

THE WALL STREET JOURNAL.

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What's News

Business & Finance

Amazon said it plans to open a second headquarters in North America to house up to 50,000 largely new employees. **A1**

◆ **Draghi** signaled that the ECB is likely to announce plans for phasing out its bond-buying program next month. **A1**

◆ **The yuan's recent surge** has blindsided Wall Street and stands to complicate China's policy decisions. **B1**

◆ **Pension plans** in developed nations are putting money into riskier assets as their population ages. **B1**

◆ **Disney intends** to stream its Marvel and "Star Wars" movies through its planned video service rather than renewing a deal with Netflix. **B1**

◆ **VW said** it is working on deals for its noncore assets but that talk of a possible merger with Fiat Chrysler was "speculation." **B3**

◆ **Lilly plans** to cut its global workforce by about 3,500 people, or 8%, and close several facilities. **B3**

◆ **Apple's new iPhone**, which is expected to be unveiled Tuesday, was plagued by production glitches that could result in shortages. **B4**

◆ **Activist investor Peltz** presented a detailed case for why P&G should give him a board seat. **B5**

◆ **U.S. airline shares** have tumbled due to Hurricane Harvey and a fare war. **B8**

◆ **Square is applying** for a banking license, the third financial-tech firm to do so. **B5**

World-Wide

◆ **Republicans** said they were making progress in talks to overhaul the U.S. tax code but that cutting the corporate rate to 15% might not be possible. **A1**

◆ **Hurricane Irma** threatened more Caribbean islands after killing at least seven people, as forecasts put it on course to hit the U.S. **A3**

◆ **U.N. member countries** are helping North Korea evade sanctions meant to halt its nuclear-weapons program, a new report said. **A3**

◆ **Trump refused** to rule out military action against North Korea during a White House news conference. **A5**

◆ **Trump's eldest son** defended his meeting with a Russian lawyer last summer in testimony before congressional investigators. **A5**

◆ **Israel struck** a Syrian military compound in what former officials said was an effort to thwart threats from Iran and Hezbollah. **A2**

◆ **A Turkish ex-minister** and three others were charged by U.S. prosecutors in an alleged scheme to help Iran evade U.S. sanctions. **A3**

◆ **Spain said** it would pursue criminal cases against Catalonia officials over plans for an independence vote. **A3**

◆ **Australia's top court** cleared the way for a nationwide vote on legalizing same-sex marriage. **A3**

◆ **Americans are** increasingly skeptical about the value of a college degree, according to a new survey. **A5**

