coding whiz who helped build software to teach computer science to tens of thousands of Long Island students, found out Wednesday that he finally was approved for a three-year visa to stay in the U.S.

It was the fourth time he entered the annual lottery for an H-1B visa for high-skilled foreign workers, and time was running out. "It's very exciting," said Mr. Feng, a 31-year-old who lives in Centereach. "We had to keep waiting and

waiting and waiting."

In April, The Wall Street Journal wrote about Long Island district chiefs exasperated by the potential loss of Mr. Feng's services at time when many schools can't find people able and willing to teach computer science. His supporters said he had a knack for explaining complex coding concepts to children, and helping university students hone their skills to land jobs.

Mr. Feng's permit to stay in the U.S. as a student was set to expire this month, and he worried it was time to buy plane tickets to return to China. He learned this summer

that he survived the lottery, but he had to submit documentation to win final approval, which just came.

"I cried when I heard the news," said one of his bosses, Melora Loffro. "It's been a long journey, right down to the wire."

Mr. Feng works for a nonprofit called Kidoyo, which has an online platform that helps children tackle computer science and engineering skills.

About 25 districts, including Amityville and Mineola, use it. Mr. Feng's employers said he was a key asset in the ongoing effort to improve the software, and visas should be granted on merit, not luck.

Mr. Feng was among thousands who applied in April for this year's round of H-1B visas. There are 65,000 slots, in addition to 20,000 reserved for those with advanced degrees.

Mr. Feng's visa gives him an option to renew for three years without re-entering the lottery. He came to the U.S. in 2012 to get his master's degree in computer science.

Asked how he would celebrate, Mr. Feng said he didn't know because he was busy helping students and training teachers. His bosses have other ideas. They plan to throw a surprise, "Welcome to America" party, on Thursday.

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GREATER NEW YORK

Buyers Are Coming to Long Island City

Neighborhood has changed and prices have shot up, with renters now looking to become owners

BY JOSH BARBANEL

First the renters came. Now the buyers are showing up.

A building boom that created a forest of rental towers in Long Island City changed the neighborhood and is helping stoke demand for condominiums, driving prices to new heights, brokers said.

A study by Halstead Real Estate of prices since 2007 in the former industrial neighborhood near the East River found that the median condo price has risen 47% since then.

After the 2008 financial crisis, sales slid in Long Island City. Because the gritty Queens neighborhood was just beginning to get established as a residential destination, some thought prices wouldn't come back.

Some developers who were condo pioneers rented out unsold units and then gradually sold them off, frequently offering seller-financed mortgages because banks were reluctant to lend.

The Halstead study found that while the slide continued for several years, Long Island City condo prices have been rising steadily since hitting bottom in 2011.

The median condo price was \$970,000 in 2016 and hit \$1.02 million in the first seven months of 2017, a rebound of 63% since 2011, Halstead said.

At The View, an 18-story condo building constructed by TF Cornerstone, some residents who sold doubled their money. The average price shot up to \$1,600 a square foot in 2015 from about \$800 a square foot when the building opened in 2009, according to Halstead.

Now, in Long Island City, a panorama of construction cranes fill the skyline, mainly



MARK KAULZLICH FOR THE WALL STREET JOURNAL

Workers outside one of the new residential building that have gone up in Long Island City, Queens.

for rental buildings, but with more condos on the way.

Since 2016 more than 3,000 rental units have come on the market, and more than 15,000 are due to open in the next few years in Long Island City, according to data provided by Nancy Packes Inc., a residential-marketing consultant.

Some of the individuals and families who took advan-

tage of lower rents to move into the neighborhood have been stepping up to become buyers, brokers said. They are competing with potential buyers from Manhattan, Brooklyn and even Jersey City, they noted.

"The appetite for condos is huge," said Elizabeth Lusskin, president of the Long Island City Partnership, a local economic-development group.

The rising prices reflect the maturing of a neighborhood that initially had few amenities except lower housing costs and a four-minute subway ride to Manhattan—one stop from Grand Central Terminal and three from Times Square.

Robert Whalen, Halstead's director of sales in Long Island City, said that when he moved to an apartment along

The Strong Market Wasn't Always So

Condominium development in Long Island City has seen its downs and ups.

Mark Gold is proud of the Industry LIC, a seven-story industrial-style apartment building with large windows that he and his partners built at 21-45 44th Drive in the Queens neighborhood in 2008.

Construction began just before the financial crisis stopped the condo market cold. The first closings by buyers in the 75-unit building were in 2011, at a time when condo prices hit bottom in Long Island City, according to a new report by Halstead Real Estate that examined the past 10 years.

A one-bedroom apartment at the Industry with 11-foot-high ceilings, a 15-foot-wide bedroom and a 500-square-foot rear yard sold in 2011 for \$499,000. It went into contract this July with an asking price of \$899,000, according to real-estate listing site Streeteasy.com, an increase of 80%.

"It was a great building," Mr. Gold said. "We sold out. A few years later prices popped."

Times have changed in Long Island City. Last fall, when Mr. Gold and his partners at Silvercup Properties put another building on the market, a 27-

story brick tower at 27-21 44th Drive known as the Harrison, sales were hot, he said. So far, 94 of the 120 apartments are in contract, Mr. Gold said.

The strong market reflects the maturing of Long Island City as a residential neighborhood and the limited supply new condos on the market. At the Harrison, half of the buyers already live in the neighborhood, Mr. Gold noted.

The Harrison offers studios to three-bedroom apartments, some with balconies or terraces, and many with views of Manhattan. There is one three-bedroom penthouse apartment with a 500-square-foot terrace that is due to come on the market for up to \$2.8 million, he said.

It is the largest new building now available, but there are some bigger and taller condo buildings on the horizon.

Galerie LIC, an 11-story building with 182 apartments, is due to go on the market this fall. Located across the street from the MoMA PS1 exhibition space, it will include an indoor swimming pool, a driveway, gallery space, a roof terrace and a children's playroom.

A huge glass-walled condo building known as City View Tower is due to open in 2020 in Long Island City. The 66-story building will have 802 apartments, according to a posting by Hill West Architects.

—Josh Barbanel

Ex-Guard Gets 30 Years for Attack on Inmate

BY THOMAS MACMILLAN

A federal judge, citing a "culture of violence" at Rikers Island, sentenced a former guard Wednesday to 30 years in prison for kicking an inmate to death in 2012.

Former corrections officer Brian Coll, 47 years old, was found guilty in December of charges including death resulting from deprivation of rights and obstruction of justice in the assault on Ronald Spear, a 52-year-old inmate with a chronic medical condition.

"This is a serious offense that requires a serious punishment," Judge Loretta Preska said of the lengthy prison term. "It is also a crime where deterrence is, in the court's view, an important consideration."

Mr. Coll's case is one of several brought by Manhattan federal prosecutors over the treatment of inmates in New York's prisons and jails.

Prosecutors said Mr. Spear, suffering from end-stage renal disease, had arrived in Rikers in September 2012 and was being held in an infirmary unit while he awaited trial on a burglary charge. He walked with a cane, was on dialysis treatment, and wore a bracelet indicating a risk of falling.

On the morning of Dec. 19, 2012, Mr. Spear was on his way to see a doctor when he had an altercation with Mr. Coll, who punched the inmate in the face and stomach, according to prosecutors.

Mr. Coll then repeatedly kicked Mr. Spear in the head while two officers held him facedown on the ground, even as another officer tried to intervene, prosecutors said. "Remember that I'm the one that did this to you," Mr. Coll said to Mr. Spear, according to the indictment. Mr. Spear died shortly afterward.

After the attack, Mr. Coll and the two officers who restrained Mr. Spear filed false

reports and lied to investigators, prosecutors said. The other two later pleaded guilty.

The city settled a civil suit with Mr. Spear's family for \$2.75 million in 2014.

While Mr. Coll's defense attorneys asked the judge for a sentence of between 46 and 70 months, prosecutors called for a significant sentence "well beyond" that amount.

Mr. Coll, reading from a statement, said Wednesday he was "truly sorry" Mr. Spear died and that he didn't mean to hurt him. "I am not a cold and callous person," he said. "I am no killer."

—Rebecca Davis O'Brien contributed to this article.

the waterfront there in 2007, he had a long walk to the nearest supermarket. Now, there are new markets, restaurants, hotels, bars and retail.

Back then Court Square, another nearby nexus for development, was "a little bit desolate," Mr. Whalen recalled. "We told people this area was going to explode, and it is happening."

Median condo prices are

expected to rise even higher next year as buyers already in contract begin closing, said Eric Benaim, president and founder of Modern Spaces, a brokerage that is marketing several new LIC buildings.

"Years ago it was a sell to someone who wanted to be a pioneer. You used to have to push it as an up-and-coming neighborhood," Mr. Benaim said.

GREATER NEW YORK WATCH



IN COURT: Former Rep. Anthony Weiner and Clinton aide Huma Abedin appeared Wednesday before a judge in their divorce case.

NEWARK AIRPORT

Customs Officers Charged in Assaults

Three U.S. Customs and Border Protection officers have been arrested and charged with assaulting fellow officers at Newark Liberty International Airport.

Tito Catota, Parmenio I. Perez and Michael A. Papagni appeared in U.S. District Court in Newark on Wednesday and were released on \$100,000 bonds. They are accused of assaulting two fellow male officers on two separate occasions in November and January.

The complaint alleges the accused officers threw the victims on what they called the "rape table," climbed on top of them and grinded on their bodies in a way that simulated a sex act.

Mr. Papagni's attorney said evidence will show that his client is innocent. A lawyer for Mr. Catota said his client has maintained his innocence and will "vigorously" contest the charges. An attorney for Mr. Perez didn't return a call for comment.

The complaint described the involvement of several other unnamed customs officers in the alleged assaults. A spokesman for the U.S. Attorney's Office declined to comment on whether more arrests were expected.

NBC 4 New York first reported the allegations of sexually abusive hazing in May, and interviewed three customs officers—two men and a woman—who said they had been assaulted.

—Kate King

MEDIA

Sports Radio Host Craig Carton Resigns

Suspended sports radio talk show host Craig Carton, embroiled in an alleged concert ticket scam, has resigned as co-host of WFAN's "Boomer and Carton."

"The unfounded legal issues currently plaguing me will only be a distraction to everyone at WFAN and the show I helped build," Mr. Carton said in a statement Wednesday. "With that in mind, I have submitted my resignation to the station and they accepted."

His resignation was confirmed by WFAN's owner CBS Radio. His departure means that as of Thursday the show will be renamed "Morning Show with Boomer," according to a spokeswoman for CBS Radio. The station is looking for a replacement for Mr. Carton.

Mr. Carton, who had been suspended following his arrest last week on fraud charges, had vowed to fight the allegations and return to the station.

Prosecutors say Mr. Carton and others lied to investors, telling them they could secure large blocks of tickets to sought-after concerts, such as for British singer Adele and other A-list musicians, and resell the tickets at higher prices, turning a profit for investors.

Instead, prosecutors said, the men used investors' money to repay some investors and to cover personal expenses, such as gambling debts.

—Maria Armenta



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LIFE & ARTS



FILM

A New Wave Of Highbrow Horror

Darren Aronofsky's 'mother!' is one of several recent 'social thrillers' from A-list directors

BY ELLEN GAMERMAN

A PIVOTAL SCENE in "mother!" is so disturbing that it's hard to call this new film anything but a straight-out horror movie. Yet the moment also is meant to serve as an allegory of climate change, species extinction and other environmental woes.

"We're all on this planet together with a tremendous amount of bounty, but it's definitely finite and we're seeing the results of our insatiable appetite," director Darren Aronofsky said in a recent interview. "I took that energy and tried to weave it into something that's not really about that, but has that energy and that passion."

Social thrillers, as some film experts call them, are enjoying renewed cachet in Hollywood right now. While horror movies packed with deeper cultural meaning have always existed, industry observers say high-profile filmmakers who might not have been drawn to such movies a few years ago are rushing into the genre with new projects.

Filmmaker David Fincher, an Oscar nominee for "The Social Network" and "The Curious Case of Benjamin Button," is set to direct the "World War Z" zombie-movie sequel. Director Dee Rees, whose drama "Mudbound" is generating awards buzz, is developing a horror film about black lesbians in small-town America. Jordan Peele, writer-director of the commercial and critical hit "Get Out," where the monster is racism, is working on new social thrillers to release over the next decade.

More filmmakers are willing to wrap their stories in terrifying packages, said producer Jason Blum. "I have to believe the world is just a scarier place," said Mr. Blum, founder of horror hitmaker Blumhouse Productions. "There's a shaking energy or a

Stephen King's 'It,' starring Bill Skarsgård, just had the highest horror-film opening ever.



The film 'mother!' starring Jennifer Lawrence, top, is about climate change. In 'Get Out,' starring Daniel Kaluuya, above, the monster is racism.

"To see new voices, new ideas, new spins on old stories, that's what really excites me," said Peter Kuplowsky, a curator at the Toronto festival. He said he was tired of seeing scary movies with stories "about a 20-something white dude trying to win over a girl and a horror situation occurs."

Veterans of comedy like Mr. Peele aren't as unlikely transplants to horror as they might seem. Mr.

Kuplowsky said both genres create intense emotions, and the setup and delivery of jokes and scares are similar. "Comedians are people who speak to cultural anxieties and social problems," he said, adding that in horror "the punchline just tends to make people scream."

Horror films often spring from a basic premise: "It started with a simple idea—to answer the question, 'What's scary?' and 'What hasn't been done to death?'" said Fede Alvarez, director and co-writer of last year's home-invasion horror hit "Don't Breathe." Among its possible meanings, the story can be viewed as an allegory for the disillusionment of baby boomers, the

Please see HORROR page A12

nervousness to people and that's not a good thing—but it's good for horror movies."

"The Purge" series of scary movies, which Mr. Blum said explore issues around gun control, helped lay the groundwork for the most recent resurgence of social themes in mainstream horror films. Then came "Get Out," which broadened the appeal of such allegorical horror films well beyond New York and Los Angeles. The roughly \$4.5 million movie grossed more than \$252 million world-wide. Mr. Blum, who produced both pictures, said he now is seeing more such scripts, including horror films with Trump administration allegories.

Filmmakers like horror movies because they're relatively cheap to make and have

the potential to turn into goldmines. "It," the Stephen King story about an evil clown, just had the top horror film opening ever. The roughly \$35 million movie brought in about \$189 million world-wide on its opening weekend.

"The Killing of a Sacred Deer," about a cardiac surgeon's strange relationship with a boy, is to some fans a meditation on justice and retribution. At a post-show interview at the Toronto International Film Festival, which launched last week, an audience member asked director and co-writer Yorgos Lanthimos if the film's villain was God or the devil. "The point of it is he's complex and ambiguous," said Mr. Lanthimos. "You have to decide for yourself."

THE MIDDLE SEAT | By Scott McCartney

AN EXTRA SURPRISE FEE AT THE AIRPORT



THERE'S A NEW SNAG at the airport catching fliers by surprise: the gate-service fee.

It's not a fee to use a gate. (Maybe someday!) Instead, United and American have created a fee to discourage travelers who buy their cheapest fare, Basic Economy, from bringing a carry-on bag that doesn't fit under the seat.

With Basic Economy on United and American, you lack privileges to put a bag in an overhead bin unless you have elite status or a qualifying credit card. But if you don't figure that out before boarding or try and sneak one on anyway, the two airlines charge the standard baggage fee to check the bag at the gate, usually \$25 if it's your first checked bag. Then, they hit you with an additional \$25 fee.

United calls it a gate-handling charge. American labels it a gate-service fee. It's really a penalty on top of a fee.

Most passengers don't get charged a baggage fee when planes run out of overhead bin space and bags must be checked. They are

entitled to two carry-on items: a small one under the seat and a larger one overhead. Not so with Basic Economy on United and American. (Delta's Basic Economy does allow an overhead bin bag.)

Vishnu Bhargava and his wife were flying on United from San Francisco to Boston in late July and didn't notice the conditions of Basic Economy tickets. He checked in the night before, paid for one checked bag and planned to bring two carry-ons. He didn't read the small print.

When they got to the gate, they were told their carry-on bags would have to be checked. His cost \$50—the standard bag fee plus the gate handling charge. His wife's was \$60, since she had already checked one bag. United charges \$35 for a second bag, plus the extra fee.

"I was shocked," says Mr. Bhargava, a retired physician from India. "Whatever I saved with Basic Economy, I had to pay more. This fee is not at all fair."

Please see AIRPORT page A13

LIFE & ARTS

AWARDS

The Emmys Get Tense

The rivalry between streaming series and broadcast TV shows adds suspense to the awards



BY JOHN JURGENSEN

IF HULU OR NETFLIX wins Outstanding Drama Series at Sunday's Emmy Awards, it will be the first streaming service to claim the marquee honor. And if NBC's family drama "This Is Us" prevails, it will be a victory for traditional television—and end an 11-year dry spell for network broadcasting.

The race is injecting suspense into awards often undermined by repetition. Five of the seven best-drama nominees—Netflix's "The Crown" and "Stranger Things," Hulu's "The Handmaid's Tale," NBC's "This Is Us" and HBO's "Westworld"—are new shows. Two-time nominee "Better Call Saul" was nominated for its third season on AMC.

Only Netflix's "House of Cards," in the mix for a fifth year in a row, is a holdover from a stretch of perennial nominees. The field is more open this year, with the retirement of long-running series such as "Downton Abbey." Two-time winner "Game of Thrones" had a later start date this year and was thus ineligible for the prizes.

The 69th Primetime Emmy Awards, hosted by Stephen Colbert, airs on CBS Sunday evening. Expect political grenades: The host hurls them nightly at the Trump administration on the "The Late Show with Stephen Colbert" (CBS). So do his fellow Variety Talk Series nominees, "Full Frontal with Samantha Bee" (TBS), "Jimmy Kimmel Live" (ABC), "Last Week Tonight with John Oliver" (HBO), "Real Time with Bill Maher" (HBO) and, to a lesser extent, "The Late Late Show with James Corden" (CBS).

"Saturday Night Live," which rode the presidential election and its winner to record



This year's Emmy contenders include top row, from left: 'This Is Us,' 'Atlanta,' 'Westworld'; next row, from left: 'Veep,' 'The Handmaid's Tale' and 'black-ish,' and, above, 'The Crown.'

ratings, is tied with "Westworld" for the most nominations: 22. Alec Baldwin earned one for his recurring impressions of President Donald Trump. Dave Chappelle, who hosted the first post-election "SNL," and Melissa McCarthy, who popped up as then-press secretary Sean Spicer, already collected statuettes for their guest-starring spots at the Creative Arts Emmys last weekend.

Unlike the Oscars, which honor a fresh crop of movies every year, television sustains a chronic rivalry between new and long-running shows: freshmen versus upper-classmen who are popular but have been hanging around for years. Overcrowding in the industry and an influx of unconventional

shows has escalated the tension.

Seniority rules in the Outstanding Comedy Series category. A victory for HBO's "Veep" would be its third straight win, following a five-year streak by "Modern Family" and a three-year run for "30 Rock." The nominees include ABC's "black-ish" and "Modern Family," Netflix's "Master of None" and "Unbreakable Kimmy Schmidt" and HBO's "Silicon Valley." However, many see the FX series "Atlanta" as the most likely candidate to unseat the incumbent. Created by lead-actor nominee Donald Glover, the show is about young characters struggling for money and respect in the title city. The humor is more existential and surreal than that of typical sitcoms, and represents the shades of gray reshaping the genre. However, a consensus around belly laughs—which "Veep" often delivers by the minute—may play as much of a role in a "Veep" repeat as "the calcified habits of Academy voters," says Richard Licata, chief executive of TV marketing agency Licata & Co. and a veteran Emmy campaigner.

With close-ended stories and movie-star cast members, the competition for best limited series (once known as miniseries) starts anew every year, but the category has become a recurring standoff between FX and HBO. This year, FX's "Fargo" and "Feud: Bette and Joan" face off against HBO's "Big Little Lies" and "The Night Of." (Performers from these shows fill the ranks of nominees for acting categories.) While "Genius," starring lead-actor nominee Geoffrey Rush as Albert Einstein, is a longshot to win, National Geographic's first scripted series already has earned some bragging rights for the channel with 10 Emmy nominations.



Fans thought 'The Killing of a Sacred Deer,' starring Colin Farrell and Nicole Kidman, was a meditation on justice and retribution.

HORROR

Continued from page A11
younger generation's seeming indifference to them or both, the filmmaker said. Fans and critics have seen the theme of social decline. The movie, which cost roughly \$10 million to make, racked up about 15 times that amount in world-wide grosses.

Many newcomers to the genre contend that it's not enough just to be scary. "When the film is just a string of setups for someone more or less saying 'Boo!,' while that's perfectly fun, that doesn't have anything to do with why this kind of creative work is important," said Robert Eggers, writer and director of "The Witch." The 2016 horror film set in 17th-century New England was seen by critics as a cautionary tale about religious extremism. Mr. Eggers praised psychological horror films that "probe the darkness within ourselves."



'Don't Breathe,' with Jane Levy, was considered an allegory of urban decline, the disillusionment of baby boomers and more.

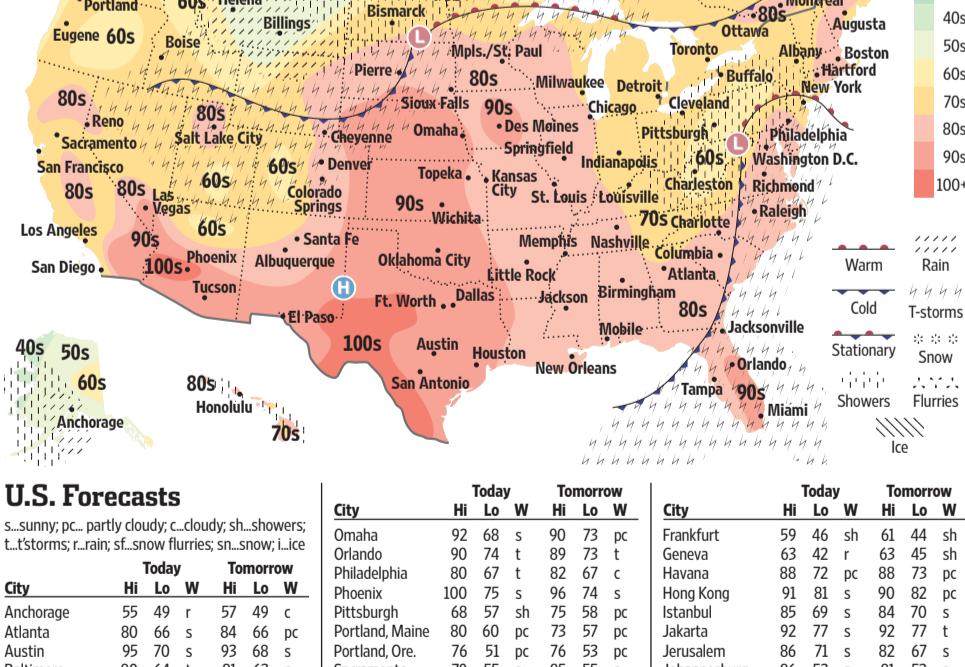
The marketing for "mother!," which opens Friday, includes an image of star Jennifer Lawrence holding her own disembodied heart in her bloodied hands. But instead of an interest in blood and guts, Mr. Aronofsky said, the film grew out of his overarching fear about the state of the planet.

The director, an Oscar nominee for the 2010 movie "Black Swan," said he wrote the screenplay for "mother!" in "a fever dream" over five days. He held three months of rehearsals for the film, a relationship story about a young woman and the famous older male poet she adores, and pressed the actors to examine several levels of meaning in their lines.

"There's a lot of language in the film that had to be very precise, that had to play with all these other references," he said.

"It's a very interesting genre and I think for a while it was hijacked by and still is hijacked by slasher films and gore films," he said. "I think horror can be of the mind as well."