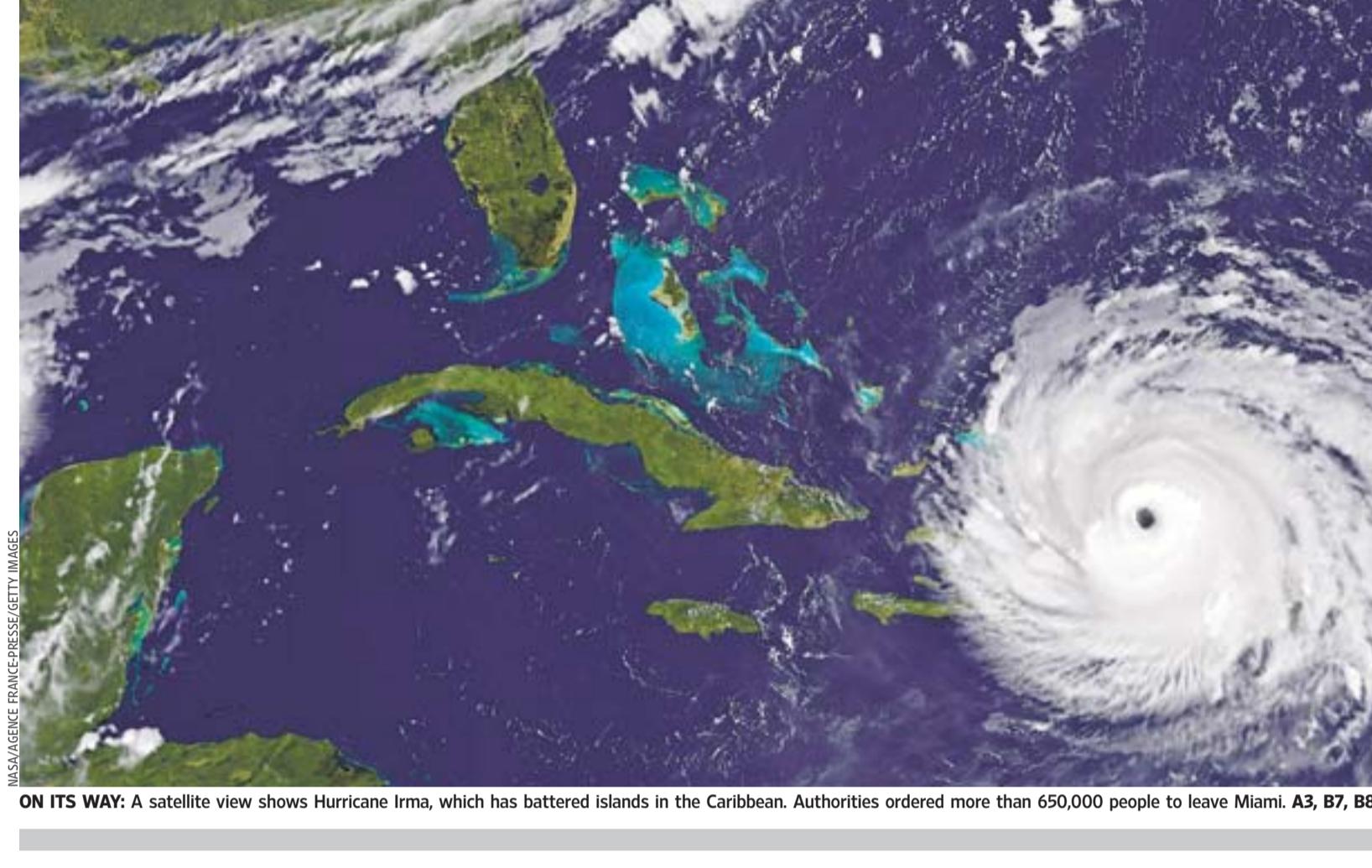
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Miami Expands Evacuation as Irma Nears U.S., Leaving Destruction in Its Wake



ON ITS WAY: A satellite view shows Hurricane Irma, which has battered islands in the Caribbean. Authorities ordered more than 650,000 people to leave Miami. **A3, B7, B8**

Amazon Seeks Second Home

Added headquarters in North America is expected to house up to 50,000 workers

BY LAURA STEVENS AND CARA LOMBARDO

Amazon.com Inc. said it plans to open a second headquarters in North America to house up to 50,000 employees, signaling the company has no

plans to slow its hiring tear of recent years.

The Seattle-based company is seeking proposals by Oct. 19 for a location for the facility, which it said on Thursday could cost as much as \$5 billion to build and operate. Amazon plans to pick a site next year.

The new headquarters' staff would be largely new employees. The jobs would be in addition to the 100,000 full-time positions that Amazon said earlier this year it would cre-

ate through mid-2018, most of which are in the online retailer's warehouses.

The second location will "be a full equal to our Seattle headquarters," Amazon Chief Executive Jeff Bezos said in prepared remarks. It will "bring billions of dollars in upfront and ongoing investments, and tens of thousands of high-paying jobs," he said. "We're excited to find a second home."

Over the past two decades,

Amazon has grown from an online bookseller founded in Mr. Bezos's garage to a sprawling tech giant. It now has a Hollywood studio, a booming device business including its artificial intelligence assistant Alexa, and a very profitable cloud-computing service.