Weather



U.S. Forecasts

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

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

Today Tomorrow

Hi Lo W Hi Lo W

Anchorage 55 49 r 57 49 c

Atlanta 80 66 s 84 66 pc

Austin 95 70 s 93 68 s

Baltimore 80 64 t 81 63 c

Boise 72 50 pc 66 42 c

Boston 82 65 pc 77 63 c

Burlington 79 61 pc 79 60 pc

Charlotte 81 61 pc 83 63 pc

Chicago 80 61 pc 85 66 s

Cleveland 74 59 sh 79 58 pc

Dallas 97 73 s 94 74 s

Denver 87 56 pc 82 49 s

Houston 92 71 s 91 74 pc

Indianapolis 76 59 pc 83 62 pc

Kansas City 86 65 s 88 69 s

Las Vegas 90 69 pc 90 68 s

Little Rock 87 64 s 88 65 s

Los Angeles 76 65 sh 76 64 sh

Miami 91 78 t 91 78 pc

Milwaukee 76 62 pc 80 65 s

Minneapolis 89 68 pc 86 70 pc

Nashville 80 62 pc 85 62 pc

New Orleans 88 73 pc 86 73 pc

New York City 78 66 t 80 66 c

Oklahoma City 92 70 s 90 71 s

International

Today Tomorrow

Hi Lo W Hi Lo W

Amsterdam 58 50 t 60 49 pc

Athens 90 73 s 89 72 s

Bahrain 110 76 s 111 75 s

Bangkok 95 79 t 92 78 t

Singapore 88 79 pc 88 79 t

Sydney 65 53 pc 72 57 pc

Taipei 83 78 r 94 79 c

Tokyo 84 67 sh 77 66 c

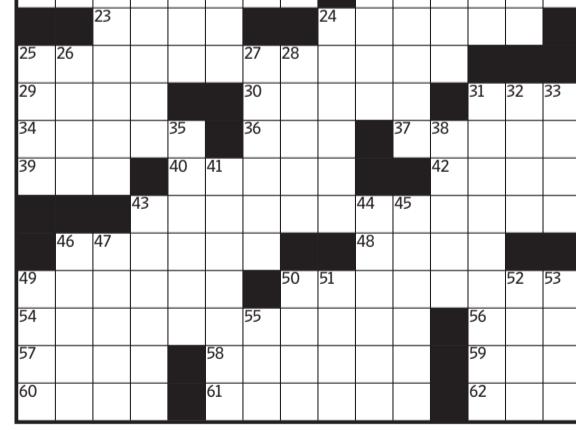
Toronto 78 58 pc 79 57 s

Vancouver 70 52 s 70 51 pc

Warsaw 65 49 c 61 49 pc

Zurich 60 41 r 62 45 s

The WSJ Daily Crossword | Edited by Mike Shenk



61 Did business with

62 One unlikely to pass the bar

Down

1 Gram's equivalent

2 Product that comes with a Magic Mouse

3 It may come to a head

35 Over the line

38 Item mentioned in "The Ballad of Sweeney Todd"

41 Finishing clubs

7 Zealous

8 Sheet with Mickey Mouse on it

44 Try to hit

45 Willing to consider

46 Oreo layer

47 "Gaspard de la Nuit" composer

49 Challenge for climbers

50 Administered with a spoon

51 In-crowd outsider

52 Grand Sierra Resort location

53 Promote

55 Saccharine sentiment

Previous Puzzle's Solution

I	L	A	N	D	S	A	B	R	I	D	G	E
M	O	V	E	U	P	R	O	N	O	T	T	S
P	L	A	C	E	O	F	B	U	S	S	T	U
S	A	S	K	T	A	S	T	E	T	T	G	U
T	H	O	R	N	T	H	A	R	P	A	Y	W

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

LIFE & ARTS

ART REVIEW

Poetic Sculptor Of Emptiness

BY RICHARD CORK

London

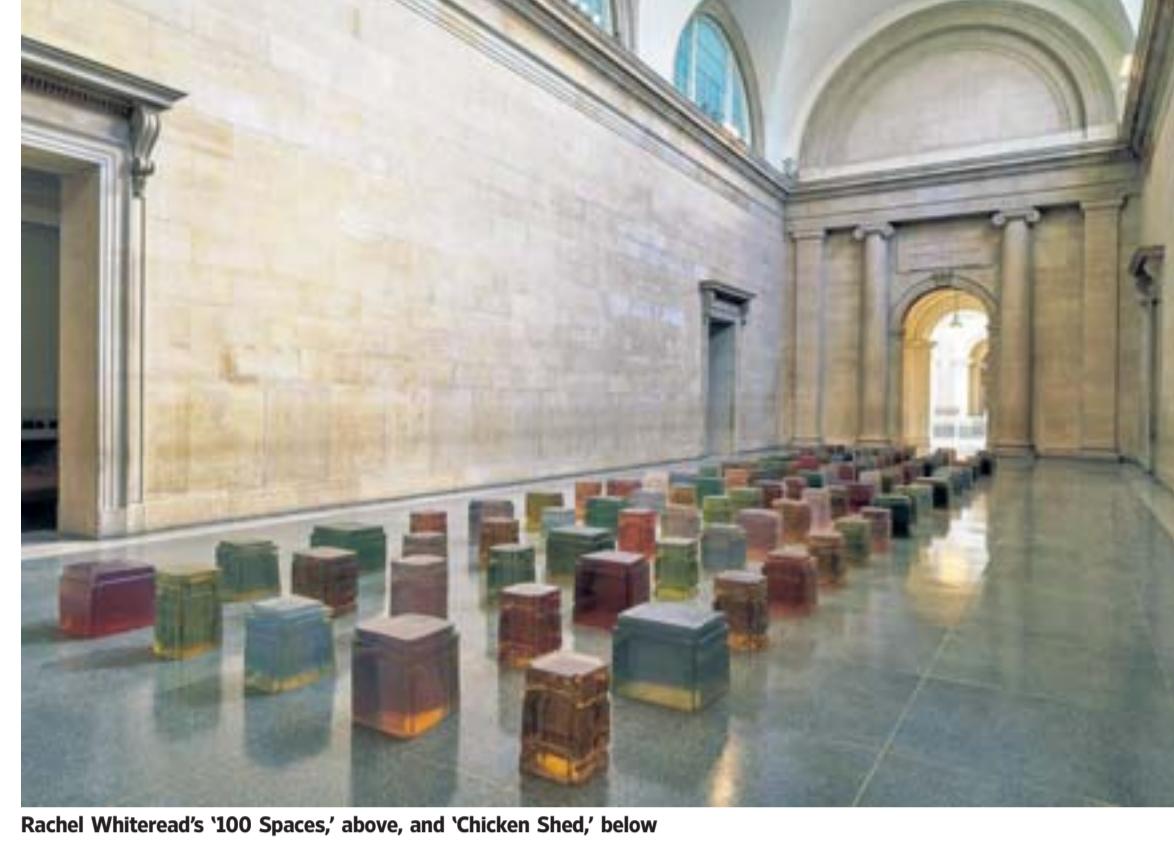
ON THE LAWN in front of Tate Britain's facade, a new concrete sculpture called "Chicken Shed" shows just how defiant Rachel Whiteread can be. Compared with the ornate Victorian architecture behind it, the structural simplicity of "Chicken Shed" seems extraordinary. Ms. Whiteread describes it as one of her "shy sculptures," like the "Cabin" she perched on a hill on Governors Island, N.Y. But "Chicken Shed," ominously boarded up and formidable, ends up making us think about the prison that once occupied the land where Tate Britain now stands.

Ms. Whiteread's reputation rests on her commitment to casting, and as we enter the Duveen Galleries inside Tate Britain no less than 100 multicolored resin casts stretch away from us across the floor. Arranged in a grid, they were taken from the undersides of chairs. So absence becomes presence, and after a while these resin blocks evoke the ruins of an ancient building. When sunlight falls on them through the Duveen windows, the entire sculpture glints and glows.

This major sculpture, "Untitled (One Hundred Spaces)," was made in 1995, two years after Ms. Whiteread created "House" in the East End of London. Although it made her reputation, so that she became the first woman to win the Turner Prize, "House" survived for only a few months. Cast in concrete from the interior of a terraced house, it looked like a pale ghost memorializing its former inhabitants—as well as all the East End streets destroyed by Nazi bombers in World War II.

Ms. Whiteread was herself born in London in 1963, and she once told me that her work aimed at "embalming lives, embalming the air, mummifying the space inside the room." But "House" itself was brutally swept away by a local council that refused to acknowledge its significance as an outstanding public sculpture. And just before we enter the main space devoted to Tate Britain's survey of Ms. Whiteread's career, a poignant and fascinating film shows us the creation of "House" as well as its disastrous demolition.

Inside the immense, open-plan space containing the rest of her exhibition, Ms. Whiteread's involvement with so many aspects of everyday human life becomes clear. The earliest object is a small



Rachel Whiteread's '100 Spaces,' above, and 'Chicken Shed,' below

"Torso" (1988), cast in plaster from a hot-water bottle. Lying isolated on its side, it might have been abandoned but still seems capable of offering warmth. Ultimately, though, Ms. Whiteread's surprising decision to call it "Torso" makes us see this lonely cast as a poignant fragment of a human figure.

Although she is fascinated by even the most ordinary objects, her sculpture transforms them. Mattresses are an obsession, beginning with "Shallow Breath" in 1988—a blanched plaster and polystyrene form propped against a wall. Its pallor enhances the sense of strangeness. And yet suddenly, in 1991, Ms. Whiteread uses rubber to produce a cast of a mattress called "Untitled (Amber Bed)." This time, she infuses the form with a deep, resonant redness. Because so many works here are blanched, the strength of this warm color seems astonishing. But the longer we look at her sculpture, the more it feeds our imagination. Although "Untitled (Amber Bed)" could be seen as a celebration of the mattress's comfort and warmth, its redness might also evoke blood spilled there by a murderous act.

As for "Table and Chair (Clear),"

from 1994, Ms. Whiteread here uses resin to turn the sculpture into an ominous work. It looks like the props used in some strange ritual, where people are invited to kneel on the block-like chair and pray for forgiveness at the table. Ms. Whiteread certainly does not shy away from the bleakest and most disturbing aspects of life. In a large 1997-98 plaster and steel sculpture called "Untitled (Book Corridors)," everything looks frozen. Although plenty of books are visible on its shelves, they appear to have been robbed of their original identity and turned into ice. This chilling work was made soon after Ms. Whiteread produced the maquette for her "Holocaust Memorial." It was commissioned as a monument in Vienna's Judenplatz, dedicated to the city's Jewish citizens murdered during World War II. And in 2000 the "Holocaust Memorial" itself was finally unveiled there, confronting everyone with the book-lined shelves of a library based on the dimensions of the architecture around the Judenplatz itself.

The result is very poignant, and it prompted Ms. Whiteread to become involved once again with the structure of buildings. The most

dramatic work in the Tate exhibition is "Untitled (Stairs)," created in 2001 from staircases she found inside her London studio. They shoot up and down in a dizzying, almost dangerous way, and nearby we find the bulky oppressiveness of "Untitled (Room 101)," an enormous sculpture cast in 2003 from the room in the BBC's headquarters believed to have been described by George Orwell in his profoundly disturbing novel "Nineteen Eighty-Four."

Architecture reappears in Ms. Whiteread's most recent work, too. "Roof (Beams I)" (2017) turns out to be made of papier-mâché, and when viewed close up it is alive with tiny, dancing fragments of color. But the whole sculpture also makes us think about all those houses destroyed by the recent hurricanes, and in Ms. Whiteread's work monumental bulk can never be divorced from a fundamental awareness of alarming fragility.

Mr. Cork's latest book, "Face To Face: Interviews With Artists," was published by Tate in 2015.

Rachel Whiteread
Tate Britain, through Jan. 21, 2018



AIRPORT

Continued from page A11

United says it communicates with customers about the Basic Economy rules throughout the booking process and prior to airport arrival. "We do everything we can to make sure customers do not reach the gate with a bag that needs to be gate-checked," spokeswoman Maggie Schmerin says.

She declined to comment on why the gate-handling charge is added to the baggage fee. In the past, United has said that blocking overhead-bin carry-ons from Basic Economy passengers has sped up departures, since gate agents tag and check fewer bags.

American says it decided to impose the additional fee to encourage Basic Economy passengers to check bags at the ticket counter instead of the gate. "The whole guiding principle here is that it's important for Basic Economy passengers to check all bags larger than a personal item," spokesman Josh Freed says.

Checking more bags at the ticket counter avoids tying up agents with last-minute discussion and credit card transactions, he notes.

"Things are better if they are not last-minute," he says.

The past decade has seen airlines fall in love with fees, often charging for services once included in basic coach fares. Baggage fees began at major airlines in 2008. The fee to change a ticket rose to \$200 for domestic trips about four years ago. Fees for many other functions, from carry-on pets to reserving seats together to sending unaccompanied minors, also have increased.

In 2016, U.S. airlines collected \$4.2 billion in baggage fees, according to the Bureau of Transportation Statistics, and another \$2.9 billion in ticket change and cancellation fees. That \$7 billion equaled more than half of the \$13.5 billion in total U.S. airline profits for 2016, according to BTS.

Gate-service fees arrive amid continuing confusion



American and United travelers flying Basic Economy may have to pay a fee to check carry-ons plus a \$25 add-on charge.

over heavily restricted Basic Economy fares. Many shoppers see the lowest prices on comparison-shopping sites and don't realize those tickets don't get advanced seat assignments or other basics. Even the name of the fare can be confusing: Isn't Basic Economy what we've been buying all these years when we grab the cheapest coach price? The fares are more bare-bones than basic.

'It's a little bit cruel and unusual punishment,' one flier says.

Jay Hines, a project manager for a New York healthcare technology company, was warned by United about the Basic Economy baggage limit when he checked in at the airport in early August. He was surprised at so many restrictions on a \$485 round-trip fare to Denver, and figured the \$50 he paid to check his bag round-trip wiped out any savings. The threat of the gate-service charge added to his anger.

"It's a little bit cruel and unusual punishment," he says. "They charge you for checking the bag. They don't

have to impose a penalty."

Disclosing the intricacies of Basic Economy fares and each airline's policies, not to mention little-known new fees, becomes difficult for independent travel-sellers. That's especially true when so much ticket-buying is migrating to phones apps with small screens and limited space for fine print.

At Carlson Wagonlit Travel, a major business-travel vendor, more than 50% of clients have chosen to block Basic Economy fares from displays because those companies decided the restrictions aren't appropriate for their business travelers. The downside to CWT: not having the lowest fare to display can fuel the perception that third-party websites offer lower prices than corporate booking sites, CWT Chief Executive Kurt Ekert says. And disclosing all the restrictions is nearly impossible, especially on a mobile platform, he says.

Like many, Mr. Ekert wasn't aware of the \$25 gate-service charge.

"There's no way you can describe that nuance," he says. In terms of airline strategy, "you could say it's deceptive, or very intelligent, depending on how you want to describe that," Mr. Ekert says.

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The Cleveland Indians Keep on Streaking

After a World Series hangover, the Indians suddenly can't lose, setting an American League record with their 21st straight win

BY JARED DIAMOND

CLEVELAND—Francisco Lindor, arguably the best player on what is undisputedly baseball's best team right now, rarely stops smiling, big and wide, with teeth so white they appear to glimmer.

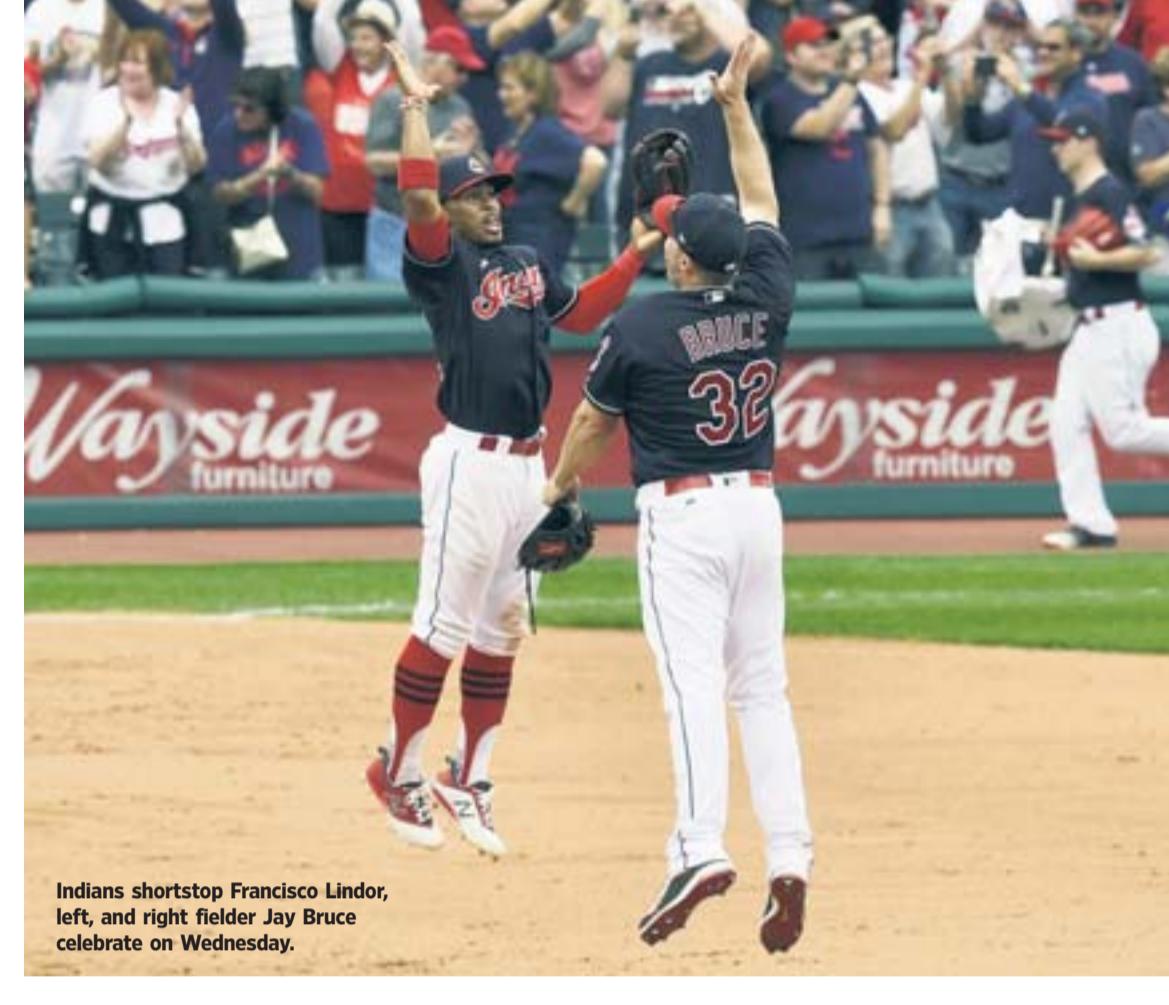
He smiles while manning shortstop, the position he uses as his personal playground. He smiles while conducting interviews. This week, cameras caught him smiling while swinging at the meatball he would ultimately deposit into the right-field bleachers for one of his 30 home runs this season.

So it should come as no surprise that Lindor has spent a lot of time smiling lately, as his Cleveland Indians have marched toward history, a stretch of nearly unprecedented dominance that continued Wednesday. Their 5-3 victory over the Detroit Tigers marked their 21st consecutive win, the longest streak ever in the American League and the longest in the majors since the 1935 Chicago Cubs.

But one particular topic inspires Lindor to change his expression in instant. A reporter asked him if ever remembers enjoying himself this much during his major-league career. Suddenly, Lindor's eyes narrowed, his lips straightened and his face grew serious.

"No. No. No. This is not the most fun I've had," Lindor said. "The World Series was the most fun I've had. I don't care how long the win streak will be. If we make it to the World Series, that's where it's at."

Last autumn, the Indians came as close to winning a World Series championship as possible without actually winning it, staging a dramatic late-inning comeback in Game 7 against the Cubs before faltering. In the end, Cleveland retreated to the bitterness of winter



Indians shortstop Francisco Lindor, left, and right fielder Jay Bruce celebrate on Wednesday.

Next, they will try to catch the New York Giants, who in 1916 set the MLB-recognized record with a 26-game winning streak. That stretch featured a rained-out contest that concluded with the score tied between wins 12 and 13.

"They should enjoy what they're doing," Indians manager Terry Francona said. "It's pretty special."

If the weight of the moment has burdened the Indians, nobody would know it.

In the hours before their games, the players seemed unconcerned with the attention surrounding them. On Tuesday, right before they extended The Streak to 20, star infielder Jose Ramirez and Perez spent a good chunk of the afternoon engaged in intense competition—at Mario Kart 64 in the middle of the clubhouse.

"Last year we embraced the winning streak more than we are this time," said Indians ace Corey Kluber. "This time I think we're just going about our business."

On the most basic level, the Indians simply added talent from last season, signing masher Edwin Encarnacion this past winter and trading for outfielder Jay Bruce last month. Meanwhile, Ramirez, a breakout contributor in 2016, has emerged as a legitimate MVP candidate in 2017.

Then consider the fact that the Indians have rattled off this streak at far-from-full strength, missing Miller and All-Star outfielder Michael Brantley because of injuries.

They succeeded last year without Danny Salazar and Carlos Carrasco, two of their best starters sidelined last October. The Indians hope to enter the playoffs with a complete rotation.

"There are other teams that think they're better, and they might be," Lindor said. "But I truly believe in my team. I truly believe we have the best team ever."

CANELO VS. GOLOVKIN

BOXING'S 'TRUE' MEGAFIGHT

BY JIM CHIRUSMI

WHEN Saul "Canelo" Alvarez and Gennady "GGG" Golovkin visited The Wall Street Journal's New York office in June, a passerby watched the champion boxers walk by and asked: "Which guy is Conor McGregor?"

Mexico's Alvarez (49-1, 34 KOs) and Kazakhstan's Golovkin (37-0, 33 KOs) have global fan bases that are drooling over their fight Saturday night in Las Vegas. But to the rest of the world, it isn't getting nearly the attention of the Aug. 26 extravaganza that pitted UFC star McGregor against boxing king Floyd Mayweather Jr.

Neither Alvarez nor Golovkin is nearly as familiar to U.S. sports fans as Mayweather and McGregor. The latter's Aug. 26 boxing match garnered more than 4.5 million pay-per-view buys, an astronomical number that Saturday's fight between Alvarez and Golovkin is unlikely to eclipse or even approach. A spokesman for HBO, which is televising Saturday's bout on pay-per-view, said the network

doesn't do estimates or projections for its telecasts.

While Golovkin's promoter Tom Loeffler credits the Mayweather/McGregor fight for bringing mainstream attention to the sport, he said Saturday's bout has greater significance. "We're just working on capitalizing on that momentum, and the boxing fans realize this is the true fight, the true boxing match with the two best fighters in the middleweight division."

Boxing fans, at least, appear to be buying in. Tickets for the Alvarez/Golovkin bout at T-Mobile Arena in Las Vegas quickly sold out, something that the Mayweather/McGregor card in the same venue failed to do, although tickets for that event were priced much higher.

Golden Boy Promotions CEO Oscar De La Hoya said that, unlike the unknown product fans got with Mayweather/McGregor, the proven resumes and fighting styles of Alvarez and Golovkin should create a close battle.

"The boxing public fully understands that this is the biggest fight in many years," De La Hoya said.

ing the best record in the American League and cruising toward what could be the franchise's first title since 1948. They will do so, barring unforeseen calamity, with a more powerful roster than 2016.

"We had a taste of what a World Series looked like," catcher Roberto Perez said. "Right now we're in a really good position."

But first, The Streak. Since The Streak started on Aug. 24, the Indians have defeated their opponents

by a combined score of 139-35. Their pitchers own a combined ERA of 1.57, nearly two runs better than any of their AL counterparts. Their hitters lead the majors in batting average, home runs and on-base-plus-slugging percentage. They have trailed at the end of just four out of 189 innings.

Wednesday's victory sent the Indians past the "Moneyball" Oakland Athletics of 2002 for the longest winning streak in AL history.

one of the greatest in the sport.

"It's huge," Golovkin said. "For me this win will be like a history fight, like Leonard vs. Hagler."

For his part, the 27-year-old Alvarez has earned a reputation for not dodging tough opponents, having beaten acclaimed fighters such as Miguel Cotto and "Sugar" Shane Mosley in championship bouts. His lone professional loss in 51 career fights was a 12-round majority decision to Mayweather in 2013.

Alvarez said he has become a more complete fighter since that bout. "In that fight with Floyd, the only reason he beat me was because of experience."

Coincidentally, it is Mayweather that Golovkin's team wants next if they are victorious on Saturday night. "Once Gennady beats Canelo, and let's say he beats him in a way that Floyd didn't, that's a fight that's a natural. Whether Floyd wants it or not, that's a different story," said Golovkin's trainer Abel Sanchez.

But first, Golovkin knows that he has to get by Alvarez. He promises that this bout will be much different than what took place a few weeks ago in Las Vegas.

"It's very different. For us, this is like a heroes fight: Who will win: Superman or Iron Man?" Golovkin said. "The other fight [was] like a funny fight."



ERIK VERDUZCO/LAS VEGAS REVIEW-JOURNAL/ASSOCIATED PRESS

"This is the fight that people know for a fact, when they watch it, they are going to get an amazing fight."