To staff the expansion, the number of employees at Amazon's Seattle headquarters has grown rapidly over the past Please see AMAZON page A2

EMPLOYERS GET NEW TASK: STORM REPAIR

Big corporations shell out funds to get staff back to work; long-term costs begin to add up

Senate Approves Contentious Deal

The Senate passed a deal Trump struck with Democrats that paired Harvey relief with a debt-ceiling extension..... **A6**

By Erin Ailworth,
Vanessa Fuhrmans
and Lynn Cook

HOUSTON—Chemicals maker Covestro AG set up a drive-through station for employees to pick up bleach, plastic tarps, gas and other emergency supplies.

Occidental Petroleum Corp. is housing displaced staff in hotels and is giving out interest-free loans and \$5,000 grants to pay for repairs.

When Beaumont's water service failed, Exxon Mobil Corp. used a fleet of 36 helicopters to deliver water to employees and their families.

"It's a small price to pay,"

said Jerry MacCleary, the North America chief for Germany's Covestro, which was forced to stop production at its Baytown, Texas, manufacturing site, its biggest in the U.S., after Hurricane Harvey knocked out key local suppliers and many of its employees couldn't get to work.

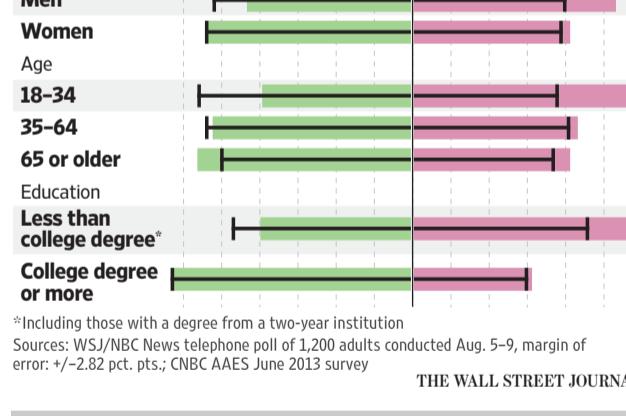
"We can't run this place without people."

Please see HARVEY page A6

FRANKFURT—The European Central Bank is likely to announce plans for phasing out its bond-buying program next month, bank President Mario Draghi signaled Thursday, taking a tentative step toward withdrawing a controversial stimulus tool that has helped reinvigorate the eurozone economy but also

Slipping Grades for Higher Education

Fewer Americans say a four-year college degree is worth the cost, especially younger people and those without such a degree. **A5**



*Including those with a degree from a two-year institution

Sources: WSJ/NBC News telephone poll of 1,200 adults conducted Aug. 5-9, margin of error: +/- 2.82 pct. pts.; CNBC AAES June 2013 survey

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GOP Cites Progress Crafting Tax Plan

BY RICHARD RUBIN

WASHINGTON—Republicans pointed to progress in their negotiations to overhaul the U.S. tax code even though one of President Donald Trump's top priorities—lowering the corporate tax rate to 15%—might not be achievable.

Rep. Kevin Brady (R., Texas) said Thursday after a meeting of top negotiators in the Capitol that the GOP was making "real progress" toward a tax-policy framework, though he wouldn't provide details.

"We're getting a lot closer to finalization," a White House official said after the meeting. "There were some very specific items that had been outstanding that were put on the table today and consensus was reached."

The official declined to specify which areas were the subject of a consensus.

The level of the corporate tax rate could be a sticking point. House Speaker Paul

Please see RYAN page A5

◆ Trump won't rule out military action on North Korea..... **A5**

As Euro Strengthens, ECB Weighs Future of Stimulus

BY TOM FAIRLESS AND PAUL HANNON

FRANKFURT—The European Central Bank is likely to announce plans for phasing out its bond-buying program next month, bank President Mario Draghi signaled Thursday, taking a tentative step toward withdrawing a controversial stimulus tool that has helped reinvigorate the eurozone economy but also

sparked fierce opposition in its largest member, Germany.

At a news conference, Mr. Draghi said policy makers this week discussed options for reducing stimulus and would likely decide at their next meeting on Oct. 26 how to calibrate bond purchases next year, amid strengthening growth across the 19-nation eurozone and early signs of an uptick in underlying inflation.