De La Hoya cited Mayweather's long-awaited bout against Manny Pacquiao in 2015 as an example of a fight that took far too long to happen.

"This fight didn't take seven or eight years to make," De La Hoya said. "That's the reason why this fight here is going to elevate box-

ing's image to new heights. This is the new age of boxing."

The 35-year-old Golovkin points to his dominance in the ring (he had a 23-fight knockout streak prior to a 12-round unanimous decision victory over Daniel Jacobs in March) as a reason that he has yet to secure a marquee fight, until now. But a win on Saturday, Golovkin said, could go a long way toward cementing his legacy as



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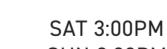
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PLAYOFFS

OPINION

Sexual Politics



WONDER LAND
By Daniel Henninger

In the annals of American justice, it will be hard to exceed what the Obama administration tried to do with its Title IX guidance letter in 2011. The letter from the Department of Education—most ironically, from its Office of Civil Rights—effectively eliminated centuries of due-process rights at every institution of higher learning in the U.S. That transgression is about to end.

Education Secretary Betsy DeVos is expected to rescind the rules imposed by the 2011 letter in the next week or two. In advance of formal rule-making, according to senior officials, the department will issue interim guidance on handling campus sexual-abuse cases.

On the crucial issue of evidence, the interim guidance will permit schools to immediately adopt the higher “clear and convincing” standard of proof. It will tell schools they should give equal legal treatment to both parties in these cases, as in the calling of witnesses or the presence of attorneys.

Formal rules will emerge after a public notice-and-comment period, which is the federal rule-making requirement President Obama’s appointees tossed aside.

While the interim guidance isn’t mandatory, the department will retain and if necessary

suey use its enforcement authority after the formal rules emerge.

Mrs. DeVos is not going to threaten to withdraw a school’s federal funding, as happened with the Obama diktat. That hammer likely won’t be necessary.

By now most institutions want a modus vivendi on this issue to replace what had become a crudely run jihad by left-wing lawyers in the Obama Education Department and the network of ideological enforcers their order created on the nation’s campuses.

Indeed, after Mrs. DeVos’s speech last week announcing her intention to rescind the rules, it was striking how muted the public opposition was. Among what’s left of serious minds in academia, there was an awareness that something here had gone *waaaay* off the rails. Faculty at both Penn and Harvard law schools had already issued statements decrying the Obama sexual-abuse rules as fundamentally unfair to the accused.

It is difficult to express what a big deal this is—or should be. Basic due process guarantees have existed in English-language law since they were embedded in the King John’s Magna Carta in 1215. The U.S. Constitution’s Sixth Amendment reads: “In all criminal prosecutions, the accused shall enjoy the right . . . to be confronted with the witnesses against him . . . and to have the assistance of counsel.”

One has to ask: How in 2011 did this rule roll out of the

Obama Education Department and become the law of the land in academia without so much as a peep of outrage from them or the American press? Imagine the revolt if an administration attempted to impose on every U.S. newspaper such a sweeping dilution of the First Amendment. Donald Trump’s mere accusation that the press is fake news has produced a nonstop death struggle between the media and White House.

The DeVos revision of college rules will reveal who stands where on due process.

The explanation that the universities caved because the Obama lawyers threatened to withhold their federal-funding fix is persuasive but insufficient. Policy ideas like the 2011 sexual-abuse standards have a provenance, usually among left-wing faculty of the sort who emerged when the Obamas got their degrees in the 1980s. So it was with the Title IX “guidance,” which jumped overnight—by fiat—from the outer edge of feminist legal theory to established federal policy.

In testimony presented to Congress in 2014, Nancy Chi Cantalupo of Georgetown Law School’s Victim Rights Law Center made a detailed case for the rules. “It is downright dangerous,” she wrote, “to

conflate civil rights and criminal justice approaches to sexual violence and allow criminal justice responses to dominate our collective imagination regarding how to address this violence.” Meaning sexual abuse is a unique, transcendent category of injury, which justifies diminishing due process.

The most definitive criticism of the Obama Title IX enforcement was written in 2015 for the Yale Law & Policy Review by, of all people, Janet Napolitano, who was Mr. Obama’s first homeland security secretary and is now president of the University of California system. Ms. Napolitano’s careful but forceful essay—actually a precursor to Mrs. DeVos’s speech last week—described all sorts of compliance problems and dilemmas created by “ambiguous legal requirements” and congressional legislation.

The creation of an atmosphere on campus akin to the Salem witch trials was the result of Mr. Obama’s explicit policy choice to manipulate bedrock legal principles for a political goal. After the DeVos speech last week, former Vice President Joe Biden denounced “any rollback of Title IX protections.” Thus, demoting due process standards is now Democratic dogma.

After the DeVos announcement restoring widely accepted legal principles to America’s campuses, we’re going to find out fast who stands where on this subject.

Write henninger@wsj.com.

BOOKSHELF | By Deirdre N. McCloskey

A Human Face For Economics

Cents and Sensibility

By Gary Saul Morson and Morton Schapiro
(Princeton, 307 pages, \$29.95)

In the middle of the 19th century, when the new telegraph meant that Texas could communicate with Maine, Henry David Thoreau quipped: “But Maine and Texas, it may be, have nothing important to communicate.” Today, the university puts literature and economics under the same roof. But do the two have anything important to say to each other?

Gary Saul Morson and Morton Schapiro say yes. Their new book, “Cents and Sensibility: What Economics Can Learn From the Humanities,” is a sweet contribution to the dialogue. Covering such topics as university admissions, child-rearing, organ harvesting and economic development, the chapters each analyze public questions first through economics, and then through literature. The conclusion is that economics—a hugely influential approach to studying human societies—isn’t worth all that much without first understanding what it means to be human.

Mr. Morson is a professor of Slavic literature at Northwestern University, and Mr. Schapiro teaches economics there, where he is also the president. The book is the fruit of an undergraduate course they taught together, which suggested critiques of their disciplines, and especially of economics. Economics, they argue, has been stripped down to a theory neglecting language and culture. At the same time, literary study has abandoned its responsibility to lead students to the best that has been thought and said. The humanities, Messrs. Morson and Schapiro contend, should acknowledge economics for worldly purposes. Yet for a truly human science the economists need literature, philosophy and history. Each discipline can supply what the other lacks.

Their agenda is, in their phrase, “a return to the ‘real’ Adam Smith.” They exhort students of economics to grasp that the author of “The Wealth of Nations” also wrote “The Theory of Moral Sentiments.” The real Smith observes that human beings summon qualities of sympathy balanced with their self-interest. People are not merely economic maximizers: They are ethical creatures from the get-go.

Messrs. Morson and Schapiro advocate a fusion of the economist Bart Wilson and the Nobelist Vernon Smith have recently dubbed “humanomics.” The humanities study categories, and the initial step of categorization is essential to any human inquiry. As Niels Bohr once said, humans ask the questions: good versus bad, big versus small, red giant stars versus white dwarves, *Homo sapiens sapiens* versus *Homo sapiens neanderthalensis*. You can’t measure gross domestic product or unemployment without first saying

Adam Smith did not believe people are merely economic maximizers. Instead, we balance self-interest with humane sympathy for others.

what they are, qualitatively, as categories of interest to humans. If we were to decide that a society were best judged using the number of houses of worship erected—or, for that matter, the number of M&M candies consumed—such a measure, not dollar-value output, is what we would study. There is no God-term telling us from the outside what categories humans care about. Economics, physics, biology, history—all need the first, humanistic, categorizing step.

In most chapters Mr. Schapiro writes about some piece of economics—how information about opportunities matters in determining which colleges students attend, how families and criminal enterprises respond to incentives, or why geographical determinism is the wrong way to think about economic growth. Then Mr. Morson writes about what “a humanist would add.” For instance, economists calculate in court the value of a human life by determining that person’s remaining lifetime cash earnings. Mr. Morson demurs. In such calculations the economists have not drunk deep from literary or philosophical springs.

Parts of the book explicitly, and all of it by implication, give an eloquent defense of the humanities against fanatical advocates for “STEM” (science, technology, engineering, and mathematics). The STEM-ers want to shove aside the humanities, and most of the social sciences, too, in favor of fields they think are more likely to add to GDP. Messrs. Morson and Schapiro point to the example of Japan’s minister of education, who a few years ago proposed eliminating in public universities every field except STEM. No study of Japanese literature. No economics. Such naive zeal ignores that most of what actually goes on in STEM’s “M” and “S”—and even a good deal of the “E”—is, like the humanities, an inquiry into the artistic or intellectual products of humans. They have no economic usefulness. Astronomy and number theory should properly be viewed as quantitative kin to, say, theology and art history. Indeed, the very word “science” is unusual in contemporary English in signifying only the physical and biological. In other languages, and in English before the 1860s, it has a much wider meaning, “systematic inquiry,” as in the German word for the humanities—*Geisteswissenschaften*, or “spirit sciences.”

In discussing the communication between literature and economics, Messrs. Morson and Schapiro focus rather more on method than on substance. But it is early days for humanomics, and a certain amount of methodological ground-clearing is justified. Both men, true, represent somewhat conventional, even old-fashioned, versions of their specialties. Mr. Morson, for example, adheres to the old “belletristic” theory of literary criticism, which regards its purpose as awarding stars like movie reviews to great literature. This book cannot mention Tolstoy or Dostoevsky without informing us, in case we forgot, that they are “great.” Still, when it comes to placing economics and the humanities in dialogue, “Cents and Sensibility” constitutes a wise first step. As to the people who disagree—who believe that maximizing utility subject to constraints is all ye know on earth and all ye need to know, or who believe that prudence and calculation can tell us nothing about the human spirit—well, they are exactly the people most in need of the book.

Ms. McCloskey is a distinguished professor emerita at the University of Illinois at Chicago, and author, most recently, of “Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World.”

The 30 Republicans Holding Up Tax Reform

By Karl Rove

No matter how persuasive President Trump is, it’s unlikely he can round up enough Democrats to get 60 votes in the Senate for tax reform. That means Republicans will need to use the Senate’s reconciliation process, which avoids the filibuster, to pass their plan with 51 votes. But first the House and Senate must pass a budget resolution—and soon.

A budget resolution sets spending levels and authorizes congressional committees to prepare bills fulfilling the blueprint. With the reconciliation plan in mind, this year’s resolution would set the size of the tax reform and then instruct the House Ways and Means Committee and the Senate Finance Committee to flesh out the provisions.

Gaining agreement on a budget resolution is always tough. No more than a handful of lawmakers from the opposition party ever vote for the majority’s resolution. It helps that Republicans control both the House and Senate, but the GOP must still resolve its internal philosophical disagreements.

House Republicans tend to insist on resolutions that balance the budget within 10 years. This means resolutions that pledge to slow substantially the growth of entitlement spending. Such promises are rarely fulfilled. But putting them in the budget blueprint fuels Democratic ads claiming

Republicans will throw grandma off the cliff and deprive poor children of free school lunches. Knowing this, Senate Republicans tend to want resolutions that reach balance after 10 years. Another GOP tension is between defense hawks, who want increased military spending, and deficit hawks, who want all spending restrained or cut.

The Freedom Caucus threatens to side with Democrats and block the GOP majority.

Then there are nerdy but important technical arguments, starting with how the resolution’s spending baseline is calculated. Beginning with a baseline of “current law” means assuming that a tax break currently authorized for only a year or two will actually expire instead of being reauthorized. But Congress renews some tax breaks annually and probably will keep doing so through the next decade. To account for this, many in the GOP want to calculate the baseline under “current policy.”

It sounds technical, but it quickly becomes political. Democrats demand “current law” because a higher baseline would make tax reform appear to raise the deficit more than it actually would. On the other hand a lower

baseline would give tax reform more wiggle room: One GOP budget expert tells me that “current policy” would provide, on paper, \$450 billion that could be used to lower rates and make the tax code simpler and fairer.

Dynamic scoring is another geeky fight. A tax reform that generates economic growth will offset some of the government revenue lost from cutting rates. Republicans want their bill evaluated with dynamic scoring because it takes this effect into account and makes reform more attractive. Democrats oppose it for the same reason.

Still, given time and leadership—both on Capitol Hill and from the White House—Republicans could cobble together a budget resolution setting up a strong tax reform, which in turn would juice the economy and redeem the GOP in the midterms.

The biggest obstacle is the House Freedom Caucus. This group of just over 30 Republican congressmen has already slowed up the process by threatening to vote with Democrats against the GOP budget resolution unless they can see and approve, in advance, every major provision of the tax-reform bill. The Freedom Caucus tried in late July to block the House Budget Committee’s passage of a resolution unless the border-adjustment tax was taken off the table—which it then was.

Now the Freedom Caucus’s members say they’ll flake on

the budget resolution if tax reform includes full, immediate expensing of business investment. But if that’s agreed to, they’ll have more demands.

These lawmakers say they want Congress to operate in “regular order,” with committees grinding away to write legislation instead of leadership handing it down. This is hypocritical bunk. What they want is for their caucus to dictate the details of tax bills to the House Ways and Means Committee, the Senate Finance Committee and the Republican majorities on both sides of Capitol Hill. Their approach is to make demands while threatening to join Nancy Pelosi in opposing the budget resolution unless they get their way.

If the Freedom Caucus acts on its threat, the budget resolution could be voted down, making tax reform impossible. No doubt, following their M.O., the group’s members would then blame the GOP leadership. Even if the resolution passes, the Freedom Caucus’s shenanigans may delay tax reform until 2018. These lawmakers are demonstrating once again that the freedom they most prize is freedom from the responsibility of governing.

Mr. Rove helped organize the political-action committee American Crossroads and is the author of “The Triumph of William McKinley” (Simon & Schuster, 2015).

Cut Business Taxes for the 99.9%

By Juanita D. Duggan

Businesses with 500 employees or fewer are the cornerstone of the U.S. economy. There are 29.6 million of them in the U.S., and they represent 99.9% of all businesses. Small businesses employ 58 million Americans, or 48% of the workforce.

Congressional leaders and the White House have been working on tax reform. They say their aim is to boost the economy and make the tax system more competitive globally. Advocates correctly note that America’s 35% corporate tax rate is much higher than in competing countries such as Ireland and China, with their 12.5% and 25% rates, respectively.

What gets lost in the conversation is that three-quarters of American small businesses pay taxes as individuals. Their top federal rate is 43.3%, which is substantially higher than the current top rate for

large multinational firms. When state burdens are added, small businesses are sending close to half their income to the tax man.

Aim reform at small companies that make the economy hum.

Small businesses also face an enormous regulatory burden, forcing them to spend thousands of hours on compliance. It’s no wonder the economy has been flat, despite a soaring stock market. If the point of tax reform is to boost the economy, it must start with small business.

The National Federation of Independent Business asks its members periodically to evaluate 75 commonly faced problems. Last year, 5 of the top 10 problems were related to taxes. Their taxes are too high, they tell us. The tax

code is too complicated. The cost of compliance in terms of money and time is enormous. And the rules change too frequently.

We are encouraged that President Trump and congressional leaders acknowledge the need to reduce taxes for small businesses. Yet any change in rates that preserves the advantage currently enjoyed by large corporations would be a mistake.

Earlier this year, Mr. Trump proposed a tax-reform plan that would level the playing field by creating a single rate for all businesses. A single rate would be fairer, but tax reform must also ensure that the rates are lower for all small businesses.

No small business should pay more taxes than it currently does. That means a graduated system that cuts rates for the smallest businesses, allowing them to re-invest in new jobs, new machinery, new vehicles, technology

and other capital improvements.

Tax reform cannot succeed if it doesn’t simplify the tax code, which currently exceeds 70,000 pages. Each year, according to the Internal Revenue Service, small-business owners spend nearly two billion hours and \$18 billion to pay their taxes. Large corporations are able to deal with taxes with legions of lawyers, accountants and compliance professionals. Small-business owners must either do the work themselves or hire costly consultants.

Congress and the president have one chance to get this right. It won’t be easy. Tax reform is fraught with political challenges, and without support from the largest and most important part of the economy—small business—it will fail.

Ms. Duggan is president and CEO of the National Federation of Independent Business.

OPINION

REVIEW & OUTLOOK

Escaping the Tax-Reform Budget Trap

Republicans know that their hold on Congress depends on passing tax reform, but what we hear about the debate behind the scenes is worrisome. The danger is that, as with health care, the GOP will hold themselves hostage to a budget process that is hostile to growth tax policy.

The first test will come soon as the House and Senate write a budget resolution that is essential to be able to pass tax reform with 51 Senate votes. The problem is that under the arcane rules of "reconciliation," legislation cannot raise the deficit beyond the budget "window" that is usually 10 years. Tax writers thus feel obliged to "pay for" any tax cut based on estimates from the Joint Committee on Taxation and Congressional Budget Office, though such estimates are notoriously unreliable predictors of growth and tax receipts.

The GOP might trap itself inside this budget box. House Speaker Paul Ryan has already conceded publicly that cutting the corporate tax rate to 15% from 35% is unrealistic and the rate might have to be in "the mid-to-low 20s." House Republicans have already abandoned a cut in the top individual tax rate, and death-tax repeal could also be on the chopping block.

The risk is that Congress ends up passing a tax cut that is a damp squib for economic growth—amid an expansion that is already long by historical standards and needs a capital investment boost.

Congress can increase its pro-growth running room by eliminating tax loopholes, and we hope they do. But some of the biggest money savers are politically difficult—even among Republicans. Repealing the state and local tax deduction gins up more than \$1 trillion over 10 years, but will the GOP delegations in high-tax California and New York buy that? Deductions for charitable giving and mortgage interest have been declared untouchable.

The Joint Tax Committee is also supposed to offer a dynamic "score," or an estimate that considers how a reform would influence behavior and growth. But Joint Tax makes highly debatable assumptions: One is that deficits increase borrowing costs for Treasury and "crowd out" private investment, as the Tax Foundation has detailed. That argument should have been repudiated in the 1980s when deficits rose but interest rates fell and growth soared. But Joint Tax persists, and the effect is to mute its growth estimates and thus any revenue gains from reform.

The best way to escape the budget trap is to have the courage of GOP tax convictions and assume reform will restore the economy to faster growth. CBO predicts average GDP growth over

the next decade of a mere 1.9% a year—far below the historical norm. It assumes this will yield some \$43 trillion in revenue. But if growth merely averaged 3% a year, that would add some \$2.5 trillion more in government revenue over a decade.

The Trump Treasury is also scoring reform's budget impact, and Congress is free to

use it or any other revenue estimate. Democrats and the media would shout, but revenue estimating is hardly an exact science. The Joint Tax Committee-CBO estimate is merely one guess, and it has often been wrong.

For instance: Dan Clifton of Strategas Research Partners looked at forecasts for capital-gains revenue after the Bush 2003 cuts. In January 2004 CBO predicted \$215 billion in capital-gains revenue through 2007. The actual figure was \$377 billion thanks to investors cashing in and faster economic growth.

Another escape route would follow Pennsylvania Senator Pat Toomey's advice and extend the budget window to 20 years from 10. The decade horizon is merely a convention, and Congress never follows the budget anyway. Recall how Democrats gamed the Affordable Care Act by claiming that nationalizing the student-loan market would *raise* revenue.

A third—if less than ideal—option would be to ignore any budget window. But this would mean that much of the tax reform would expire after 10 years, as the Bush tax cuts of 2003 did. The bet would be that future politicians wouldn't dare raise taxes in 2027, but that depends on who runs Congress and the White House.

The bigger problem is that temporary tax reform won't eliminate the uncertainty that has contributed to low capital investment. If Congress goes this route, it should strive at least to make the business tax rates permanent, as well as the "territorial" tax reform that would let companies pay taxes wherever they are located around the world.

* * *

One reason Republicans lost the health-care debate is that they bowed to CBO's estimates of coverage and premiums, though they knew those guesses were surely wrong. On taxes the GOP is caught in a similar procedural trap invented by Democrats in the 1970s, but voters will judge the Republican Congress based on results—economic growth and rising wages. A reform that merely cuts taxes for some without broader prosperity won't deliver the goods.

And here's a losing argument for 2018: We didn't reform the tax code or cut your taxes all that much, but at least we followed all the Senate's budget rules.

Bernie's Socialism Goes Mainstream

Hillary Clinton's memoir of her presidential campaign is getting most of the media attention this week, but that's the politics of progressive nostalgia. If you want to know where the Democratic Party is going, Bernie Sanders showed the way Wednesday with his proposal for a complete government takeover of health care.

"Medicare for all," the Vermont Socialist calls it, and what was once a crank idea is fast becoming a progressive litmus test for Democratic candidates. Fifteen Democratic Senators endorsed it, including possible 2020 presidential candidates Elizabeth Warren (Mass.), Kamala Harris (Calif.) and even Cory Booker (N.J.). Hard to believe, but not long ago Mr. Booker was posing as a moderate.

The Sanders bill would expand Medicare—

'Medicare for all' is fast becoming a Democratic Party litmus test.

now available to people 65 and older—to the entire U.S. population over four years. Our readers understand how expensive such "free" medical care would be in runaway costs for taxpayers and rationed care in the form of the long waiting lists that exist in other socialist systems.

But no one should think this can't happen here. The Republican failure on health care guarantees the continuing decline of ObamaCare and that creates an opening for Democrats to escalate their designs for more government control. Barack Obama once told us that he favored such a single-payer system but America wasn't ready for it. But in an era of political tumult, anything can happen, all the more so when millennials can't remember the 1990s, much less the Cold War. All the old battles are new again.

Americans Get Richer

Americans have received little good news lately, but a new U.S. Census Bureau report offers some economic hope: Last year real median household income rose 3.2%, the second consecutive increase, as 2.5 million Americans rose out of poverty.

These gains might not be notable late in an economic expansion save for the fact that real median incomes declined while poverty increased during most of the Obama Presidency. In 2014 the real median household income was \$54,398, down from \$55,683 in 2009. By contrast, during the Reagan expansion from 1982 to 1988, poverty fell 2.4 percentage-points while real household incomes rose \$4,905.

Only in 2015 and 2016 did Americans experience real income growth. As a result, there are now about six million fewer people living in poverty than in 2014. Minorities have reaped the biggest gains. Between 2015 and 2016, the median income for blacks and Hispanics climbed 5.7% and 4.3%, respectively, compared with 2% for whites. As a caveat, the Census Bureau says a change in its survey methodology in 2014 could have increased incomes.

Liberals can't credit welfare programs whose growth has slowed thanks in part to reforms imposed by Congress. According to the most recent data, the Social Security disability rolls fell by 25,000 in 2015 after growing by 1.3 million between 2009 and 2014. The number of food stamp recipients dropped by 3.4 million between 2013 and 2015. In 2014, 99 weeks of unemployment benefits finally ceased.

Most of the recent income growth has been due to more Americans working—and Ameri-

The latest Census data show economic gains across income groups.

cans working more. Between 2015 and 2016, the number of people with earnings—i.e., income from employment—rose by 1.2 million. Meanwhile, the number of full-time, year-round workers increased by 2.2 million as many people moved out of part-time jobs.

Labor force participation hasn't much budged since its nadir two years ago, but unemployment among minorities and less-educated workers has dropped sharply amid a tightening labor market. Job growth is a function of an improving economy and lower infra-marginal taxes on work as government welfare has been scaled back.

Liberals are bemoaning that the Gini coefficient, which measures income inequality, didn't post a significant decline last year. But income inequality drops principally during recessions as the wealthy lose a larger share of their earnings than everyone else. As we learned in the Obama years, the preoccupation with inequality leads to economic policies that reduce growth, which leads to more inequality.

The left also overlooks that millions of middle-class Americans are moving into higher income brackets, as Mercatus Center researcher Dan Griswold points out. The share of Americans earning less than \$35,000 (in real 2016 dollars) fell to 30.2% from 38.2% between 1967 and 2016 while the proportion earning more than \$100,000 has roughly tripled to 27.7%.

All of this is worth celebrating, but more business investment and productivity growth will be needed to keep the expansion going and incomes rising. The most effective way would be for Congress to reform the tax code.

OPINION

Trump Talks, Schneiderman Sues

By Josh Blackman

President Trump's decision to wind down the policy known as Deferred Action for Childhood Arrivals—which shields from deportation nearly a million "Dreamers," aliens brought to the U.S. as children—has drawn a predictable response. The president already faces lawsuits from 19 states, as well as complaints from the University of California and immigrants nationwide.

Leading the charge is Eric Schneiderman, New York's state attorney general, who argues Mr. Trump lacks the authority to revoke DACA because he is racist. Seriously. In the complaint, filed last week, the attorneys general proffer other arguments based on the particulars of administrative law, but at bottom they assert

Judges can't override the president's authority on 'Dreamers' just because he says offensive things.

that any action Mr. Trump takes that harms the Dreamers is tainted by his statements about Mexicans. That claim is not only legally unsound but a threat to the constitutional separation of powers.