Any move to wind down the

purchases, known as quantitative easing or QE, would put the world's two most powerful central banks back on a similar policy course. The Federal Reserve has been gradually raising interest rates since late 2015 and could signal this Please see ECB page A4

◆ Low inflation gives Fed pause on next rate increase..... **A5**

◆ Heard on the Street: Strong euro puts ECB in a bind..... **B8**

This Just In: Burning Man Has a Newspaper War

* * *

'Burnalists' at the offline festival battle heat—and competition

BY JACK NICAS

BLACK ROCK CITY, Nev.—The Black Rock Beacon's morning news meeting started an hour late one day last week. A dust storm the night before blew the newsroom down.

Around 11 a.m., while many attendees of the weekend Burning Man counterculture festival were still awake from

the night before, a crew of 10 "burnalists" gathered under a new tent to plan the next day's newspaper.

The photographer was a blue-haired mailman from Canada. The masthead designer was a San Francisco graphic artist, drinking a beer and wearing a bacon-themed outfit who introduced himself as

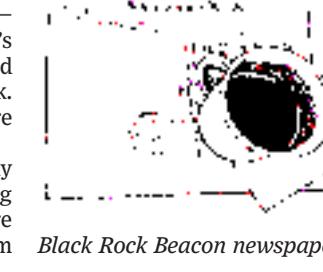
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U.K.'S NEXT BREXIT HURDLE

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A PAean TO PIONEER STYLE
OFF DUTY, W1

CUSTOMIZE YOUR HIGH-RISE
MANSION, W9



Black Rock Beacon newspaper

WORLD NEWS

New Conflict Looms in Syria as ISIS Fades



MIDDLE EAST CROSSROADS

By Yaroslav Trofimov

The Syrian regime's successful offensive in Deir Ezzour this week pushed it ahead in the race against America's Kurdish-led allies over who will inherit Islamic State's remaining Syrian real estate.

With the extremist group losing ground fast, President Bashar al-Assad has emerged in his strongest position since the Syrian uprising began in 2011. Yet large parts of the country remain outside his reach, including an American-protected zone run by the Kurds in northeastern Syria and a smaller Turkish occupation zone nearby.

The question now is where precisely the line between regime and Kurdish areas will be drawn after Islamic State's defeat and whether it will solidify into a semi-permanent partition of the country or spark a new bout of violence that could force the

U.S. to make difficult choices.

American military planning calls for the Kurdish-led Syrian Democratic Forces, currently finishing the battle to take Raqa from Islamic State, to push further south down the Euphrates River and to seize the extremist group's remaining cities of Mayadeen and then al-Bukamal on the Iraqi border. That contested swath of Syria also holds most of its oil and gas reserves.

This week's blitz by the Syrian army and its Shiite militia allies to relieve a besieged garrison in Deir Ezzour could within days cut off the way for such SDF advances. Large parts of the city remain under Islamic State control.

"It was a race but once the regime takes Deir Ezzour, it's game over for the U.S.-led coalition. They will have to stop," said Monzer Akbik, a leader of the mostly Arab Tayyar al-Ghad party that is loosely allied with the SDF. "After Deir Ezzour, the regime will be able to go to al-Bukamal, and once al-Bukamal is taken, the Iranians will have achieved an uninterrupted land route from Tehran to Baghdad to Damascus to Hezbollah in Beirut."

The regime and SDF aren't enemies, so far. They both share a hostility to Turkey and Turkey's Syrian proxies, who occupy an area northeast of Aleppo. Despite isolated skirmishes over the past year, regime-held en-

claves operate inside Kurdish territory in the northeastern cities of Hasakah and Qamishli, while the large Kurdish enclave of Afrin in western Syria enjoys Russian protection from Turkey and is connected to the rest of the world through regime territory.

"The SDF and the regime generally did not fight each other until now. We will see soon whether this will still hold true," said Andrew Tabler, a Syria expert at the Washington Institute for

Near East Policy.

"The idea in U.S. policy circles is that we will now have a soft partition of Syria along the Euphrates, as it was along the Elbe [in Germany] at the end of the Second World War, except that the Americans are now coming from the east and the Russians from the west. But the regime and the Iranians are not interested in a soft partition. What they are after is a military victory."

Indeed, Mr. Assad has repeatedly rejected the idea of

maintaining Kurdish autonomy in northern Syria. Safwan Akkash, one of the leaders of the moderate and predominantly Sunni Arab Syrian opposition, predicted that the regime will eventually attack America's Kurdish allies.

"The regime will not tolerate a Kurdish autonomous region," he said. "Everything will be temporary in the sharing of influence between the Russians and the Americans. The current conflict will be followed by another conflict."

That may not happen

immediately, in part

because the U.S. and Russia are loath to see a full-out war between the regime and the SDF. The regime also has more immediate priorities, such as rebel-dominated Idlib province in the northwest, which is increasingly controlled by jihadists allied with al Qaeda.

But such a conflict appears imminent and should it erupt, it would confront Washington with an unpalatable choice of either abandoning its Kurdish allies or taking direct military action against the Assad regime, said Robert Ford, the U.S. ambassador to Syria under the Obama administration who is now a fellow at the Middle East Institute in Washington.

"Sooner or later, the government in Damascus will try to reimpose its authority. Will they move in six months, a

year, 18 months?" Mr. Ford said. "That will be a big decision for the Trump administration: Should they use American armed forces to protect the Syrian Kurdish autonomous region? If they do, it would be against international law, and I don't think there is any country in the region that would support it."

One hope of avoiding such a scenario—which would, among other things, strain even further the already fraught U.S. relationship with Russia—lies in the United Nations-sponsored peace process in Geneva.

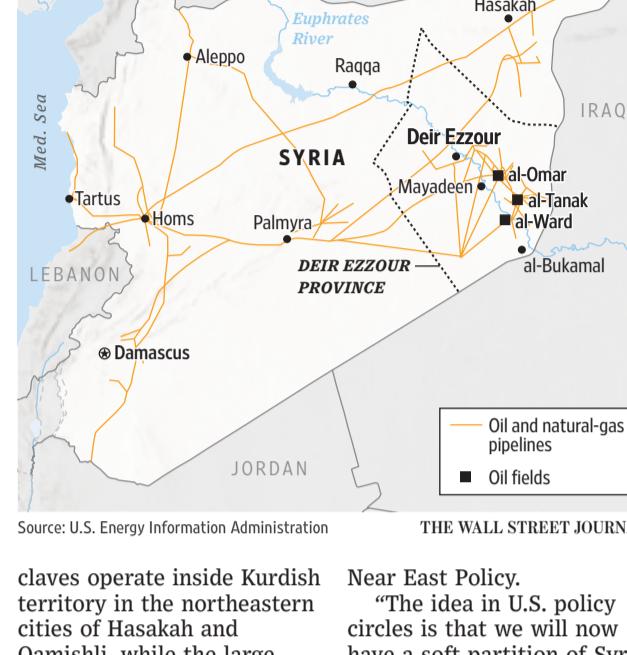
There, however, the Kurdish movement—now in control of the second-largest territory after the regime—isn't even represented because of Turkish objections. And the beleaguered Sunni Arab opposition, which was making major advances until Russia's intervention two years ago reversed the course of the war, holds increasingly weak cards.

This means that, for Mr. Assad, there are few reasons to be flexible in the peace process now, said Kamal Alam, a visiting fellow at the Royal United Services Institute in London who frequently travels to Damascus.

"The government has the upper hand, and they are far stronger than they have ever been" since the war began, Mr. Alam said. "They will still go to the talks, but they no longer have the pressure to give up too much."