The states first assert that the Trump administration cannot rescind DACA without seeking feedback from the public. If that argument is correct, it would seem to nullify DACA, since the Obama administration itself bypassed the rule-making process known as notice and comment when it issued the policy in 2012. (Janet Napolitano, who issued the DACA memo as secretary of homeland security, is now suing Mr. Trump in her capacity as president of the University of California.)

In announcing DACA's rescindment last week, U.S. Attorney General Jeff Sessions argued that the



New York Attorney General Eric Schneiderman at a Sept. 6 news conference.

policy is unlawful—an "open-ended circumvention of immigration laws" and "an unconstitutional exercise of authority." If Mr. Sessions is correct, the government is required to stop breaking the law. If courts rule DACA to be lawful, then a judge could find, as the states assert, that Mr. Sessions's justification was bogus, and thus inadequate to justify withdrawing the policy.

But proving Mr. Sessions's case shouldn't be hard. In 2014 the Obama administration issued a similar policy called Deferred Action for Parental Accountability. It was intended to protect aliens with children who are U.S. citizens, but a 2015 federal court order (still binding on the executive branch) blocked its implementation. Texas and 25 other states asserted that DAPA was illegal. A district judge in Brownsville, Texas, agreed, as did the Fifth U.S. Circuit Court of Appeals, whose ruling was left to stand when the Supreme Court split 4-4. Because the 2014 policy had not yet gone into effect, the judicial analysis was based almost entirely on how DACA had been implemented. There are some differences, but by the Obama administration's own admission, the 2014 policy was meant to be "similar" to its precursor.

The district judge in Brownsville wrote he had heard evidence "that

DACA applications are simply rubber-stamped." The government was unable to identify a single applicant who met the DACA criteria but was denied for discretionary reasons. Given that the policy was justified as an exercise of prosecutorial discretion, Mr. Sessions's conclusion that it is unlawful stands on terra firma.

Critically, the Trump administration does not need to be correct about DACA's illegality beyond a reasonable doubt. So long as DACA's wind-down is not "arbitrary and capricious," the courts may not block it. Even if a judge did find the decision capricious, he cannot order the executive branch to approve new DACA applicants. Courts lack the power to compel the executive branch to take discretionary acts. At most, a judge could order the government to seek public comment or reconsider its decision.

Thus the current litigation, even if successful, may not help a single immigrant. Since Mr. Trump is not revoking extant DACA approvals, which last two years, the policy may simply phase out by the time the lawsuits run their course.

That brings us to Mr. Schneiderman's most unsettling claim: that Mr. Trump can't revoke DACA because he is racist. "The President has demonstrated a willingness to disparage Mexicans in a misguided attempt to

secure support from his constituency," the states' complaint argues, "even when such impulses are impermissible motives for directing governmental policy."

The filing cites a litany of Mr. Trump's offensive comments—his warning about Mexican "rapists"; his disparagement of Univision anchor Jorge Ramos; his reference in a presidential debate to "bad hombres"; his attacks on Judge Gonzalo Curiel—as well as his pardon of Joe Arpaio, the former sheriff of Maricopa County, Ariz.

The states argue these remarks establish as a matter of law that Mr. Trump has a racist heart and his administration's actions are therefore irrational. Although Mr. Trump's comments should have given pause to his voters, courts cannot properly consider them in evaluating this policy.

The president's opponents are free to scroll endlessly through @RealDonaldTrump, and what they find there may carry political weight. But courts need a limiting principle. Namely, the judiciary should consider statements from Mr. Trump only if they are directly relevant to the case at hand.

Federal judges have already grossly erred by citing Mr. Trump's campaign statements to justify halting his executive orders on immigration. In those cases, at least there was some connection between the final policy and what Mr. Trump had proposed during the campaign. By contrast, the comments Mr. Schneiderman cites have nothing to do with DACA.

The judiciary should rebuff this attempt to deprive the president of his lawful authority. It's up to Congress to make the humane choice and enact legislation providing the Dreamers with legal status.

Mr. Blackman is a constitutional law professor at the South Texas College of Law in Houston, an adjunct scholar at the Cato Institute, and author of "Unraveled: Obamacare, Religious Liberty, and Executive Power." He filed amicus briefs in support of Texas' challenge to DAPA.

The Campus Left vs. the Mentally Ill

By Clay Routledge

Conservative commentator Ben Shapiro is scheduled to speak Thursday at the University of California, Berkeley, and school officials are prepared. A campuswide announcement promised "support and counseling services for students, staff and faculty" who feel Mr. Shapiro's presence threatens their "sense of safety and belonging."

You don't have to be a psychologist to see the absurdity of an elite American university offering mental-health services in response to a talk no one is required to attend. But such political theatrics aren't objectionable only for free-speech reasons. A minority of students on college campuses legitimately struggle with mental illness, and they deserve support. They are collateral damage of psychology's abuse for ideological purposes.

Berkeley offers counseling to those upset by a guest speaker. Other students have genuine problems.

For one, the misappropriation of psychology contributes to the snowflake narrative. It is hard for people to appreciate that there are students who genuinely suffer from mental illness when they see so many academics, administrators and student activists making a pretense of psychological trauma in their quest to purge the campus of any ideas or experiences that do not conform to leftist orthodoxy.

The students we need to worry about usually aren't the ones demanding safe spaces, obsessing over so-called microaggressions, or claiming words are violence. Many of those grappling with real mental illness do not seek or receive any mental-health services. That includes those at risk of suicide, the second leading cause of death among Americans between 15 and 34. One large national survey found that less than 20% of suicidal students were receiving treatment.

Mental-health professionals working on college campuses have noted an increased demand for services from students. There are reasons to debate the extent to which we are experiencing an increase in the prevalence of mental illness, as opposed to a decrease in college students' preparedness for normal life stressors. Do young adults need mental-health services or more experience independently navigating the world? This issue is complex, and experts have diverse opinions.

Researchers have, however, identified reasons to be concerned about the psychological health of teenagers and young adults. In her new book, "iGen," social psychologist Jean Twenge argues that we may be on the brink of a major mental-health crisis among the generation born between 1995 and 2012, a crisis she links to smartphones and social media. This has nothing to do with campus speakers. Berkeley students aren't suddenly going to develop psychopathology because Mr. Shapiro is making a brief appearance on campus.

Regardless of whether we are facing a true increase in serious mental health problems among college students, limited resources will always be a reality. Imagine how hard it would be for those with physical illnesses if we encouraged people to go to the doctor every time something made them uneasy. Promoting counseling services in response to a campus speaker is like suggesting to people at the gym that they should call 911 because exercise is uncomfortable. It's supposed to be—that is how exercise works. Likewise, psychological growth requires exercising our mental muscles, and students are perfectly capable of doing so.

There is no compelling reason to believe that young people are so mentally fragile that they should feel personally threatened by exposure to provocative ideas. Our species would have never made it very far if that were the case. In fact, democracy would have been impossible as would have most societal advancements that require us to negotiate emotionally-charged issues.

Mental illness is a human problem, not a political issue. Mental-health advocates frequently argue that we need to destigmatize mental illness. They're right. Stigma is one reason students do not seek help. This means we must treat mental health like the serious issue it is and not conflate it with campus political drama.

Mr. Routledge is a professor of psychology at North Dakota State University.

Equifax Critics Are Missing the Bigger Point

By Amar Bhidé

Outrage that Equifax exposed more than 143 million credit records to identity thieves misses the point. We really should worry about what makes impersonation so easy—why do lenders know so little about the people to whom they issue credit?

Because laws meant to ensure fair lending also reduce individuals to anonymous credit scores. Regulators enforcing the 1968 Fair Housing Act

Fair-lending laws turned consumers into anonymous credit scores—and a target for identity thieves.

and the 1974 Equal Credit Opportunity Act look askance at lenders who rely on judgment instead of scores to screen loan applications.

Even broadly relying on statistical scores doesn't get lenders off the hook. Regulators also frown on "discretionary overrides," especially if lenders allow frontline staff to overrule scores instead of having someone at headquarters do it. A branch-based banker in direct contact with customers may be better positioned to determine whether an applicant's score reflects true creditworthiness. But regulators worry that giving branch staffers this authority may invite discrimination, so it's a no-no.

Federal fairness examiners also worry about "customized" scoring models that can include variables excluded from credit-bureau records, such as education. It isn't entirely forbidden, but regulators worry those variables could correlate with factors like race, ethnicity and sex. Lenders often resort to using a "generic" bureau score, popularly called a FICO

score, to mitigate regulatory risk.

Federal agencies, notably Fannie Mae and Freddie Mac, have made FICO scores the main determinant of the creditworthiness of mortgage applicants. In 1994, Fannie and Freddie sought to automate screening—and prevent racial discrimination—by "removing subjective reasoning." Not coincidentally, Fannie Mae had concurrently pledged \$1 trillion in targeted housing finance for disadvantaged groups. Pressed for time, the agencies accelerated automation by relying on FICO scores, which had been designed for consumer lending, not mortgages. Fannie and Freddie's endorsement then prompted private mortgage lenders to embrace bureau scores as well.

The use of bureau scores itself was predicated on a system of credit reporting and scoring nourished by Washington. In the 1950s and '60s, as Citibank and Bank of America started marketing credit cards in states where they weren't allowed to open branches, they used bureau scores to screen applications. This led to increased concerns about inaccurate bureau records.

In 1970 President Nixon signed the Fair Credit Reporting Act, which barred lenders from providing inaccurate information to credit bureaus, required the bureaus to ensure maximum possible accuracy, and encouraged consumers to correct errors in their reports. The rules helped increase confidence in credit-bureau scores and records. Increased confidence in turn promoted even wider use of the scores by lenders and regulators.

Yet bureau scores don't play a major role in small-business lending. That is because government watchdogs don't nudge small business lenders for allowing discretionary overrides or customizing credit scoring. The Small Business Administration does not mandate the use of bureau

scores for the loans it guarantees. And there is no evidence of significant discrimination in small-business loans.

Rules driving consumer lenders to seek the safety of credit FICO scores risk more than large-scale identity theft.

Practical considerations—such as verifying someone's educational background—prevent factors that affect creditworthiness from being part of FICO scores. The scores also rely on "statistical information" that ignores crucial local circumstances. They do not recognize substance abusers or distinguish judges with life tenure from workers in plants scheduled to close. This allows lenders to mass-produce loans at low cost, but it also increases lending mistakes and the risk of credit bubbles. Growing

anxieties about indiscriminate FICO-enabled credit card, automobile and student lending—while "artisanal" lending to small businesses languishes—have sound foundations.

Fair lending rules may well have reduced unwarranted denials of mortgage and consumer loans, but they have prevented warranted denials of credit. Congress should scale back fairness rules to make consumer lending more like small business lending. And regulators should relax enforcement of fairness rules. These simple steps could discourage nearly blind lending—and sophisticated identity theft.

Mr. Bhidé, a professor of business at Tufts University, is the author of "A Call for Judgment: Sensible Finance for a Dynamic Economy" (Oxford, 2010).

23 and Leave Me Out of It

By Mike Kerrigan

Every day, it seems, another friend shares the results of some genomic testing he has done through an ancestry website. Not out of medical necessity, mind you, but mere curiosity. After learning they are not who they thought they were, many of these friends respond with equanimity, even joy. I don't know what shocks me more, the serenity as they accept what their DNA reveals, or the fact that they asked the question in the first place.

Perhaps it's the Irish in me, some skepticism I inherited from a people served two helpings of fatalism. Or maybe it's my training as a lawyer, a respect for the old rule that you never ask a question on cross-examination to which you don't already know the answer. Whatever the cause, I approach ancestral inquiries with the same trepidation that Ohio State's famed football coach Woody Hayes once contemplated the forward pass: Three things can happen, and two of them are bad.

It isn't that I am incurious. Far from it. I love hearing stories from my friends about their newly discovered Gallic strands, even if these do weaken their claims to the House of Habsburg. It's simply that I never want to find myself telling such a tale. I love being an Irish-American, counted among the clan of letters, laughter and long odds. If you don't want to be traded, I figure, don't put yourself on the waiver wire.

This attachment to Eire is much more than sweet sentimentality, although that is a very Irish attribute. My Gaelic self-identity is what anchors my sense of place in the cosmos. It's what lets me say, with a straight face, things like "let's not speak of this again for 20 years." It's what allows me to be pleasantly surprised when something as sure as a

sunrise goes according to plan. If a DNA test revealed something other than full Irish, would the movie "Rudy" still make me cry?

I suppose a stronger person wouldn't fear but would relish learning that these traits were me all along, not the product of any hide-bound heritage. But this poised reaction feels like something from the movies. Imagine if instead of a brain the Scarecrow had sought his Celtic

Happy to hear about your latest genetic test, but let me be ignorant in peace.

lineage, only to be told in Oz that he'd had it all along. If he were truly Irish, right then and there the Scarecrow would have dropped that Wizard like a sack of hammers.

So I'm content not going to Oz at all. Maybe you're thinking: Didn't Socrates teach that the unexamined life was not worth living? Wasn't "know thyself" carved into the Temple of Apollo in Delphi? Yes and yes, although in the equally immortal words of Spinal Tap's Nigel Tufnel, some things are "best left unsolved."

There must be others who recall that curiosity killed the cat. I shall start a new business—remember the Irish acceptance of long odds—for the "no news is good news" crowd. My market strategy will be gloriously simple: I will give clients DNA ancestry tests, put the results into a box, and then never allow the box to be opened. My customers will pay to be reminded periodically of the wisdom of this. The only problem? A streaming-music company has the trademark I want: Pandora.

Mr. Kerrigan is an attorney in Charlotte, N.C.

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WORLD NEWS

Merkel's Foes Find a Russia Flaw

Chancellor's rivals, potential partners in coming vote push for a softer German line

BY ANTON TROIANOVSKI

PFORZHEIM, Germany—As German Chancellor Angela Merkel cruises toward likely re-election, the parties trailing her are finding a wedge issue: Russia.

With less than two weeks to go until Election Day, Russian hackers haven't dumped any stolen emails, as German officials have warned they might. But Russian President Vladimir Putin looms over the campaign nonetheless.

Four of the five parties likely to enter German parliament behind Ms. Merkel's conservative bloc advocate a friendlier approach to Moscow, so the vote could affect the future ruling coalition's Russia policy by pressuring Ms. Merkel to loosen her relatively tough line.

Foreign Minister Sigmar Gabriel, a member of the center-left Social Democrats, said Europe should lower the bar for when it would start lifting

sanctions against Russia and defended the stance in an interview with pro-Kremlin news outlet RT.

Christian Lindner of the pro-business Free Democrats, whose party is in the running to join the next Merkel government, drew praise from the radical Left party after he said the West should accept Russia's annexation of the Ukrainian peninsula of Crimea as a "long-term provisional arrangement."

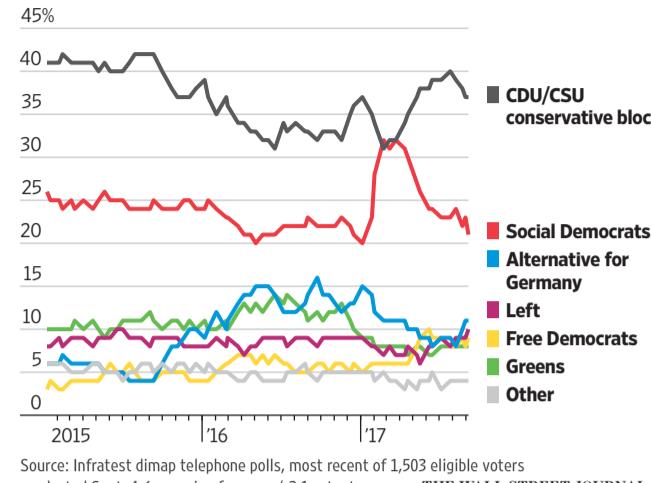
And in a house of more than 1,000 here last week, the anti-immigrant Alternative for Germany, or AfD, cast Moscow as a critical ally for stopping migration.

"We can only block the way for refugees from Asia and Afghanistan trying to get here by working with Russia," AfD candidate Alexander Gauland told the cheering crowd, which included many ethnic German immigrants from the former Soviet Union. "We need Russia as a Christian bulwark against an Islamic invasion."

"Vot imenno!"—Russian for "that's right!"—Gerda, a 66-year-old retired librarian in the audience, exclaimed as Mr. Gauland spoke.

Driver's Seat

Angela Merkel's conservative bloc is leading but will need partners to govern. Party polling in Germany:



Source: Infratest dimap telephone polls, most recent of 1,503 eligible voters conducted Sept. 4-6; margin of error: +/-3.1 pct. pts. THE WALL STREET JOURNAL.

Ms. Merkel's center-right Christian Democrats seem assured of winning the Sept. 24 election, leading the Social Democrats 37% to 23% in an average of the latest polls. But they are unlikely to secure a majority in Parliament and will need a partner, making the policies of the other parties a factor in the direction of the next government.

In the campaign, Ms.

Merkel has stuck to her line on Russia. Accepting Russia's annexation of Crimea would be akin to the West having accepted the division of Germany, she said in an interview published over the weekend. She has made pushing back against Mr. Putin for what she describes as illegal Russian actions in Ukraine a core element of her foreign policy.

While Ms. Merkel may

come under pressure from future governing partners to soften that stance, she is unlikely to make a significant shift. Any change in Berlin's Russia policy, however, could affect the European Union's ability to hold a unified line against the Kremlin. The chancellor played the leading role in 2014 in organizing EU sanctions against Russia for its intervention in Ukraine, and Germany has helped corral doubters among the other 27 members into maintaining them.

Of Ms. Merkel's potential coalition partners, only the environmentalist Greens support her stance of keeping the current EU sanctions against Russia in place until the Minsk peace agreements for Ukraine are implemented in full. Mr. Gabriel, by contrast, said implementing the complete peace deal soon was unrealistic and that relations with Moscow needed to be improved before then.

With Ms. Merkel enjoying approval ratings above 60%, her opponents have struggled to find issues to attack her on. Many of them have seized on Russia policy as a way to score points.

Kremlin Claims Plan for U.S. Ties

BY THOMAS GROVE

MOSCOW—The Kremlin said it had sent President Donald Trump's administration a plan this year aimed at restoring ties between Moscow and Washington, but it said the U.S. didn't respond in kind to its overtures.

Kremlin spokesman Dmitry Peskov said suggestions to reopen diplomatic and military channels "were handed over to the American side in various formats."

"Moscow has consistently advocated for a renewal of dialogue, for an exchange of opinions and an attempt to look for joint solutions," Mr. Peskov said. "But unfortunately, we weren't met with reciprocity here."

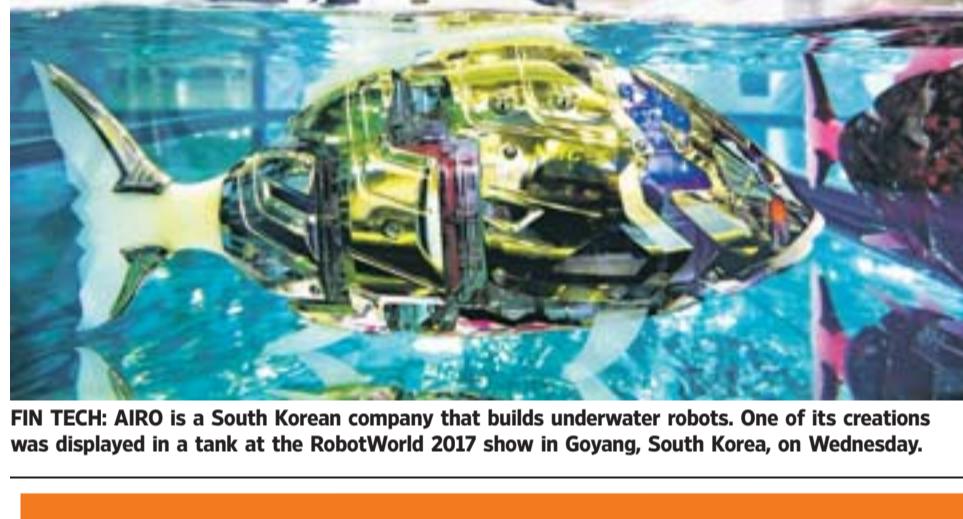
Mr. Peskov was asked about proposals to re-establish military and intelligence contacts that were contained in a document and sent to the Trump administration, as BuzzFeed first reported on Tuesday. The document, reportedly sent in March, included specific meetings and deadlines to advance a series of initiatives meant to boost trade and even establish joint working groups on cybersecurity and counterterrorism.

The National Security Council wouldn't confirm or deny the report of a Russian communiqué.

"This administration came into office hoping to be able to improve relations between the U.S. and Russia and it's unfortunate that that hasn't been able to happen," an administration official said.

Early in his presidency, Mr. Trump lauded the prospect of better relations with Russia. Ties sagged to a post-Cold War low during former President Barack Obama's administration, after Russia's annexation of Crimea.

WORLD WATCH



EUROZONE

Industrial Data Show A Slowing in July

The output of factories, mines and utilities across the eurozone barely rose during July, a fresh indication that the economy may be slowing slightly after a strong start to the year.

The European Union's statistics agency said industrial output increased by just 0.1% between June and July, although it

was up 3.2% from a year earlier.

A pickup in industrial production aided the eurozone's economic acceleration during the three months to June.

—Paul Hannon

UNITED KINGDOM

July Jobless Rate Hit Four-Decade Low

The unemployment rate fell in July to its lowest level in more than four decades, fueled by increasing participation in the labor force.

The Office for National Statistics said the jobless rate in the U.K. declined to 4.3% in the three months through July, its lowest level since early 1975.

The number of people in work hit a record 32.1 million, as those staying out of the workforce sank to 2.1 million, the lowest level since records began.

—Jason Douglas

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, September 14, 2017 | B1

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A Money-Market Colossus Rises

How did a fund linked to Alibaba become the biggest? As it happens, by accident

SHANGHAI—In just four years, a money-market fund created by an affiliate of China's **Alibaba Group Holding** Ltd. has become the world's largest, providing millions of the country's savers a high-returning place to park their money.

Now, it is facing pressure from regulators to slow down.

Fueled by contributions from some 370 million account holders, the fund, known as Yu'e Bao—which means “left-over treasure”—has grown rapidly to manage \$211 billion in assets. It is more than twice the size of the next largest money-market fund, a U.S. dollar liquidity fund managed by J.P. Morgan Asset Management, according to data from Morningstar Inc.

Yu'e Bao's assets doubled in the past year alone, and the fund now makes up a quarter of China's money-market mutual fund industry.

Its ascent has been an accidental byproduct of a sharp shift among Chinese consumers toward mobile payments. Yu'e Bao draws its funds from users of Alipay, an electronic-payments platform used by roughly one-third of China's population to make purchases on Alibaba's e-commerce sites and to pay for everything from cinema tickets to household bills.

Please see **FUND** page B2

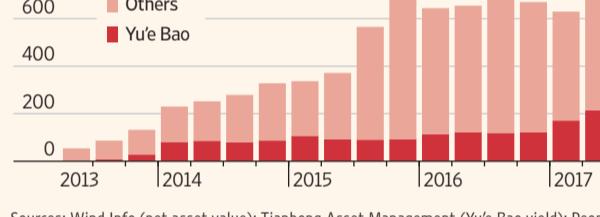


The popularity of Alibaba's mobile-payments platform AliPay helped fuel the rise of the fund Yu'e Bao, which is linked to it.

Growth Surge

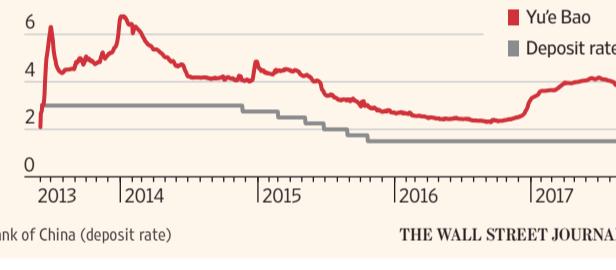
Yu'e Bao, a four-year-old investment fund created by an affiliate of China's Alibaba Group Holding, has become the world's largest money-market fund in part by paying above-market rates. Now, China's regulators are concerned such funds create too much risk.

Net asset value of China's money-market funds



Sources: Wind Info (net asset value); Tianhong Asset Management (Yu'e Bao yield); People's Bank of China (deposit rate)

Yu'e Bao's seven-day annualized investment yield vs. one-year Chinese bank deposit rate



THE WALL STREET JOURNAL.

For Apple's iPhone X, Face Time Is Critical

BY TRIPP MICKLE
AND ROBERT MCMLIAN

CUPERTINO, Calif.—**Apple** Inc.'s new iPhone X ties the future of its flagship device to facial-recognition technology that could alter how people interact with their gadgets—if the company can get it to work right.

Facial recognition is the flashiest new feature in the 10th-anniversary iPhone Apple unveiled on Tuesday. Called Face ID, it will be the primary tool to unlock the nearly \$1,000 iPhone X, which is scheduled to start shipping Nov. 3. A camera system with depth sensors

projects 30,000 infrared dots across a user's face, resulting in a mathematical model that is stored securely on the phone. When users hold the device to their faces, the technology verifies the mathematical model before unlocking the phone in an instant.

As with other smartphone advances it has adopted in the past, Apple isn't the first to use facial recognition. But it hopes to be the best, popularizing a technology that has had a mixed record on other gadgets.

Please see **FACE** page B5

◆ Apple stares at big challenge in the Chinese market..... B5

Equifax Addresses Hack

BY ANNAMARIA ANDRIOTIS

Equifax Inc. said criminals exploited web-server software in the data breach that affected potentially 143 million Americans but didn't offer further detail on who may have been behind the hack.

The company confirmed late Wednesday in what it called a progress report that hackers exploited a vulnerability with a U.S. website application called Apache Struts CVE-2017-5638. The Wall Street Journal reported last Friday that Apache Struts was a possible source of the breach.

Equifax also shared information that suggests the

company doesn't know the full extent of the breach.

The company said it "has been intensely investigating the scope of the intrusion"

Equifax says it continues to work with law enforcement in the investigation.

with help from a cybersecurity firm to determine what information was accessed and who has been affected.

The Journal also reported last Friday that the company

had engaged **FireEye** Inc.'s Mandiant cyberinvestigations division when it uncovered the hack in late July.

It reported this week that banks and other financial firms that do business with Equifax privately have expressed frustration about a lack of information about the hack from the company.

Equifax said it continues to work with law enforcement as part of its criminal investigation of the hack and has "shared indicators of compromise" with authorities.

◆ Credit freezes in spotlight after hack..... B2

◆ How one couple found credit tranquility..... B2

Tenet Eyes Options Including A Sale

BY DANA MATTIOLI
AND DANA CIMILLUCA

Tenet Healthcare Corp., facing shareholder-activist pressure, is exploring strategic options including a possible sale of the hospital company, according to people familiar with the matter.

Tenet is working with investment banks **Lazard** and **Barclays** PLC on a range of options and has started to arrange meetings with possible buyers, the people said.

Tenet, one of the largest for-profit hospital chains in the U.S., had a market value of \$1.6 billion before The Wall Street Journal reported the news Wednesday, and more than \$15 billion in debt, giving it an enterprise value of nearly \$20 billion. It had \$19.6 billion in revenue last year and about 130,000 employees.

In part because of the size of Tenet's debt, the universe of buyers for the whole company is small, some of the people said.

Tenet, which operates more than 500 hospitals and outpatient centers in the U.S., has been hurt by uncertainty over the fate of Medicaid programs and insurance exchanges under the Affordable Care Act, as have other health-care companies. Over the past year, the company's stock has fallen about 30%. After the Journal report Wednesday, Tenet's shares rose 12% in after-market trading.

In August, Tenet said Chief Executive Trevor Fetter would step down in March if not sooner.

The announcement followed a board shake-up earlier that month, with the resignation of two officials from **Glenview Capital Management** LLC. Their departures started a countdown to end a standstill agreement between the hospital operator and Glenview—the activist investor and Tenet's largest institutional shareholder—which has pushed the company for a sale or new leadership.

U.S. hospital companies suffered an unexpected slump in volume in the second quarter and Tenet fared poorly. The company's same-facility admissions were down 2.2% year over year compared with a 0.3% average decline across publicly traded rivals, according to data from RBC Capital Markets.

—Melanie Evans contributed to this article.

HEARD ON THE STREET | Richard Barley

An Inflation Shock Could Hurt Bond Bulls

Winning streaks can't last forever. After a two-month run in which benchmark government-bond yields fell around the world, the start of this week brought a sharp reversal. With inflation moving into focus, investors may be wise to get used to the latest direction of travel.

The immediate cause of the upturn, which has taken 10-year Treasury yields to 2.15% from post-Trump-elec-

tion lows of 2.04% and lifted yields in Germany and the U.K., is the waning of a number of external risks.

That leaves a bigger, unresolved conflict around solid global growth, soggy inflation and the response of central banks. Bonds have done well, even as central banks, in particular the European Central Bank, have continued to signal comfort with the outlook for growth. The J.P. Morgan global composite purchasing managers index climbed in August to 53.9, its highest in more than two

years. Risky assets like emerging-market stocks and bonds have gained.

But inflation, after being boosted at the start of 2017 by the rebound in oil prices, has come off the boil. The key now lies in the U.S., where the Citigroup inflation surprise index shows price pressures consistently undershooting expectations in recent months. That has led the market to pare back expectations that the Federal Reserve will continue raising interest rates. This Thursday's data will be closely

watched for any sign of a pickup in inflation that might challenge this benign picture. As long as growth remains robust and unemployment continues falling, it will be hard for central bankers to give up the idea that inflation shortfalls are temporary.

The hopes of bond bears

have been disappointed this

year. But if growth holds up,

then it is hard to believe already-skinny bond yields

have much room to fall. And if inflation shows any signs of life, then the correction

could be sharp.

INSIDE



MORE HACKERS TURN TO EXTORTION

CYBERSECURITY, B6



DOW SETS 37TH RECORD OF THE YEAR

STOCKS, B13

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FUND

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In some ways, Yu'e Bao's surge to prominence shows how diverse and dominant Alibaba and its affiliates have become in recent years. Alibaba spun off Alipay in 2011 and renamed the company that owns and operates it Ant Financial Services Group.

Ant set up Yu'e Bao as a place for Alipay users to park cash sitting in virtual wallets they control with their smartphones. The company never intended, or expected, Yu'e Bao to become as large as it did so quickly, according to a person familiar with the matter.

Attracted by the fund's generous returns—Yu'e Bao's investments produce a seven-day yield of 4.02%—some investors have been sending chunks of their monthly paychecks to it, another reason for its growth. A year ago, the fund's yield was 2.3%, according to Tianhong Asset Management Co., an Ant subsidiary that manages the fund.

Yu'e Bao's short-term yield dwarfs the 1.5% interest rate on one-year Chinese bank deposits and even beats the 3.6% yield on 10-year Chinese government bonds. The fund invests most of its money in certificates of deposits issued by Chinese state-owned or state-supported banks. It also holds government bonds, bank-issued bonds and commercial paper.

Data reviewed by The Wall Street Journal indicate Tianhong boosted Yu'e Bao's returns in recent years by increasing its allocation of funds to financial instruments with longer maturities. Such assets, however, tend to be less liquid than bank deposits and lower-yielding investments. About 40% of Yu'e Bao's investments mature in under 60 days, versus over 60% four years ago.

—Yifan Xie
and Chuin-Wei Yap

BUSINESS & FINANCE

Trump Blocks Lattice Deal

BY KATE O'KEEFFE

WASHINGTON—President Donald Trump on Wednesday blocked a Beijing-backed fund's attempt to buy an American chip maker, signaling his administration will closely scrutinize Chinese efforts to invest in U.S. semiconductor technology.

Mr. Trump rejected the transaction after the would-be deal makers—Chinese government-backed **Canyon Bridge Capital Partners** and **Lattice Semiconductor Corp.**—made a rare, direct appeal to him. They had hoped he would overrule an earlier negative recommendation by the Committee on Foreign Investment in the U.S., a multiagency panel that reviews deals for national-security concerns.

Instead, the White House said Wednesday that Mr. Trump believes the \$1.3 billion transaction could have risked U.S. national security due to "the potential transfer of intellectual property to the foreign acquirer, the Chinese government's role in supporting this transaction, the importance of semiconductor supply chain integrity to the United States Government, and the use of Lattice products by the

United States Government."

Companies typically withdraw deals that can't win CFIUS approval before they reach the president's desk to avoid a likely White House rejection, but Canyon Bridge and Portland, Ore.-based Lattice waged an unusually public and fierce fight to try to save their deal, including the request to Mr. Trump to overrule his own national-security officials.

The deal became a lightning rod in a broader battle between the U.S. and China over chip technology and foreign direct investment more generally.

Following record levels of Chinese investment in the U.S.—which last year tripled to \$46 billion, according to New York consulting firm Rhodium Group—the Treasury Department and lawmakers from both parties began mounting efforts to bolster the federal government's scrutiny of certain Chinese deals they believe could risk national security. China's repeated attempts to invest in the semiconductor industry, which powers computers, mobile phones and much military hardware, have particularly alarmed U.S. officials.

Canyon Bridge and Lattice sought—and failed—three times to win approval from

CFIUS, with executives from both entities alleging in interviews with The Wall Street Journal that anti-China politics in the U.S. were scuttling the deal as opposed to legitimate national-security concerns.

Lattice Chief Executive Darin Billerbeck, who had in-

vited Mr. Trump to Portland to discuss the deal and talked up its job-creation potential, said in an interview earlier this week that Lattice and Canyon Bridge tried to address all possible national-security issues through an agreement to give the U.S. government control over Lattice's intellectual property and technology if the tie-up were approved.

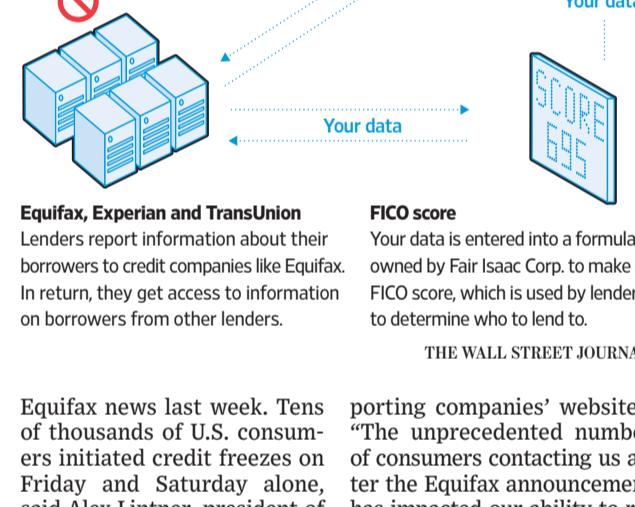
"You're basically saying that the government itself can't control IP that they're in charge of. I don't understand that," Mr. Billerbeck said of the foreign-investment committee's decision. "It has to be—it has

been obviously disappointed in today's decision by the President of the United States to forgo what we believe to be an excellent deal for Lattice's shareholders and its employees by expanding the opportunity to keep jobs in America."

Credit Freezes Create a Big Chill

Your Exposure to Equifax

Borrowers may never directly interact with a credit-reporting company. They deal directly with a lender, who in turn uses data from the companies.



Equifax news last week. Tens of thousands of U.S. consumers initiated credit freezes on Friday and Saturday alone, said Alex Lintner, president of consumer information services at Experian. Demand to sign up for freezes appears to be so great that some consumers were complaining of delays or being unable to register on credit-re-

porting companies' websites. "The unprecedented number of consumers contacting us after the Equifax announcement has impacted our ability to respond to consumers as we would like," said TransUnion, adding it has taken steps to increase communications with consumers.

Previously, credit freezes were typically initiated by peo-

ple who either had, say, their identity stolen or earlier instances of fraud on their accounts. While open to anyone and reversible temporarily or permanently, most consumers have in the past shied away from the step because it made getting new credit more cumbersome. In some states, consumers must pay a fee to temporarily or permanently lift a freeze.

In a country of free-flowing credit like the U.S., there is value to relatively open information about a consumer's creditworthiness. It makes it easier for someone to open a new credit card at a department store or gain quick approval for a mortgage.

But the Equifax hack appears to be changing some of that calculus, as consumers say they would rather have their default information status set to off-limits, unless they choose otherwise. That adjustment could change consumer behavior, the flow of consumer credit and, in extreme cases, the long-term rate of growth for consumer financing.

There is little official government data about freezes. A 2014 paper from researchers at the Federal Reserve Bank of Philadelphia estimated that about two million U.S. consumers placed a credit freeze or fraud alert on their credit reports in 2012.

THE WALL STREET JOURNAL.

One Couple's Quest For Credit Serenity: \$5 and a PIN Code

About 10 years ago, my wife and I froze our credit reports at the three major credit bureaus. We weren't victims of identity theft. We just thought it was a good way to sidestep the untold hassle of having a bogus line of credit opened in our names.

Since then, we have had years of peace of mind as well as the opportunity to explain to various sales staff what a credit freeze means.

A typical encounter has gone something like this:

Me: "To get this cellphone plan, I will need to lift the freeze on my credit report. Do you know which bureau you use so I can free up one report rather than all three?"

Sales rep: "You have a credit freeze? Is your credit so bad you can't buy things on credit?"

Me: "No, my credit is frozen by my choice to keep criminals from opening lines of credit in my name."

Sales rep: "Oh, I didn't know that was possible. I don't know which bureau you should contact. Let me find out."

We have learned to patiently explain credit freezes again and again. We have also had plenty of practice temporarily unfreezing access when the need arises for a business to check our creditworthiness, such as when

we shop for a new cellphone plan or an insurance policy.

After all these years, I can safely say this: Yes, it is a hassle. But it is a relatively small one. Unfreezing a line of credit can take about five minutes once I am in front of the credit bureau's webpage with a PIN code in hand and a credit card to pay the \$5 fee required in New Jersey, where I live.

If I start to mutter to myself as I type in the information, I stop as soon as I think about what it would be like to try to untangle myself from a bogus financial liability left in my name by a crook.

I did a lot of muttering when I set up our credit freezes. I had to do some searching to find the basic information and read a lot of fine print. Then I had to write a letter to each of the three bureaus. Between my wife and me, that was six letters.

I only recently learned about a fourth bureau, Innovis. This week, I looked at the Innovis website, and I found a simple form to request a freeze.

Would I recommend a credit freeze for others? You bet. My wife and I will never know what kind of trouble our credit freezes have helped us avoid. I still mutter when I scour bank statements, medical bills and worry especially about fake tax returns. Crooks don't limit themselves to your credit lines, but a freeze is a worthy start.

—Jim Winston

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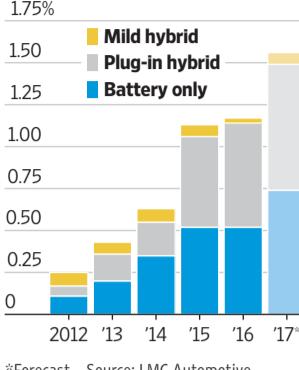
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Slow and steady wins the race.

BUSINESS NEWS

Low Battery

Electric-car sales in Europe by selected type, as a percentage of all passenger-car sales



*Forecast. Source: LMC Automotive
THE WALL STREET JOURNAL.

Diesel Woes Leave A Void

BY WILLIAM BOSTON
AND ERIC SYLVERS

As sales of diesel-powered cars dive in Europe, the continent's car makers, heavily invested in the technology, are scrambling to offset the shortfall.

Electric cars, often said to be the future of the industry, aren't the solution—at least not yet.

European auto manufacturers say demand for electric vehicles remains too small for them to replace diesel cars anytime soon. While all the companies are investing in electric mobility, their immediate focus is on building more gasoline-powered cars and making diesel engines cleaner.

Since Volkswagen AG, the world's biggest auto maker by sales, was caught rigging diesel engines to dupe emissions tests two years ago, sales of diesel cars have declined rapidly. In diesel-heavy Germany, for example, threats by politicians to ban the cars from cities have scared off customers, with sales of new models in August falling 14% from a year earlier, according to Germany's federal motor-vehicle agency. Sales of gasoline-powered cars last month rose 15%.

Research group LMC Automotive says diesel's market share in Europe, always the biggest market for the technology, could decline to about 45% this year from 53% before the scandal. Meanwhile, electric cars and hybrids are expected to grab 4% of the European market this year, up from 2.3% before the diesel scandal.

High prices for electric cars, the scarcity and inconvenience of charging stations and the vehicles' inability to travel long distances have put off drivers. Car makers, who dragged their feet for years on electric cars, also have few models in the market to lure diesel-driving consumers.

"In many segments that are of interest to families, the products just aren't available," Steve Armstrong, Ford Motor Co.'s Europe chief said on the sidelines of the Frankfurt Motor Show this week.

Auto makers at the Frankfurt show announced big plans for the future. Volkswagen increased the number of electric models it would offer by 2025 to 80 and said it would offer electric versions of all of its 300 models by 2030. BMW AG has committed to offering 25 new electric cars and hybrids by 2025, and Daimler AG plans to offer an electric version of every model it makes by 2022.

But car makers aren't sure they will make money on electric cars soon.

"If it works and companies can be profitable, that's good," Peugeot Chief Executive Carlos Tavares said this week. "But if it does not gain acceptance in the market, then everybody—industry, employees and politicians—have a big problem."

Some car makers said the decline in diesel sales in Europe would have little to no impact on production or jobs at their engine plants, as most models already come with a diesel-or-gasoline option. That means auto makers simply ramp up production of gasoline engines if demand grows.

The bigger problem is shouldering the costs of developing electric-car technology as regulators around the world continue to attack the conventional internal combustion engine.

Brazil Jails Meatpacking Moguls

Two brothers are accused of profiting from plea agreement in JBS bribery scandal

BY LUCIANA MAGALHAES
AND PAUL KIERNAN

SÃO PAULO—The two Brazilian brothers behind the world's largest meatpacker were in jail on Wednesday facing accusations they illegally profited from an earlier plea deal that let them skirt prison time for bribing nearly 2,000 politicians.

The Federal Police, Brazil's equivalent to the FBI, on Wednesday arrested Wesley Batista, chief executive of **JBS SA**, saying he and his brother, former Chairman Joesley Batista, dumped the company's shares and stockpiled U.S. dollars before the deal they reached with prosecutors in April became public. This enabled them to make millions of dollars as their allegations of having bribed members of conservative President Michel Temer's inner circle nearly toppled the government and sent financial markets swooning, federal agents said.

Coming just days after Joesley turned himself in, the arrest of his younger brother Wesley capped a reversal of fortune for the clan, which turned a small-town slaughterhouse into a global food giant that has snapped up U.S. brands including Swift and Pilgrim's Pride.

It also prompted state development bank **BNDES**, which owns 21.3% of JBS's shares, to renew its calls for the younger Mr. Batista to permanently step down as CEO. "It will contribute to the best interests of the company and for its preservation and sustainability," BNDES said in a statement.

Despite telling prosecutors in April they promoted their business by bribing nearly 2,000 politicians, the brothers managed to avoid prison sentences by offering evi-



LEONARDO BENASSATTO/REUTERS

The Unraveling Of a Sweet Deal

Until last week, Brazil's billionaire Batista brothers appeared poised to walk away with the sweetest—and most controversial—plea bargain Brazilians have seen in the country's three-year-old corruption purge.

But that went awry when Joesley Batista gave authorities an audio recording of a four-hour, often profane conversation in which he and another executive

bragged about omitting evidence and getting help from a prosecutor as they negotiated the deal. "We can't show up and tell them 30 of our shenanigans," Joesley is heard saying on the recording during the hourslong drinking session. "We're going to tell, I dunno, 20 of our shenanigans...."

It isn't clear if the recording, which appeared to have been made by accident, was handed over intentionally. Joesley and the executive said in a statement last week that the recorded discussion "had no connection to the truth" and

offered their "most sincere apologies for this disrespectful and embarrassing act."

But Attorney General Rodrigo Janot said it represented a possible violation of the plea bargain and threatened to revoke the Batistas' legal protections.

Authorities have moved aggressively. Supreme Court Justice Edson Fachin authorized Joesley Batista's arrest over the weekend, citing indications he is "part of an organization dedicated to the systematic practice of crimes against the public administration and money laundering."

dence against Mr. Temer and agreeing to pay a \$3.3 billion settlement.

The Federal Police said it was a coincidence that the insider-trading probe, which has been under way for months, led to Wesley Batista's arrest within days of his brother's.

Unlike the plea deal, which

involves the Batista family's holding company, **J&F Investimentos**, the insider-trading probe involves allegations of wrongdoing by JBS itself.

In a televised press conference Wednesday, Federal Police agents said emails, securities records and witness statements showed the hold-

ing company sold about \$119 million in JBS shares while the Batistas were negotiating the plea deal. JBS, which is publicly traded, bought some of this stock to transfer the risk of a sell-off to non-Batista shareholders, agents said. JBS also used currency derivatives to bet more than \$2 billion

against the Brazilian real, agents said.

After the plea bargain became public in May, JBS shares fell as much as 37% and the real posted its biggest single-day loss since 1999, as the Batistas' allegations crippled Mr. Temer's market-friendly government.

"The Batista brothers entered negotiations knowing that [the deal] would have a probable impact on the market when it became public," said Victor Hugo Rodrigues Alves of the Federal Police's corruption and financial-crimes unit.

JBS declined to comment on Wednesday's allegations, referring to a previous statement denying wrongdoing.

In a statement Wednesday, the brothers' attorney called the arrests "unjust and absurd," saying they had already provided information and documents related to the insider-trading investigation.



JASPER JUINEN/BLOOMBERG

Big Offshore Driller Files for Chapter 11

BY COSTAS PARIS

ember, forced the chapter 11 filing, people with knowledge of the matter said.

"By extending and re-profiling the secured bank debt, reducing leverage and delivering a significant amount of new capital, this agreement provides Seadrill with a five-year runway. Post-restructuring, Seadrill will have a strong cash position and good liquidity to take advantage when the market recovers," the company said.

Seadrill expects to continue operations during the restructuring period. The company's assets at the end of the first half totaled \$20.7 billion.

Seadrill's shares closed at 27.5 cents on Wednesday. At its peak in 2013, the company's market value exceeded \$22 billion.

Daily leases for the company's rigs, which once commanded up to \$800,000, have dropped to around \$200,000 as cheap oil from U.S. shale drilling floods the market.

The low oil prices, coupled with a glut of rigs, has put rig owners under severe pressure.

In late July, Ocean Rig UDW Inc. filed for bankruptcy protection in the U.S. Hercules Offshore Inc., GulfMark Offshore Inc., Toisa Ltd. and Vantage Drilling Co. have also spent time in bankruptcy court since oil and gas prices cratered.

—Patrick Fitzgerald

contributed to this article.

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BUSINESS NEWS

Machine Learning Sows Seeds of Future

Farmers use artificial intelligence programs to anticipate pests and crop disease

BY JACOB BUNGE

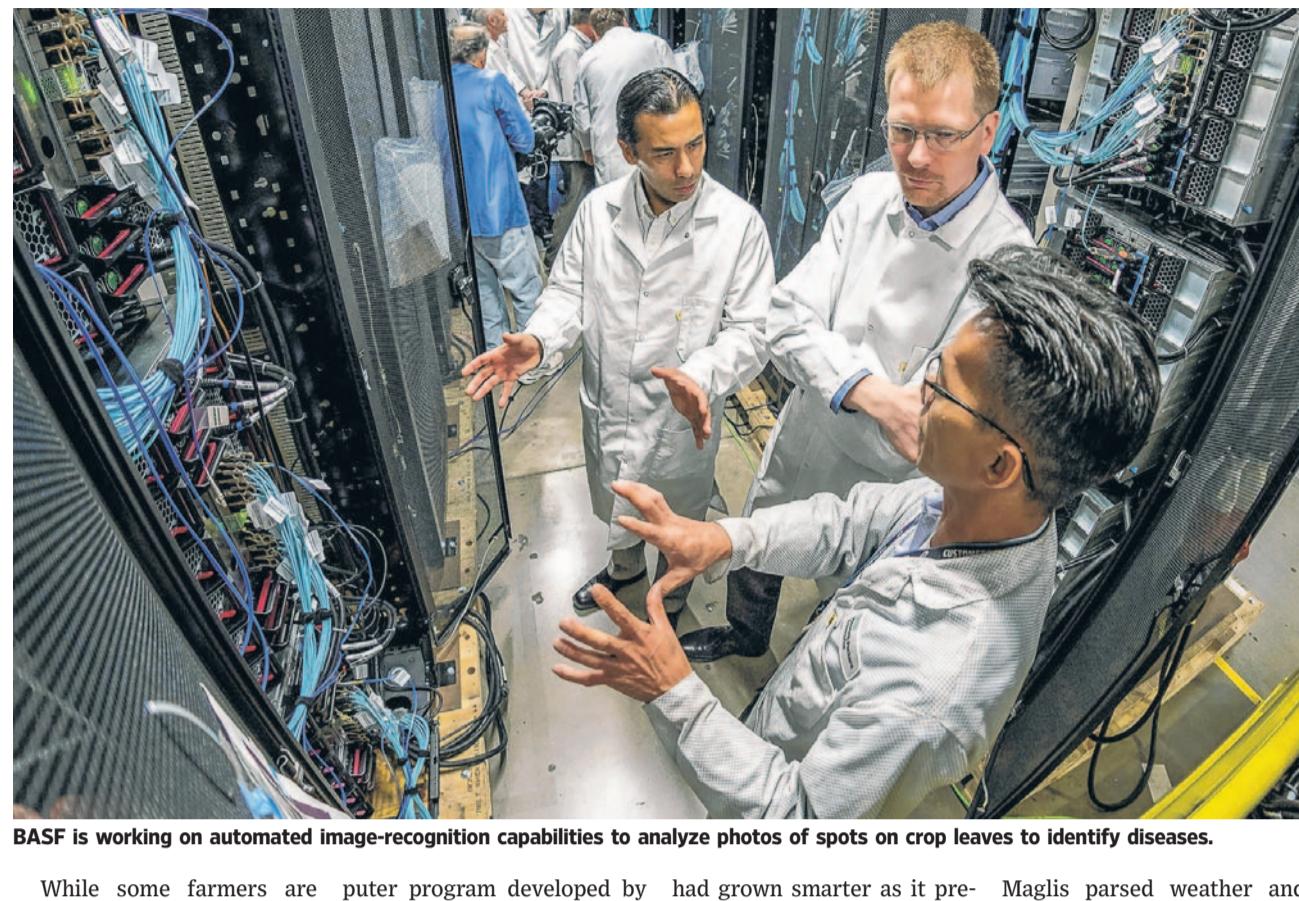
On Midwestern fields and in research greenhouses, agricultural giants like **Monsanto** Co. and **BASF** SA are teaching machines how to farm.

The companies are expanding early-stage investments in artificial intelligence, joining other industries in betting that research and decision-making can be streamlined with computer programs that teach themselves by picking patterns out of information.

Corn plants chosen with the help of computers are growing in the U.S. this year, and algorithms are sifting North American weather data to anticipate crop threats such as pests and disease.

BASF, the German chemical conglomerate, is working on automated image-recognition capabilities similar to those that confirm faces on Facebook and Apple's Photos app.

The concept is to analyze farmers' photographs of suspicious spots on crop leaves and deliver early warnings for diseases such as wheat leaf rust, said Richard Trethewey, who heads bioscience digitalization for **BASF**.



BASF is working on automated image-recognition capabilities to analyze photos of spots on crop leaves to identify diseases.

While some farmers are skeptical of the technology, others think it could evaluate crop development and identify disease as well as or better than they can. Gunter Jochum, who grows canola, soybeans and wheat near Winnipeg, Manitoba, watched firsthand the learning curve of a com-

puter program developed by **BASF** known as Maglis.

In the spring of last year, Mr. Jochum told Maglis the date he sowed canola, and his fields' coordinates.

The program "pretty accurately" guessed when the first seedlings would pop up, he said, and by harvest time it

had grown smarter as it predicted when crops would be ready for harvest and how many bushels his land would yield.

"In the beginning, I was a little bit leery," said Mr. Jochum. "As the season went on, I was astonished how close it was." This summer, he said,

Maglis parsed weather and field data to foretell a damaging plant fungus.

The companies, which spend billions of dollars annually to research new seeds and farm chemicals, declined to specify how much of that goes toward developing artificial intelligence.

Monsanto, the world's largest seed company, has been taking computers' advice as it matches up corn strains to produce the highest-yielding and sturdiest varieties.

Eight years ago, data scientists at the St. Louis-based company used 15 years' worth of information on corn varieties to build a self-teaching algorithm. That has helped **Monsanto** researchers more accurately predict how thousands of combinations of strains will perform in their first year in the field.

Michael Graham, who heads **Monsanto**'s plant-breeding operations, said the system lets the company evaluate about five times more corn varieties than it could in the past, and save a year of research time.

Over the past year, **Monsanto** has sold corn seeds matched with the algorithm's input to U.S. farmers.

Self-learning software doesn't yet range freely across farm fields. Mr. Graham said the technology's shortcomings showed up one year when Goss's wilt, a disease that withers corn leaves, struck further east in the U.S. corn belt than it had in the past, catching **Monsanto**'s corn-breeding model off guard.

At **BASF**, the Maglis machine-learning functions remain under human supervision, with crop specialists reviewing its analyses.

Judge Orders Martin Shkreli to Jail

BY REBECCA DAVIS O'BRIEN

A federal judge in Brooklyn on Wednesday revoked Martin Shkreli's bail and ordered him to be detained in jail while he waits to be sentenced, finding that the former pharmaceutical executive's pattern of online threats and harassment posed a danger to the community.

"The fact that he continues to remain unaware of the inappropriateness of his actions or words demonstrates to me he may well be creating an ongoing risk to the community," said U.S. District Judge Kiyo A. Matsumoto.

Mr. Shkreli's lawyer, Ben Brafman, tried for several minutes to persuade Judge Matsu-

moto to let Mr. Shkreli remain free until his sentencing, now set for January 16, insisting that Mr. Shkreli would refrain from using social media. But Assistant U.S. Attorney Jacquelyn Kasulis shook her head, saying Mr. Brafman had shown that he couldn't control his client. "He is reckless. He knows exactly what he is doing. He needs to go in," Ms. Kasulis said.

Shortly after 6 p.m., Mr. Shkreli was escorted by deputy U.S. Marshals through a courtroom side door. It wasn't clear where Mr. Shkreli would be detained. Mr. Shkreli, 34 years old, was convicted last month on counts of three counts of securities fraud and

securities-fraud conspiracy, in connection with his management of two hedge funds and a pharmaceutical company.

In a court filing last week, prosecutors asked U.S. District Judge Kiyo A. Matsumoto to have Mr. Shkreli detained. The filing came several days after Mr. Shkreli posted a message on his Facebook page in which he urged his followers to "grab a hair" from Hillary Clinton while she is on her coming book tour. In the post, he offered \$5,000 per strand of hair.

Mr. Shkreli later qualified the post as satire and told his followers not to assault anybody. On Tuesday, he

wrote an apology letter filed to the court.

In a heated court hearing Wednesday evening, Mr. Brafman described his client's comments as "unfortunate," adding that Mr. Shkreli communicated online through "tongue-in-cheek diatribe." Mr. Brafman added that there was "no evidence that he intended violence."

But Judge Matsumoto said it wasn't clear that Mr. Shkreli hadn't already induced one of his 70,000 Facebook followers to commit an act of violence against Mrs. Clinton. "He is so soliciting an assault on another person in exchange for \$5,000," Judge Matsumoto said.



The retailer plans to take on 40% more temporary workers this year.

Target Pushes Hiring For Holiday Season

BY KHADEEJA SAFDAR

Target Corp. said it would increase by 40% the number of temporary workers it hires for the holiday shopping season, kicking off the annual scramble among retailers and delivery firms to staff stores and distribution centers.

The Minneapolis-based chain is hiring approximately 100,000 seasonal workers, compared with the 70,000 hires last year.

In addition, it will employ 4,500 workers at its distribution and fulfillment centers to replenish products to stores and fulfill digital sales throughout the key selling season. Last year, it hired 7,500 for its distribution centers because it had opened three new facilities, relying more on temporary help to staff them at that time.

The retailer will host nationwide hiring events in October to interview candidates. The company is trying to get back on track after suffering sales and profit declines last year. It has been lowering prices and ramping up spending on its e-commerce efforts to lure back shoppers.

The scramble for holiday-season workers has been intensifying steadily in recent years, fueled by the growth of online shopping. The nation's low unemployment rate and rising wages for workers at the bottom of the income ladder have made the temporary jobs even harder to fill.

As of Jan. 28, Target employed about 323,000 full-time, part-time and seasonal workers, according to its annual report. During the 2016 holiday season, its staffing peaked at about 373,000.

Amazon.com Inc., which has been rapidly adding distribution centers, last year hired about 120,000 extra workers for the season, 20% more than the year before. United Parcel Service Inc. hired about 95,000 extra employees for the holidays in 2016, the same number as the previous two years. Neither company has disclosed plans for this year.

The country's largest retailer, Wal-Mart Stores Inc., which employs more than 1.5 million Americans, didn't disclose how many temporary workers it planned to hire last holiday season.

Natural-Gas Firm EQT Draws Second Activist

BY AUSTEN HUFFORD

Hedge-fund firm **D.E. Shaw Group** is launching an activist campaign against **EQT Corp.**, a personal familiar with the matter said, meaning the energy company will now have to face down two unhappy investors as it works to close a \$6.7 billion acquisition of **Rice Energy Inc.**

D.E. Shaw, which owns 4% of **EQT** in stock and options, is calling for a breakup of the company after it completes its purchase of **Rice**. **EQT** in June agreed to buy **Rice**, in a bid to expand its natural-gas and oil-exploration acreage. The two companies said the deal would create the largest natural-gas producer in the U.S. by volume.

The hedge fund will send a

letter to **EQT** Thursday detailing its concerns, a person familiar with the matter said.

D.E. Shaw's campaign against a publicly traded company may serve as a harbinger of future activity. The letter is signed by Quentin Koffey, a **D.E. Shaw** portfolio manager who recently came over from Elliott Management Corp., where he helped run a number of the activist's campaigns.

Activist hedge fund **Jana Partners LLC** in July launched its own campaign against **EQT**, calling for the **Rice** purchase to be ended and **EQT** to separate its pipeline operations from the exploration-and-production business. **EQT** and **Jana Partners** declined to comment on **D.E. Shaw's** proposals.

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EU Wants More Taxes From Tech

Bloc's executive arm commits to drafting new rules to get more out of multinationals

By NATALIA DROZDIAK AND SAM SCHECHNER

The European Union's executive body pledged to pursue new rules for taxing internet giants, such as Alphabet Inc.'s Google and Facebook Inc., embracing a push within the bloc to squeeze more money out of large multinationals operating in Europe.

Wednesday's move by the European Commission comes amid a French-led drive for the tax that includes Germany, Spain and Italy.

Finance ministers from the four countries in a recent letter called on the commission to devise a proposal that

would establish an "equalization tax" on the revenue generated in Europe by digital companies so that the amounts raised would "aim to reflect some of what these companies should be paying in terms of corporate tax."

The four officials plan to spell out their tax ideas at a gathering of the bloc's finance ministers in Tallinn, Estonia, on Saturday.

The push marks the EU's latest attempt to crack down on what officials see as tax avoidance in Europe and to assure citizens that large companies are paying their fair share, as some governments are still trying to stabilize public finances after the financial crisis.

Officials in France in particular have chafed at how little tax they say tech companies pay. Over the years, they have floated various ideas for claw-

ing back more—including taxing internet advertising and even corporate use of bandwidth or personal data, only to pull back because passing a measure at the national level wouldn't snare big multinationals.

The size of the proposed tax could end up between 2% and 5% of revenue.

Instead, France has become a vocal backer of efforts by the Organization for Economic Cooperation and Development to reduce so-called profit shifting, and efforts by the EU to establish a common tax base.

Pressure from Paris rose

over the summer, after a French court threw out a €1.1 billion (\$1.33 billion) tax bill that France's tax authority had issued Google, arguing that the U.S. company should have declared more profit—and therefore paid more tax—in the country.

In addition to promising an appeal, France's new finance minister, Bruno Le Maire, vowed to pursue new tax rules for tech companies.

Under Mr. Le Maire's proposal, which is still being fleshed out, technology companies with revenue above a certain level would be liable to pay a tax on turnover from customers in each EU country.

The size of the proposed tax hasn't been settled, but could end up between 2% and 5% of revenue, the person close to the ministry said. The rate would be intended to reflect what tax governments

think companies would pay on profit derived from turnover from customers in EU countries.

That could lead to big tax bills. Facebook reported that in 2016 its European revenue was €2.06 billion, including some countries that aren't part of the bloc. Facebook declined to comment on the proposal.

Executives at tech companies say the proposals are misguided because the firms create the bulk of their value in the U.S., making much of their profit from European revenue taxable in the U.S., as well.

But Europeans argue that those profits are fair game to tax because the U.S. lets companies defer taxes on profit they keep offshore. Tech companies often do so via subsidiaries based in countries with no corporate income tax.

FACE

Continued from page B1

Considering iPhone users on average unlock their devices 80 times a day, the success of Face ID could make or break the device, analysts say, as early users get their hands on it and begin sharing their experiences publicly.

Apple on Tuesday inadvertently demonstrated the potential pitfalls. During a demonstration of the technology, the smartphone failed to fully unlock the first time Apple's top software executive, Craig Federighi, used it before the audience. He resorted to typing in a passcode before switching to a backup iPhone X that he unlocked seamlessly with Face ID.

In a statement late Wednesday, an Apple spokeswoman said other people handled Mr. Federighi's phone before the demonstration. As a result, Face ID was disabled and he was prompted to enter his passcode—a common security measure on Apple devices. The spokeswoman said Face ID did what it was designed to do.

"It's got to work," said Ben Bajarin, an analyst with Creative Strategies. "From a security standpoint and convenience standpoint, this is their idea of where the future of the smartphone goes."

If it catches on, the facial-scanning technology in the iPhone X could enhance smartphone use in other ways. In one small example, the system can capture facial expressions and use them to animate images of chickens, unicorns and other common emojis. Those animojis, as Apple calls them, can be captured and shared with friends.

The rise of facial-recognition technology has raised privacy concerns, particularly in China, where authorities are using it on streets and in subway stations to deter and identify lawbreakers. Systems like those connect vast networks of surveillance cameras and sensors with databases of images and identifications.

In contrast, Apple said users' facial information will be kept securely on their own devices and not on Apple servers or elsewhere in the cloud where it might be vulnerable to hackers.

Still, unlike passwords, face and fingerprint scans and other biometric data can't be changed if they are compromised, and that has some privacy advocates concerned.

Facial-recognition technologies have been used for more than five years in consumer devices, including some smartphones that use Google's Android operating system. But the technology that has been rolled out so far has faltered in security tests, said Marc Rogers, who previously discovered flaws in Apple's Touch ID system and now heads information security at Cloudflare Inc.



An Apple Store in Shanghai. The iPhone X's price puts it out of reach for many Chinese consumers.

Stumbling in China

iPhone maker Apple has lost market share to homegrown rivals in the world's biggest smartphone market.



THE WALL STREET JOURNAL.

Apple's China Challenge: Reviving Sales

Apple Inc. needs the new iPhone X to be a hit in China, where its sales have been slumping for years—which means it needs more Shirley Wangs.

By Dan Strumpf in Hong Kong and Alyssa Abkowitz in Beijing

The 29-year-old hospital administrator says she won't be dissuaded by the base price of \$8,388 yuan, or nearly \$1,300, about \$300 more than the phone will cost in the U.S.

"I'm a big fan of iPhones," said Ms. Wang, who was shopping near the Apple Store in Beijing's tony Sanlitun district Wednesday. "A lot of my friends will buy them, too."

But in a country where domestic smartphones start at about \$100, that may not be enough. Even the two lower-priced models Apple is rolling out—the 5,888 yuan iPhone 8 and larger-screened 6,688

iPhone 8 Plus—are beyond reach of many Chinese consumers.

"It's too pricey," said Mo Jia, an analyst for market researcher Canalys.

Apple was at one time the top seller in China, the world's biggest smartphone market, and its brand still carries a matchless cachet for the status-conscious. But its market share has fallen to about 7%, from an estimated 16.5% in late 2014, as domestic rivals have made big technological strides—and offered models adapted to local tastes.

Still, greater China, which includes the mainland, Hong Kong and Taiwan, accounted for 22% of Apple's sales last year—trailing only the U.S. and Europe.

"China is hugely important, both in terms of its market size now and future growth," said Duncan Clark, founder of tech consultancy BDA China.

"China is also a global test

bed."

"What Apple really needs with the iPhone in China is two things," said Ian Fogg, a senior director at consulting firm IHS Markit: to offer something "demonstrably different" than Chinese makers, and to overcome the challenges of being an overseas brand.

The market leader in China is Shenzhen-based Huawei Technologies Co., whose share has doubled in the past three years, reaching 21% in the second quarter, according to Canalys. It is zeroing in on Apple's target high-end consumer.

Earlier this year it launched its flagship P10 phone, which carries a price tag of nearly \$700 and features that include an improved dual-lens camera developed in partnership with German camera maker Leica.

Coming next month: Huawei's Mate 10 smartphone, expected to have a new proces-

sor capable of photo-enhancing artificial intelligence and to offer faster charging and a longer battery life. A price hasn't yet been announced, though Huawei typically undercuts Apple.

China's Xiaomi Inc. on Monday introduced its costliest phone yet, the 4,000 yuan Mi Mix 2, featuring a full-screen display. Vivo, China's No. 3 smartphone maker, is set to launch its X20 full-screen phone later this year.

To win back Chinese market share, Apple tailored a number of features on its latest operating system to Chinese consumers—including a built-in ability to scan the country's ubiquitous QR codes, used to shop and send money across China.

Users can also ask Siri to pull up their WeChat QR codes, used to connect with friends on the app.

Apple also added the ability to use a phone number rather

than an email address as Apple ID, after realizing how rarely email is used in China compared with texts and WeChat.

Notably, Apple is launching the ability for friends to pay each other on iMessage via Apple Pay in the U.S., but not in other markets. Apple Pay operates in China, but the mobile-payment market is dominated by domestic systems Alipay and WeChat Pay.

Whether Apple's efforts bear fruit won't be known for weeks, or even months. The two iPhone 8 models will go on sale Sept. 22, but the iPhone X—plagued by production difficulties this summer—won't hit shelves until Nov. 3.

Xia Giang, a 30-year-old startup founder, is taking a wait-and-see approach.

"Maybe I'll buy it," Mr. Xia said. "Money isn't an issue, but I want to know if my friends like it. I'll let them try it first and then decide."

The iPhone 8 Is Apple's Middle Child

By JOANNA STERN

Hold your iPhone 6, 6s or 7 in your hand. Close your eyes and imagine it with a shinier glass back, a speedier processor, improved cameras and wireless charging. Now you're holding an iPhone 8!

That may sound like a perfectly good upgrade, and on Tuesday it was the best iPhone Apple ever introduced—until a few minutes later, when the company showed off the iPhone X, which has all of that and more. Apple's iPhone lineup is now as crowded as a minivan on summer vacation, and the iPhone 8, the would-be star, is a middle child in a middle seat.

At Apple's event in Cupertino, Calif., I had a chance to try out all three new models, and there's no doubt: The 4.7-inch iPhone 8 (\$699 and up) and the 5.5-inch iPhone 8 Plus (\$799 and up) are very good devices. The glass back gives them a fresh feel, and they handled graphics-intensive augmented-reality apps like champs. I had a lot of fun with the iPhone 8 Plus's improved camera portrait tricks.

If the iPhone X is the phone of the future, the iPhone 8 is more like a "just



The iPhone 8 was one of three new models introduced Tuesday.

right" Goldilocks phone of the present. But when you look at it in the context of its iPhone alternatives, it seems lost in limbo.

iPhone 6s (\$449 and up).

Seriously, Apple has kept this 2015 phone in the mix. (In smartphone years, it's well past retirement age.) For \$450, you get a phone that looks similar to the 8. Though behind in camera quality, battery life and performance, it has some of Apple's most recent tricks, including Live Photos and a 3D Touch screen. If there ever were a budget iPhone that still competes with mid-priced Androids, this is it.

iPhone 7 (\$549 and up).

The iPhone 7's price drop to \$549—or \$669 for the larger

Plus—makes it more desirable than ever. I promise you'll get over the missing headphone jack, and you'll enjoy the improved battery life and water resistance—all of which remain the same on the 8. The iPhone 7 Plus also has a dual-camera system, though it doesn't get the new Portrait Lighting tricks.

If you're upgrading from an older phone and don't want anything too large, the decision between a 4.7-inch iPhone 7 and the same-size iPhone 8 is the toughest one. Are you just paying \$100 for a fancy glass back? Or are the camera and performance improvements meaningful? (If you can hold off on pre-ordering, you'll benefit from our detailed comparative

testing, so stay tuned. You can also look at our iPhone X vs. iPhone 8 rundown here.)

If you currently have a 7, jumping to the 8 doesn't make sense. Best to hold out for the X... or even the XI.

iPhone X (\$999 and up).

You get it at this point: This is the phone to want. As my colleague Geoffrey Fowler said, the X moves the ball forward in a way no iPhone has in years.

The edge-to-edge 5.8-inch OLED screen is bigger and way better than the iPhone 8 Plus's, yet the X is smaller and easier to manage in your hand. And when you're starting at \$800, the \$200 difference matters less and less.

The front-facing camera

will turn your face into your password—or a talking poop emoji. The two rear cameras improve upon the iPhone 7 Plus's depth features. (The 4.7-inch iPhone 8 still has only one camera.) Plus, the iPhone X delivers two more hours of battery life, says Apple, compared with the iPhone 8 and 7.

So as you imagine holding that shiny new iPhone 8 in your hand, remember: Pay a bit more, and you get the entirely redesigned iPhone X that truly feels different. Pay a bit less, and you get the not-too-distant past, which will still feel like the future to anyone with an iPhone 6s or earlier.

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BUSINESS & TECHNOLOGY

If You Think Ransomware Is Bad, You'll Hate Hackers' Latest Tool

BY ROBERT MCMILLAN

of cyber extortion, those targeted by such efforts often have a difficult time determining how much data the hackers really have—and in some cases the extortion attempts are simply bluffs, he said.

Hacks involving HBO and Netflix Inc. in recent months have shed light on the extortion threat, which law-enforcement officials and companies that investigate these digital break-ins say has been on the rise in recent years. Instead of simply stealing passwords or credit-card data, or locking access to victims' systems as with ransomware, extortionist hackers try to unearth corporate secrets that they then threaten to make public if victims don't pay.

Because the extortionists threaten to expose sensitive material—embarrassing emails or intellectual property like unreleased movies and scripts, for example—the crime can be "more damaging and impactful to victim organizations than other types of theft of intellectual property," said Charles Carmakal, a vice president with cyber-investigations firm FireEye Inc. Adding to the insidiousness

ment agents and private investigators say both types of attack are on the rise.

In a survey of more than 2,600 executives, consulting firm Grant Thornton found that 17% of cyberattacks in 2016 involved blackmail or extortion, including ransomware attacks, versus 12% resulting in outright theft of customer data and 11% theft of other intellectual property.

"We're finding an increased incidence in the amount of illegal demands or threats, extortion, blackmail in various forms," said Paul Jacobs, a leader with the Grant Thornton's cybersecurity group.

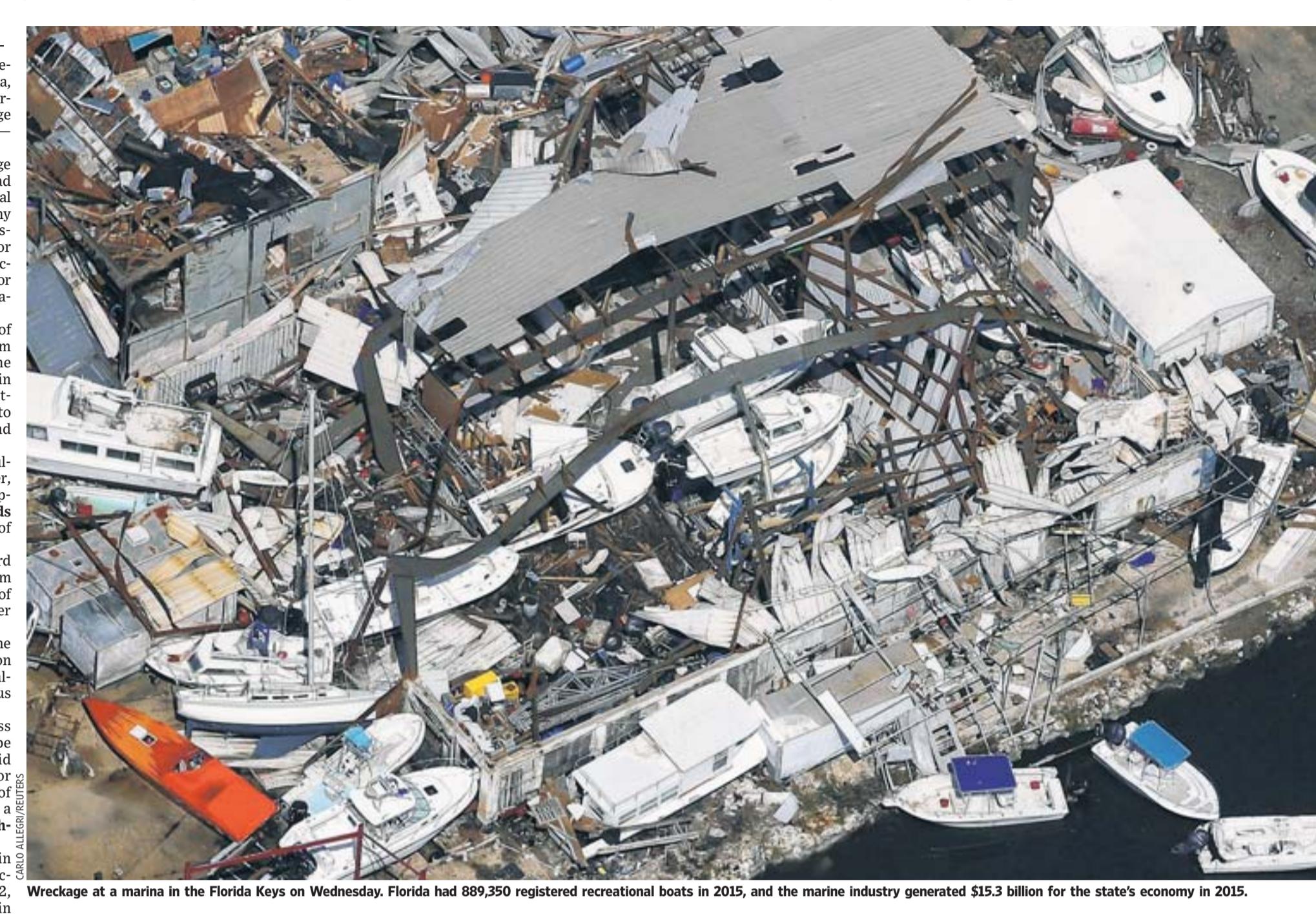
In the HBO incident, executives since July have grappled with hackers who stole programs and other information from the Time Warner Inc. unit's computer systems and demanded an extortion payment of approximately \$6 million to keep quiet.

The hackers have leaked unreleased episodes of HBO shows such as the comedy "Ballers," script notes for its hit show, "Game of Thrones" and other data.

—Joe Flint contributed to this article.

Hurricane Takes a Toll on Florida Boat Owners

BY NICOLE FRIEDMAN



Wreckage at a marina in the Florida Keys on Wednesday. Florida had 889,350 registered recreational boats in 2015, and the marine industry generated \$15.3 billion for the state's economy in 2015.

CARLO ALLEGRI/REUTERS

coast.

The record for boat loss in the U.S. from a hurricane occurred during Sandy in 2012, which caused \$650 million in damage to about 65,000 boats, he said. Hurricane Matthew, which hit Florida in October 2016, caused \$110 million in damage, according to BoatUS.

Irma's shift toward the western side of the state spared a lot of damage, as there are more boats on the eastern

payment.

Claims for boat damage are just beginning to trickle in, as people tend to deal with damage to their homes and cars first.

State Farm has about 15,000 boat policies in Florida but had received less than 20 Florida boat claims as of Wednes-

day morning, compared with 14,860 auto and fire claims, a spokeswoman said.

The Boat House, which operates three Florida boat dealerships, suffered minimal damage at its stores and expects the storm to help boost demand for new boats, said Tom Hansen, president of the company's

Florida operation.

After Hurricane Charley hit Florida in 2004, "I had one of my stores destroyed [but] we had one of the best years of business we've ever had," he said.

Demand for boat repairs and new boats from both Florida and Texas, where Hurricane Harvey landed in August, could restrict inventory in the rest of the country, Mr. Hansen said.

Harvey landed in August, could restrict inventory in the rest of the country, Mr. Hansen said.

Harvey was "the worst [storm] in recent history" for boats and marinas in Texas, said Ryan Miller, president of the Marina Association of Texas. "We've heard from a number of our marina members

that they are dealing with sunken boats and considerable losses," he said.

Some of those sunken boats leaked fuel, polluting the water and making the cleanup more difficult and expensive, Mr. Miller said.

"It's pretty devastating," he said.



BECK DIFERLICHT/RETNA

Security firm FireEye has observed a marked increase in cyberextortion incidents in recent years.

Facebook Stresses Brand Safety in Video Advertising

BY JACK MARSHALL

Facebook said it is testing in-stream video ads with hundreds of publishers, many of which are already creating content for its new video platform Watch. Plus, more than 10,000 publishers are now posting articles directly to Facebook using Instant Articles, which have gradually been allowed to carry more ads.

To alleviate brand-safety concerns, Facebook said that in the coming months it will begin providing advertisers with post-campaign reports specifying which publishers' content their ads appeared in, across in-stream videos, Instant Articles and its Audience Network ad network product.

The company said it wouldn't place ads alongside content that focuses on tragedy, conflict or debated social issues or that depicts acts or threats of violence, for example. It will remove ads from content that fails to comply with its guidelines.

Facebook hasn't had to deal with advertising-adjacency challenges to the extent many online media companies and ad platforms have, owing to the nature of its in-feed ad formats that appear as stand-alone entries as users scroll through their news feeds.

As the company rolls out its new in-stream video ad product and hosts more publisher content via its Instant Articles platform, advertisers are beginning to ask more questions about what types of content their ads might appear across the social network.

The new in-stream ads will appear as ad breaks in the middle of publishers' videos but won't be inserted in user-uploaded videos.

"We take very seriously our responsibility to earn and maintain the trust of our advertiser partners—and give them the confidence they need to invest in us," Facebook's vice president of global marketing solutions, Carolyn Everson, wrote in a blog post.

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¹ Ericsson, June 2016; Brookings Institute, July 2012; PGIM Real Estate, February 2017.

² Data as of 6/30/17.

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TECHNOLOGY COLUMNISTS

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Futures Contracts

Metal & Petroleum Futures

	Contract						Open interest
	Open	High	Low	Settle	Chg	Interest	
Copper-High (CMX) -25,000 lbs.; \$ per lb.	3,0195	3,0400	2,9510	2,9610	-0,0545	3,694	
Sept	3,0195	3,0400	2,9710	2,9810	-0,0550	208,199	
Gold (CMX) -100 troy oz.; \$ per troy oz.	1327.00	1327.00	1325.20	1323.40	-4,60	816	
Oct	1332.90	1336.10	1320.60	1324.20	-4,60	39,909	
Dec	1336.20	1340.50	1324.50	1328.00	-4,70	457,657	
Feb'18	1341.10	1342.30	1328.90	1332.10	-4,70	37,207	
June	1346.90	1349.90	1336.60	1339.80	-4,60	9,214	
Dec	1361.70	1361.70	1348.40	1351.30	-4,60	10,380	
Palladium (NYM) -50 troy oz.; \$ per troy oz.	948.35	948.35	948.35	939.35	-9,70	17	
Sept	949.75	950.00	931.65	933.70	-9,70	32,281	
March'18	941.95	941.95	930.70	929.05	-9,70	1,012	
Platinum (NYM) -50 troy oz.; \$ per troy oz.	991.20	991.20	991.20	982.30	-3,30	7	
Oct	992.60	994.00	979.50	982.30	-3,30	61,486	
Silver (CMX) -5,000 troy oz.; \$ per troy oz.	17,860	17,910	17,635	17,772	-0,023	1,077	
Sept	17,970	18,125	17,725	17,867	-0,023	159,583	
Crude Oil, Light Sweet (NYM) -1,000 bbls.; \$ per bbl.	48.34	49.40	48.12	49.30	1,07	300,216	
Nov	48.85	49.84	48.61	49.75	1,00	417,234	
Dec	49.26	50.17	49.02	50.10	0,93	337,816	
Jan'18	49.54	50.42	49.34	50.35	0,87	195,387	
June	50.17	50.82	50.01	50.80	0,60	173,664	
Dec	50.27	50.87	50.19	50.86	0,48	206,352	
NY Harbor Ursal (NYM) -42,000 gal.; \$ per gal.	1,7433	1,7739	1,7304	1,7685	-0,029	88,318	
Oct	1,7530	1,7674	1,7252	1,7639	-0,029	93,249	
Gasoline-NY RBOB (NYM) -42,000 gal.; \$ per gal.	1,6584	1,6741	1,6403	1,6473	-0,0090	96,029	
Nov	1,6002	1,6133	1,5933	1,6003	...	115,074	
Natural Gas (NYM) -10,000 MMBtu;\$ per MMBtu.	2,996	3,078	2,995	3,058	.057	194,009	
Oct	3,062	3,137	3,062	3,118	.051	211,695	
Dec	3,220	3,283	3,216	3,266	.045	109,586	
Jan'18	3,327	3,385	3,324	3,369	.040	143,338	
March	3,275	3,334	3,275	3,321	.039	105,224	
April	2,955	2,974	2,952	2,966	.015	121,534	

Agriculture Futures

	Futures						Open interest
	Open	High	Low	Settle	Chg	Interest	
Corn (CBT) -5,000 bu.; cents per bu.	339.50	344.25	339.25	338.50	-1,50	592	
Sept	351.00	356.75	350.25	351.50	...	802,671	
Oats (CBT) -5,000 bu.; cents per bu.	232.75	238.50	232.75	237.75	3,50	4,798	
March'18	245.00	246.25	244.75	245.25	3,25	971	
Soybeans (CBT) -5,000 bu.; cents per bu.	949.00	953.00	944.00	953.00	8,75	36	
Nov	950.00	962.35	946.75	960.50	10,00	374,786	
Soybean Meal (CBT) -100 tons; \$ per ton.	296.90	300.20	296.90	300.30	5,20	135	
Dec	299.80	306.00	298.70	305.40	5,40	189,747	
Soybean Oil (CBT) -60,000 lbs.; cents per lb.	34.84	34.88	34.84	34.72	-12	353	
Dec	35.22	35.46	35.03	35.09	-10	213,167	
Rough Rice (CBT) -2,000 cwt.; \$ per cwt.	1269.00	1276.50	1269.00	1264.00	-5,50	54	
Nov	1290.00	1301.00	1286.50	1291.00	-4,00	9,625	
Wheat (CBT) -5,000 bu.; cents per bu.	426.00	426.00	426.00	420.75	1,25	24	
Sept	441.25	449.75	441.25	443.25	1,25	261,501	
Wheat (KCI) -5,000 bu.; cents per bu.	420.50	420.50	420.50	418.25	2,25	40	
Dec	441.25	448.00	441.25	444.25	2,50	143,654	
Wheat (MPLS) -5,000 bu.; cents per bu.	626.25	620.75	626.25	626.25	...	1	
Sept	641.75	647.00	640.00	643.50	1,75	43,540	
Cattle-Feeder (CME) -50,000 lbs.; cents per lb.	147,750	148,925	146,250	148,600	.65	5,331	
Oct	148,950	150,250	147,350	149,625	.475	16,764	
Cattle-Live (CME) -40,000 lbs.; cents per lb.	106,400	107,825	105,400	107,550	1,275	103,801	
Dec	111,600	113,000	110,575	112,850	1,300	105,517	
Hogs-Lean (CME) -40,000 lbs.; cents per lb.	58.25	59.975	58.25	59.575	.125	73,139	
Oct	58.25	59.75	58.25	59.575	.125	87,781	
Lumber (CME) -110,000 bd. ft.; \$ per 1,000 bd. ft.	1,270.00	1,275.00	1,265.00	1,270.00	.07	56,775	
Sept	1,275.00	1,280.00	1,270.00	1,275.00	.07	56,775	
Milk (CME) -200,000 lbs.; cents per lb.	16.35	16.38	16.23	16.28	-.04	5,361	
Oct	16.17	16.26	15.90	15.94	-.16	4,497	
Cocoa (ICE-US) -10 metric tons; \$ per ton.	1,975	1,975	1,975	2,038	39	70	
Dec	1,957	1,995	1,950	1,990	39	145,812	
Coffee (ICE-US) -37,500 lbs.; cents per lb.	134.60	136.40	133.55	136.60	2,80	280	
Sept	135.05	138.30	135.05	137.85	2,80	115,798	

Interest Rate Futures

Interest Rate Futures					
Treasury Bonds (CBT) -\$100,000; pts 32nds of 100%					
Sept 156-150 156-280 156-030 156-030 -14.00 14,759					
Treasury Notes (CBT) -\$100,000; pts 32nds of 100%					
Sept 126-305 127-010 126-215 126-230 -6.00 75,564					
5 Yr. Treasury Notes (CBT) -\$100,000; pts 32nds of 100%					

BANKING & FINANCE

China Readies Sale of U.S. Dollar Bonds

By MANJU DALAL
AND CAROLYN CUI

China is laying the groundwork for its first sale of U.S.-dollar sovereign bonds in more than a decade, a move toward expanding its ties with global investors as its economy improves.

The government is preparing to sell \$2 billion in bonds this month, and investment banks are pitching for a role in the deal, according to bankers in Hong Kong.

While the planned sale isn't large and is mostly symbolic, it would be China's biggest-ever U.S.-dollar bond sale and its first since October 2004, when the country raised a total of about \$1.7 billion from selling dollar- and euro-denominated bonds that matured in five and 10 years.

China's Ministry of Finance didn't respond to requests for comment.

China has about \$200 million in outstanding U.S.-dollar sovereign-debt issues that it is scheduled to pay off in 2027 and 2096, and those bonds yield about 3.3% and 4%, respectively, according to the research firm CreditSights. The country issued several global bonds in the 1990s, including a 100-year \$100 million bond in 1996 with a 9% coupon.

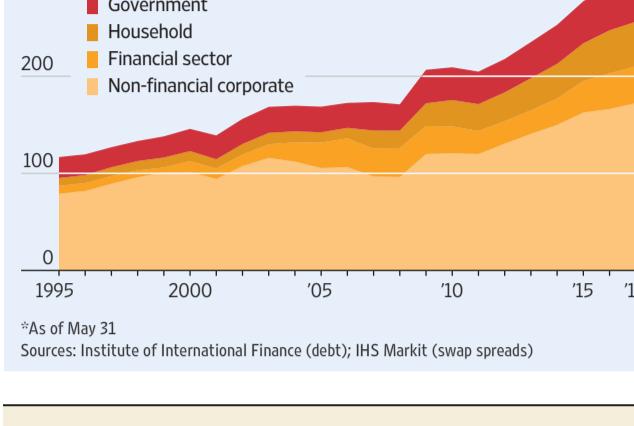
But the government has been largely absent from the market since 2004, as officials were coping with a continuous influx of "hot money"—sudden rushes of investment cash—and a rapid buildup of foreign reserves.

While China's economy has stabilized and its currency has strengthened against the dollar, the government's clampdown on capital outflows has hurt its credibility with many international investors. By issuing a

Cheaper China

Debt has soared in China in recent years, prompting some analysts to warn of increasing vulnerability. But the cost of insuring against a Chinese government default has declined this year, highlighting China's resilience.

China's outstanding debt as a percentage of GDP



Ten-year credit default swap spreads



Investors Scoop Up Lenders' Debt

Foreign investors last month more than tripled their holdings of a popular short-term debt instrument issued by Chinese banks, reflecting both the attraction of a rising yuan and a willingness to take on risk.

That made them among the leading buyers of "negotiable certificates of deposit," or NCDs, in August, a rare position for foreign investors in any Chinese debt market. Cen-

tral banks and sovereign-wealth funds were big buyers, according to a Shanghai-based banker at a global bank that trades on behalf of such foreign investors.

NCDs—effectively high-yielding bonds, generally with maturities of a month to a year—have become popular with Chinese banks, especially smaller lenders, since their launch in late 2013.

Foreign investors' holdings surged to 88.3 billion yuan (\$13.5 billion) in August, from 24.5 billion in July and just 2.2 billion yuan in January, according to data provider Wind Information.

—Shen Hong

Foreign Surprise

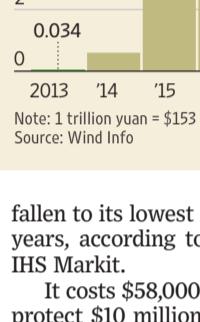
Foreign investors were the second-biggest buyers of negotiable certificates of deposit in August as the market expanded.

Outstanding value of NCDs

8 trillion yuan

Foreign investors' holdings

80 billion yuan



THE WALL STREET JOURNAL.

dollar bond, China hopes to improve its standing with the global investment community and draw some interest to its bond market.

"China clearly does not need the money and selling a dollar-denominated bond certainly does not help its long-term objective of promoting the yuan's

status as an international currency," said Eswar Prasad, a professor at Cornell University. "But at this stage, these objectives are overridden by the desire to rebuild investors' trust."

The bond sale is coming as the cost of insuring Chinese government debt against default in recent months has

fallen to its lowest level in two years, according to data from IHS Markit.

It costs \$58,000 annually to protect \$10 million of Chinese debt from default over five years, versus \$100,000 in September 2015. Some investors

use these credit-default swaps to hedge their holdings of Chi-

nese debt investments. Falling costs of protection indicate lower investor anxiety about the possibility of a financial crisis developing in China.

CreditSights said in a note last week that the new Chinese sovereign bonds could be priced to yield 0.5 percentage point over comparable Treasury

Goldman Bolsters Its Staff in Lending Area

By PETER RUDGEARIA
AND LIZ HOFFMAN

Goldman Sachs Group Inc. is poaching about 20 employees from online small-business lender Bond Street Marketplace Inc. as the Wall Street giant embraces loans as a source of growth, according to people familiar with the move.

The group—a mix of engineers, product developers and risk and marketing specialists—will join Goldman's growing consumer bank in the wake of Bond Street's recent decision to stop making new loans, according to the people.

Founded in 2013, Bond Street offered one- to three-year term loans to companies of up to \$1 million. It grew to about 35 employees and raised at least \$10 million through share sales to investors including venture-capital firm Spark Capital, Airbnb co-founder Nathan Blecharczyk and celebrity chef David Chang. (Goldman wasn't an investor.)

Recently though, Bond Street has faced challenges raising a new round of equity, which contributed to its decision to pause lending and run off its existing portfolio, one of the people familiar with the matter said. The company's outstanding loan portfolio will continue to be serviced as it pursues its next steps.

Bond Street's emphasis on technology fits well with Goldman's criteria as it surveys new lending opportunities. On Tues-

day, Goldman said it expects lending to account for nearly half of \$5 billion in revenue growth by 2020—a notable shift for a firm that long shied away from credit businesses.

Last year, the firm launched Marcus, an online consumer-lending business. It has reorganized a few hundred employees into a new division, Consumer and Commercial Banking, tasked with developing new lending products.

Goldman has looked outside for new talent, tapping a marketing chief from underwear brand Jockey International, a former Leo Burnett advertising executive to develop online content and personal bankers from

Goldman expects lending to account for nearly half of revenue growth by 2020.

Wells Fargo & Co.

Bond Street's loans have performed well enough that it was able to raise a \$300 million line of credit from investment-bank Jefferies Group LLC in February. Its automated underwriting process includes traditional inputs such as entrepreneurs' personal credit scores and their businesses' financial statements, but it also pulls in data from social networks and other sources used to fight fraud.

Exchange Looks at Marijuana Stocks

By DAVID GEORGE-COSH

TORONTO—As dozens of cannabis companies have flocked to raise capital on Canada's stock exchanges in recent years, the country's regulators are starting to question whether trading in their stock would run afoul of U.S. law.

The parent of the Toronto Stock Exchange and an umbrella organization of Canadian securities regulators are looking at cannabis companies with U.S. operations—including growers, medical-marijuana distributors and pharmaceutical firms whose products include marijuana ingredients—to determine whether trading their shares



Drying marijuana plants are inspected at a Canadian company.

would be allowed to continue on Canadian exchanges.

The regulatory attention comes as the Toronto Stock Exchange and its smaller rival, the Canadian Securities Exchange, have been actively courting marijuana-company listings from around the world. Currently, roughly half the trading activity on the Canadian Securities Exchange is from marijuana-based businesses, a high-growth sector.

Medical marijuana has been legal in Canada since 2001 for patients with valid prescriptions, and Canada is expected to formally legalize marijuana by July 2018. In the U.S., while eight states plus the District of Columbia have legalized marijuana and an additional 20 states have legalized it for medical purposes, it remains illegal under federal law, according

to a TMX Group statement.

"This is a complex matter which touches multiple aspects across our capital market system, and as such requires close examination and careful consideration," said a TMX spokeswoman. The company is cooperating with Canadian Securities Administrators, the umbrella group of provincial and territorial securities regulators.

Any action by Canadian regulators is likely to be closely watched by other countries grappling with how to treat the trading and clearing of marijuana stocks. Exchanges in Germany and Israel, for example, two countries that recently legalized medical marijuana and have publicly listed cannabis firms, also have been weighing listing standards for

Highfliers

Total market value of Canadian-listed marijuana companies, by exchange

C\$5 billion



Note: C\$1 = US\$0.822
Source: the exchanges

THE WALL STREET JOURNAL.

such companies.

"The industry wants clarity," said Richard Carleton, chief executive of the Canadian Securities Exchange.

There are 69 cannabis-related companies, representing a combined market value of about C\$7.8 billion (U.S. \$6.4 billion), trading on the Toronto Stock Exchange, the smaller TSX Venture Exchange and the Canadian Securities Exchange. These include over a dozen fledgling U.S. marijuana entities that have turned to Canada to raise money, including 11 companies on the Canadian Securities Exchange with some assets or operations in the U.S., said Mr. Carleton. There are at least four on the other two exchanges.

—Alexander Osipovich
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, assuming reinvestment of all distributions and after subtracting annual expenses. Figures don't reflect sales charges ("loads") or redemption fees.

NET CHG is change 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 s 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 p and r apply. v-Footnotes x and e apply. x-Ex-dividend. z-Footnote 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.

Wednesday, September 13, 2017

Fund	Net NAV	Chg %	YTD %Ret	Fund	Net NAV	Chg %	YTD %Ret	Fund	Net NAV	Chg %	YTD %Ret	Fund	Net NAV	Chg %	YTD %Ret	Fund	Net NAV	Chg %	YTD %Ret
American Century Inv	64.65	-0.06	25.7	InvWrltd	13.79	+0.04	15.8	InvGrbd	11.34	-0.01	4.0	Intgrwld	16.73	-0.01	13.8	Intgrwld	12.67	-0.04	24.3
Ultra	43.10	+0.03	23.6	LowPr r	... 3.8	55.32	+0.10	11.8	LowPrStk r	55.30	+0.09	11.9	Prudential CI 5 & I	10.49	... 1.7	TgtRelnc	13.50	-0.01	6.2
American Funds CI A	13.05	-0.01	4.7	Maglin	101.00	-0.04	30.7	Maglin	42.95	-0.13	9.9	TRBDZ	10.71	-0.01	2.3	TgtBdlnx	10.93	... 1.5	
AMUTa p	40.30	+0.03	10.5	OTC	108.92	... 30.7	30.7	OTC	11.30	-0.01	NA	AllAsset	NA	NA	NA	Wellsl	26.71	-0.01	6.3
BaBa p	26.88	-0.08	10.5	Purita	23.07	... 3.8	12.9	Purita	10.35	-0.01	5.2	SP&W Sel	38.95	+0.03	13.2	Wells	41.84	-0.01	8.5
Bond Street Marketplace Inc.	10.94	-0.01	3.9	TotalBndl	10.75	-0.01	3.6	TotalBndl	10.70	-0.01	3.6	TotIntBdlnxAdm	21.85	-0.01	1.5	Wells	37.77	-0.01	0.9
Bond Street Marketplace Inc.	11.29	-0.01	3.6	TotalBndlPr	10.71	-0.01	13.2	TotalBndlPr	10.39	-0.02	7.2	TotIntBdlnxAdm	21.85	-0.01	1.5	Wells	37.77	-0.01	0.9
Bond Street Marketplace Inc.	10.94	-0.01	3.9	TotalBndlPr	10.71	-0.01	13.2	TotalBndlPr	10.39	-0.02	7.2	TotIntBdlnxAdm	21.85	-0.01	1.5	Wells	37.77	-0.01	0.9
Bond Street Marketplace Inc.	10.94	-0.01	3.9	TotalBndlPr	10.71	-0.01	13.2	TotalBndlPr	10.39	-0.02	7.2	TotIntBdlnxAdm	21.85</						

MARKETS

Treasurys Fall for Third Day In a Row

BY AKANE OTANI

U.S. government-bond prices slid for a third consecutive day, as investors' demand for assets seen as safer stores of value waned.

The yield on the benchmark 10-year U.S. Treasury note settled Wednesday at 2.194%, compared with 2.171% on Tuesday. Yields rise as bond prices fall.

Investors retreated from U.S. Treasurys and gold, while major U.S. stock indexes hovered near all-time highs. The moves in recent days have marked a reversal from last week, when concerns about flaring tensions between the U.S. and North Korea and fears about the impact of Hurricane Irma sent havens higher while pressuring stocks.

With early estimates suggesting damage from Hurricane Irma was less severe than initially expected, and geopolitical concerns appearing to cool, investors said there appeared to be few new catalysts for bond prices to jump higher.

2.194%

The 10-year Treasury note's yield settled here on Wednesday

Earlier, bond yields held steady after the Labor Department said the producer-price index for final demand, which measures changes in prices that U.S. companies receive for goods and services, increased a seasonally adjusted 0.2% in August from a month earlier.

Economists surveyed by The Wall Street Journal had expected to see an increase of 0.3% from the prior month.

The PPI reading was the latest to show that inflation pressures have remained muted this year, even as the U.S. labor market has extended its recovery and the unemployment rate has remained around a 16-year low.

Many investors say yields are likely to remain in a narrow range through the end of the year, unless data suggest an unexpected pickup in inflation.

"We've yet to see wage growth that would filter into higher inflation numbers, which is really why rates have yet to meaningfully move higher despite where we are in the cycle," said Marc Bushallow, managing director of fixed income at Manning & Napier.

AUCTION RESULTS

Here are the results of Wednesday's Treasury auction. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

29-YEAR, 11-MONTH BONDS

Applications	\$26,488,241,700
Accepted bids	\$12,000,001,700
"noncompetitively	\$4,213,700
"foreign noncompetitively	\$0
Auction price (rate)	99.189503 (2.790%)
Interest rate	2.750%
Bids at clearing yield accepted	20.40%
Cusip number	912810RY6

The bonds, dated Sept. 15, 2017, mature on Aug. 15, 2047.

Energy Powers Stocks to New Highs

Many investors say earnings, the economy favor more advances; crude oil jumps 2.2%

BY AMRITH RAMKUMAR AND MARINA FORCE

The Dow Jones Industrial Average notched its 37th record of the year, boosted by shares of energy companies.

Major stock indexes have risen every day this week as investors have shaken off concerns over tensions between the U.S. and North Korea and early estimates have suggested that damage from Hurricane Irma was less severe than initially expected.

The S&P 500, Dow industrials and Nasdaq Composite hit records together for the first time since July on Tuesday and did so again on Wednesday.

While some investors say the largely uninterrupted nature of the stock rally has made them nervous, many argue that the earnings and economic backdrop for stocks remains favorable heading into the rest of the year.

"Momentum seems to be driving the bus," said Terry Sandven, chief equity strategist at U.S. Bank Wealth Management. "It's still a buy-the-dips environment."

The Dow industrials swung between small gains and losses before closing up 39.32 points, or 0.2%, at 22,158.18.

The S&P 500 edged up 1.89 points, or 0.1%, to 2498.37 and the Nasdaq Composite inched up 5.91 points, or 0.1%, to 6460.19. Both indexes turned positive late in Wednesday's session.

Energy stocks were among



Last week saw a record drop in gasoline inventories. Cars lined up Tuesday at a St. Martin gas station days after Hurricane Irma.

the best performers in the S&P 500 on Wednesday, rising alongside oil prices after the U.S. Energy Information Administration reported a record drop in gasoline inventories for the week ended Friday.

The S&P 500 energy sector gained 1.2%, posting its ninth day of gains in the past 10 sessions. Wednesday marked the first time this year the sector accomplished that feat.

Chevron shares rose \$1.69, or 1.5%, to \$114.18, accounting for nearly a third of the Dow industrials' gain for the day.

Chesapeake Energy rose

20 cents, or 5.3%, to 3.94.

U.S. crude for October delivery climbed 2.2% to \$49.30 a barrel, settling at the highest level in more than a month.

Earlier, stocks held steady and the dollar rose after the Labor Department said the producer-price index, a measure of inflation experienced by businesses, increased 0.2% in August from a month earlier. That was the largest advance since April, though still below what economists surveyed by The Wall Street Journal had expected.

The WSJ Dollar Index,

which tracks the U.S. currency against a basket of 16 others, gained 0.4%.

Government bonds fell, with the yield on the benchmark 10-year U.S. Treasury note rising to 2.194% from 2.171% Tuesday. Yields rise as prices fall.

Muted inflation readings have led many investors to doubt that the Federal Reserve will raise short-term interest rates for a third time this year.

It is increasingly likely that the Fed will hold off on additional interest-rate increases until inflation gets closer to the central bank's 2% target,

said Mark Heppenstall, chief investment officer at Penn Mutual Asset Management.

Elsewhere, the Stoxx Europe 600 wobbled between slight gains and losses before closing down less than 0.1%, snapping a five-session winning streak.

Japan's Nikkei Stock Average rose 0.5% Wednesday in its third consecutive session of gains. Early Thursday, the Nikkei was up a further 0.2%, while Hong Kong's Hang Seng Index was down 0.3% and South Korea's Kospi was up 0.2%.

Saudis Push OPEC for Curbs on Exports

BY BOEN FAUCON AND SUMMER SAID

OPEC has cut nearly one million barrels a day of oil output in the past year. But that isn't how the global crude market sees it.

Oil exports from member countries have also declined, but by a significantly smaller margin than production cutbacks.

The unusual discrepancy is muting the impact of a November 2016 deal aimed at curtailing oil supplies in a bid to lift prices, traders and analysts say.

It has also galvanized officials from Saudi Arabia, the world's biggest crude exporter and the main driver behind OPEC policies. They are now pushing for monitoring of exports, rather than just production, at a Sept. 22 meeting of oil producers in Vienna.

In the past, OPEC's production curbs translated into comparable declines in exports. This time around, some OPEC members are selling oil out of storage or reducing domestic consumption, leaving more crude available to ship overseas.

Commodities traders and oil-focused hedge funds have told Saudi officials in private



Khalid al-Falih, energy minister of Saudi Arabia. Higher oil prices would help its planned IPO for Aramco.

meetings that the surprisingly high rate of exports is helping keep oil prices low. Brent crude, the global benchmark, settled at \$55.16 a barrel on Wednesday. That represents a decline of 3.4% from its 52-week high of \$57.10 in January.

From Saudi Arabia's perspective, one significant motivation behind the renewed drive to restrain supplies is the planned initial public offering of state-owned **Saudi Aramco Oil Co.**, which will likely garner a richer valuation

in an environment where oil prices are higher.

Any change would likely face resistance from other OPEC members, which are wedded to tradition and might not want to disclose more about oil operations often viewed as state secrets. Taken together, nations that are a part of OPEC control more than 40% of the oil pumped worldwide every day.

"The level of exports is the only measurement markets care about," said John Hall, chairman of U.K. consulting

firm Alfa Energy. "So cutting them will definitely boost oil prices."

Since October 2016, the month that serves as the baseline for OPEC's agreement to cut output, exports from the cartel's 14 members have declined 213,000 barrels a day, according to Kpler, a private firm that tracks oil tankers and global petroleum movements. That is a million barrels a day less than the cartel promised to cut from its production.

In actuality, OPEC's output

was about 880,000 barrels a day less in July compared with October 2016, according to the International Energy Agency, which advises governments and companies.

Saudi Arabia has already begun drastically scaling back its crude-oil exports, reducing them to 6.6 million barrels a day in August compared with more than seven million barrels a day in July, according to Kpler.

At a late July meeting of oil producers in St. Petersburg, Russia, Saudi Arabia's energy minister, Khalid al-Falih, disclosed plans to cut exports and asked other countries to follow suit. "Exports have now become the key metric for financial markets," Mr. Falih said, calling for a new method of controlling and monitoring OPEC's exports.

Overall, OPEC's exports fell by 639,000 barrels a day in August from July, according to Kpler. Saudi Arabia and the United Arab Emirates accounted for almost all of the decline. Algeria, Angola, Iran and Kuwait increased exports.

Although no countries have publicly challenged Mr. Falih on the shift in emphasis, OPEC ministers see cutting exports as a tough sell, according to people close to the cartel.

The Bears Appear to Be Stalking Japanese Yen, or Are They?

BY SAUMYA VAISHAMPAYAN

Hedge funds have been consistently betting against the Japanese yen this year, even though the currency is

on track for its biggest annual rise against the U.S. dollar in seven years.

The reason may have little to do with Japan, but rather a strategy of using the yen to invest in currencies or bonds of other nations with higher yields, known as the carry trade.

The yen has gained 5.9% against the dollar in 2017, its biggest rise since 2010, when it surged 14%.

Even so, hedge funds and other investors have largely been negative on the yen this year, as measured by data on futures and options contracts from the Commodity Futures Trading Commission. The

data show that net wagers the yen would decline, known as a short position, hit an almost two-year high in the week ended July 18.

While traders have since pared the number of negative bets somewhat, the yen is still the most heavily shorted among major currencies such as the euro and British pound.

Traders say many hedge funds aren't necessarily taking a view that the yen is going down. Instead, they say the funds are likely borrowing the yen to buy other currencies and bonds with juicier returns. That gets logged as a bearish yen wager in the CFTC's data, they said.

"We've seen a substantial amount of interest in that across the spectrum. Everyone is trying to express some form of carry," said Ruchir Sharma, head of Asia-Pacific foreign-exchange trading at Credit Suisse Group AG in Singapore.

So Negative

The net number of futures and options contracts held by hedge funds betting on a rise in the Japanese yen



Investors have piled into emerging-market stocks and bonds with renewed enthusiasm in 2017. Those inflows, along with decent economic and trade data, have boosted several currencies. Weak inflation in the U.S. has also helped, as it raises doubts the Federal Reserve will raise rates again this year.

The Indian rupee, Chinese

yuan and South African rand each have surged more than 5% against the dollar in 2017.

Carry-trade investors, who often use borrowed money to amplify returns, have continued to use the yen to buy these soaring emerging-market currencies.

Hedge funds have been able to make enough money from their purchases of higher-yielding assets that they are comfortable holding on to their short yen positions, despite the currency's gain, according to Mr. Sharma. In the current environment, it would take a much stronger yen, perhaps around ¥102 to the dollar, for those funds to throw in the towel on carry trades. Late Wednesday in New York, the dollar bought ¥110.49.

Robert Savage, head of the currency hedge fund CCTrack Solutions in New York, said he is buying the Indian rupee and other emerging-market cur-

rencies as part of carry-trade strategies, and that some of those trades are funded with the Japanese yen.

Still, some investors see fundamental reasons why the yen should fall against the dollar. Many expect the Fed to keep raising rates in coming months, even if the timing is debated. Higher U.S. interest rates should boost the dollar against the yen, especially as the **Bank of Japan** is expected to keep its monetary policy loose in the near term.

"For me, it's all about the rate differential," said Kisoo Park, a global bond manager at Manulife Asset Management in Hong Kong, referring to the dollar-yen exchange rate.

Even so, other factors could push the yen higher. Heightened geopolitical tensions, especially around North Korea, could benefit the yen, which is traditionally viewed as a haven investment.

MARKETS

Dollar's Drop Lifts Emerging Markets

BY JON SINDREU

The U.S. dollar's nose dive is fueling a rally in emerging-market assets.

Since the start of this year, the dollar has fallen 8% against a basket of currencies, based on the WSJ Dollar Index.

That is good for emerging markets because their dollar-denominated debts become cheaper to service, roll over and pay back. Research also shows that international lenders are more willing to lend whenever the U.S. currency falls. Meanwhile, developing-market economies are in good shape, adding to the positive view of these markets.

The value of emerging-market equities and bonds has surged. The MSCI Emerging Markets stock index has returned more than 30% this year, compared with 15% for the developed-market MSCI World Index and 13% for the MSCI USA.

Net flows into emerging-market equity funds have increased this year by 0.5% of the total assets they manage, according to fund tracker EPFR Global. That compares with a 2% fall in the money going into richer nations.

That outperformance could be set to continue as the dollar stays weak. Strategists say stubbornly low inflation will ensure that the Federal Reserve's easy-money policies stay in place for longer, putting pressure on the currency.

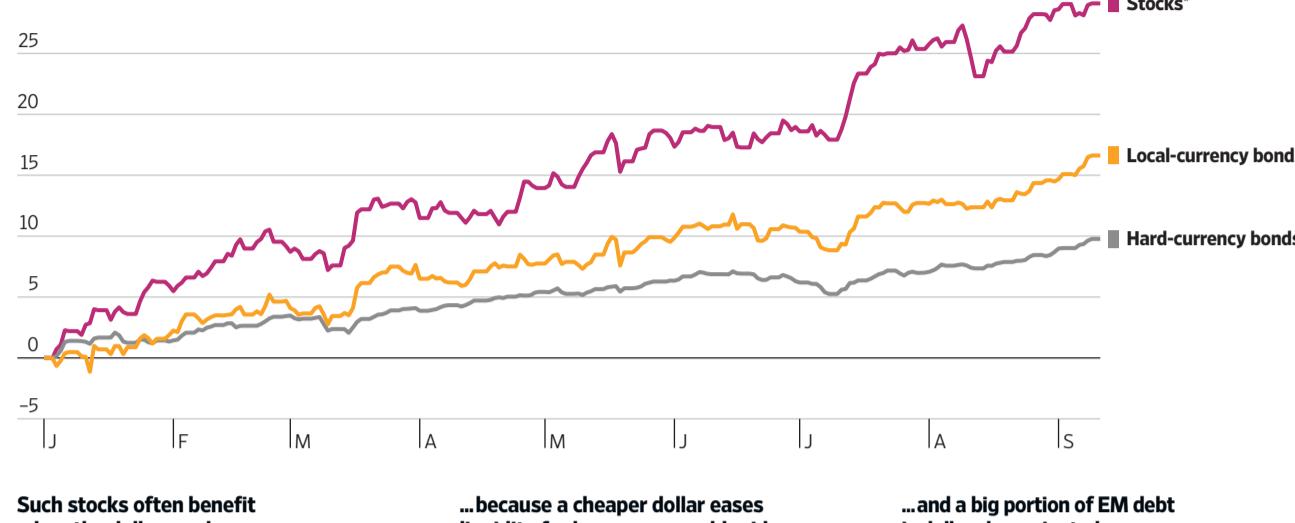
"A weaker dollar eases global financial conditions," said Jack McIntyre, portfolio manager at Brandywine Global, because many companies in emerging nations borrow in dollars, "so if the dollar is strong, this means they have to pay back their debt in a higher currency."

A net 47% of investors are positioned to gain if developing-nation stocks go up—a seven-year high—while bets against the dollar have multiplied, according to a survey of fund managers published Tuesday by Bank of America Merrill Lynch.

Greenback Boost

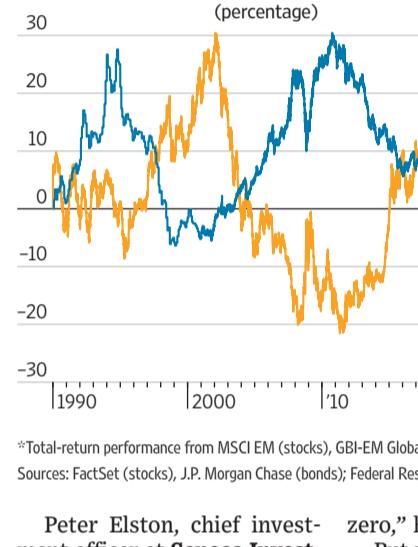
The weaker dollar is sending emerging markets soaring.

Total return for these countries' assets this year. Hard-currency bonds are usually in dollars, so they have rallied less.



Such stocks often benefit when the dollar weakens...

Change since 1989

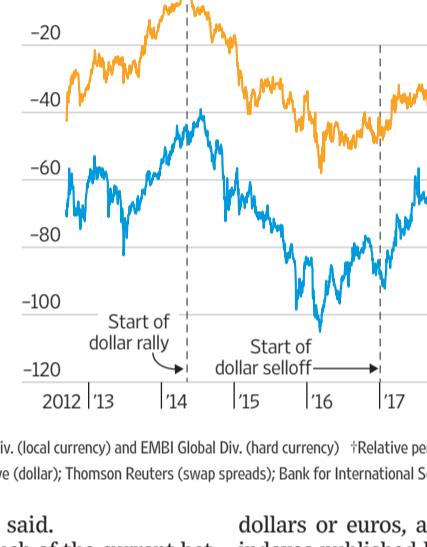


*Total-return performance from MSCI EM (stocks), GBI-EM Global Div. (local currency) and EMBI Global Div. (hard currency) †Relative performance based on total-return MSCI indexes

Sources: FactSet (stocks), J.P. Morgan Chase (bonds); Federal Reserve (dollar); Thomson Reuters (swap spreads); Bank for International Settlements (bonds outstanding)

...because a cheaper dollar eases liquidity for borrowers worldwide...

Five-year cross-currency swap spreads; less negative spreads mean dollars are less scarce



Peter Elston, chief investment officer at **Seneca Investment Managers**, believes the U.S. economy is due to slow by 2020, so he is now selling stocks in the U.S. and buying them in emerging markets. "In some of our funds, we can't reduce U.S. stocks any further because we are already at

zero," he said. But much of the current bet on emerging markets is due to the declining greenback, rather than just robust economics.

Since the start of the year, emerging-market bonds issued in local currencies have returned 17%, compared with 10% for bonds in currencies such as

dollars or euros, according to indexes published by J.P. Morgan Chase & Co.

Over the past year, Claudia Calich, who runs the Emerging Markets Bond Fund at **M&G Investments**, a £281 billion (\$373 billion) asset manager, has doubled the share of her allocations devoted to local

currency debt to almost 40%, including assets in Mexican pesos and Egyptian pounds.

Since the late 1990s, emerging-market equities have usually outperformed when the dollar declined and struggled when the greenback rallied.

This is in contrast with large-cap developed-market in-

dexes, which usually move in lockstep with the dollar, since the multinational firms they track get most of their revenues in foreign currencies.

Emerging countries are different, analysts say, because their dependence on dollar credit is greater and a strengthening greenback makes it more costly to roll over loans. That offsets any gains from higher overseas income.

It isn't just that borrowing gets more expensive. International lenders—who also rely on dollar funding—can often close their wallets whenever the U.S. currency's value goes up, according to research by the Basel-based Bank for International Settlements, and that can hit emerging-markets the hardest.

Signs of stress can be gauged by the cross-currency basis swap spread, which measures the gap between money-market and derivative-market rates when borrowing in dollars. When the dollar started rallying in 2014, it grew wider. As the U.S. currency sold off this year, that gap narrowed.

According to research by consultancy Oxford Economics, this "cross-border liquidity channel" linked to the dollar is crucial for developed markets, especially Latin America.

By share of bonds outstanding made up of international securities issued in foreign currencies, Turkey is the most exposed at 46%, BIS figures show, followed by Argentina and Peru.

Foreign borrowers also benefit from low dollar-lending rates. Yields on 10-year Treasurys are below 2.2%, from 2.5% at the start of the year.

For emerging markets, the situation is radically different from last year, when the prospect of higher fiscal spending in the U.S. boosted the dollar and Treasury yields. That led to a fear of an emerging-market sell-off, like in 2015, when the MSCI Emerging Markets index fell 17% on concerns over the Chinese economy and the end of stimulative monetary policy.

HEARD ON THE STREET

Email: heard@wsj.com

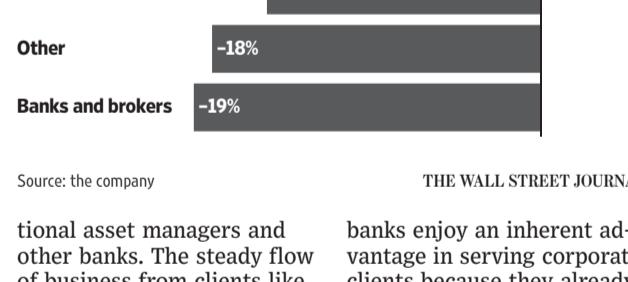
FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Goldman's Trading-Client Hunt

Wanted: More Corporate Clients

Goldman Sachs's fixed-income, currency and commodities sales, change from a year earlier, first half, by type of client



Source: the company

isn't rising, making this a zero-sum game among banks.

Goldman's other growth plans look easier to achieve. In particular, it aims to increase lending to corporate clients, wealth-management clients and ordinary consumers. Goldman is starting from a low base in lending, so this will mainly be a function of how much capital it is willing to commit. The bank's strong position in merger advisory and wealth management also give it a pool of potential borrowers.

Though Mr. Schwartz didn't mention it, another key to turning around the trading business will be to avoid costly mistakes such as the directional bet on natural gas prices that cost Goldman dearly in the second quarter.

The first step to recovery is admitting you have a problem, which Goldman has done. Now, it needs to show it has the chops to take trading business from top rivals. Investors shouldn't assume it will go so smoothly as depicted in Goldman's presentation.

—Aaron Back

OVERHEARD

There is a fine line between marketing genius and folly. Has Olive Garden, which once again will be selling its sought-after "Never Ending Pasta Pass" on Thursday, crossed it?

The chain, owned by **Darden Restaurants**, certainly has upped the ante this year. In addition to the right to pay \$100 for one meal per visit during an eight-week period—already a very popular offering judging by how quickly passes have sold out in the past—applicants have the chance to snag 50 "Pasta Passports."

The latter includes the pasta pass as well as an eight-day trip to Italy for two for just \$200 plus tax next April.

The danger isn't that customers will be tempted by the more valuable passport and eschew the regular pass—those should sell out again—but whether the passport winners will ever return to their local Olive Garden after eating actual Italian food in Italy.

For Western Digital, Pain Is Flashing

Western Digital is learning that there is a price for friendship or, in the case of **Toshiba**, a lack of it.

That explains the reaction Wednesday after The Wall Street Journal reported that Toshiba signed a memorandum of understanding with a consortium of buyers interested in its flash-memory chip division. That consortium reportedly includes SK Hynix, a Western Digital rival. Western Digital's stock slumped 3.4% after the news.

Western Digital inherited a decadelong relationship with Toshiba when it acquired SanDisk in late 2015. The bankruptcy of Toshiba's Westinghouse Electric unit has forced the Japanese conglomerate to seek a buyer for its memory business to raise capital.

That process has bogged down, though, in large part because Western Digital insists it has veto rights over any buyer and has taken the matter to court. Western Digital, it should be noted, also is a bidder for the business.

The recent development is just the latest sign of how strained the relationship has become between Toshiba and Western Digital. That tension was reportedly enough for Western Digital Chief Executive Steve Milligan to send a letter to Toshiba last month saying he was "deeply sorry" for the "significant ill will" between the two companies, according to Reuters.

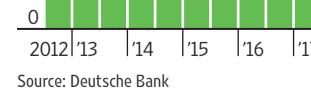
The prospect of a rival like Hynix owning a piece of the business is very unappealing to Western Digital. Western Digital says it will continue to defend its interests. That still could result in a needed victory, but it won't win it any new friends.

—Dan Gallagher

Credit Cards Could Become China's Next Debt Addiction

Spend Away

Number of new credit cards issued by China's joint-stock banks



Source: Deutsche Bank

have high savings—and away from the highly indebted corporate sector.

The big enablers have been China's so-called joint-stock banks, which are usually mid-size lenders. Interest and fees related to credit cards accounted for 20% of their total revenue in the first half, on average, according to Deutsche Bank analysts.

Banks are eager to find new income streams, as regulatory pressure on their lucrative shadow lending intensifies. Retail lending comes with high margins and lower capital requirements—a handy combination.

Credit-card receivables

grew by more than 40% year over year in midsize banks' loan books in the first half, accounting for more than 10% of their total loans. That compares with 4% across the banking system, according to Deutsche Bank.

Investors can expect the trend to gather speed, with plenty of room for credit-card use to grow in China. Households are becoming more indebted, but most of that to date is mortgages. Credit cards account for only 13% of Chinese debt, according to Deutsche Bank estimates.

Despite 29 million new credit cards being issued in the second quarter alone,

taking the total issued to just over 500 million, credit-card penetration remains about 0.3 per capita—far below the 3.1 per head in the U.S.

About half of Chinese consumers use credit cards to pay for goods now, and most are still making good on their debts. Transaction sizes, too, are rising. The worry—as ever with China—is that new forms of debt quickly become addictive, and consumers could get carried away.

For now, credit cards look a rare bright spot for embattled Chinese banks. But the risk of maxing out is always there.

—Anjani Trivedi

Chinese consumers are alive and well—and increasingly carrying a credit card in their pockets.

China's rapid shift toward mobile payments has led

some to assume the country would somehow bypass credit cards on the way to becoming a cashless society.

The latest figures suggest otherwise: Credit-card loans in China rose 31% on the year to almost 4.69 trillion yuan (\$718 billion) in the second quarter, according to central-bank data.

In particular, Goldman wants to broaden its client base away from hedge funds, which it dominates, to process more trades for corporate clients as well as tradit-