Militant Resources

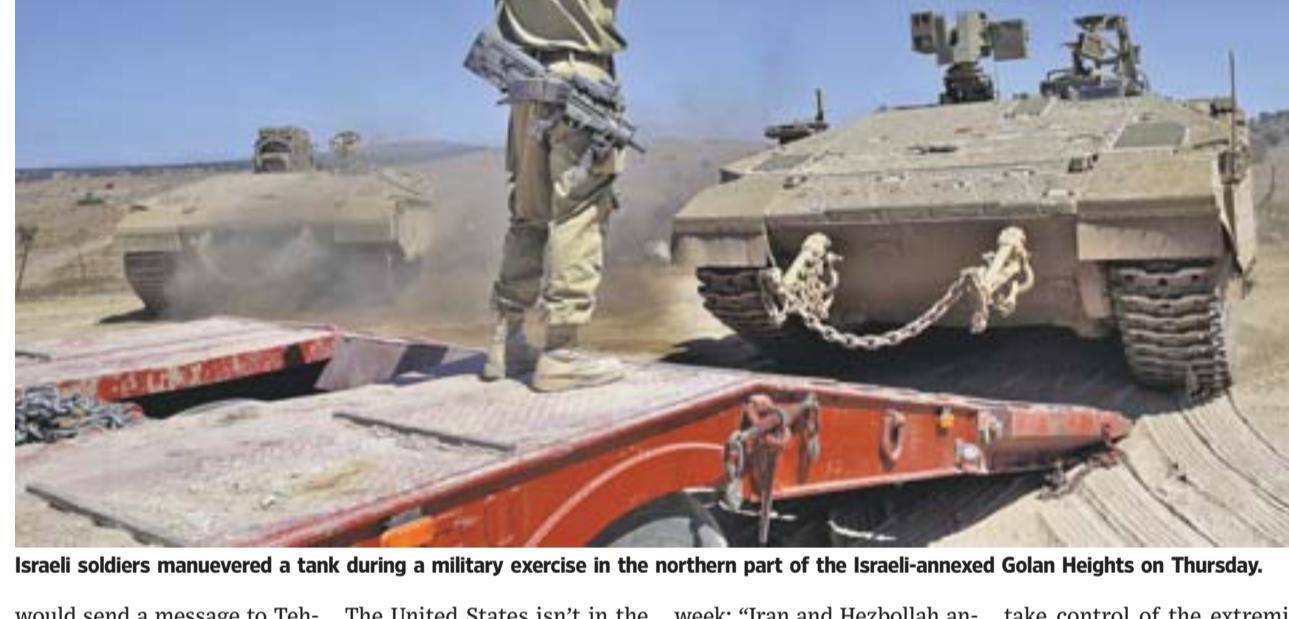
Some of Syria's most significant oil infrastructure is located in Deir Ezzour province, where populated areas along the Euphrates River are largely controlled by Islamic State.



Source: U.S. Energy Information Administration

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Israel Hits Military Base in Bid to Thwart Iran Threat



JALAA MAREY/AGENCE FRANCE PRESSE/GETTY IMAGES

Israeli soldiers maneuvered a tank during a military exercise in the northern part of the Israeli-annexed Golan Heights on Thursday.

Israel launched airstrikes on a Syrian military compound in what former Israeli officials said was an attack meant to thwart military threats from Iran and its Lebanese ally Hezbollah.

By Raja Abdulrahim
in Beirut and
Nancy Shekter-Porat
in Tel Aviv

The Syrian Observatory for Human Rights, a U.K.-based opposition monitoring group, said the airstrikes on Thursday were aimed at a military training base and a warehouse for short- and midrange missiles near the town of Masyaf in central Syria. The Observatory said Iran maintains a presence at the base. Israel alleges that Iran is building sites to produce precision-guided missiles in Syria and Lebanon, although this hasn't been independently verified and Lebanon denies the allegation.

The strikes also hit a facility targeted by U.S. sanctions this year for involvement in chemical-weapons production.

As a policy, Israel doesn't confirm or deny airstrikes in Syria, and the military declined to comment. But Israeli parliamentarian Eyal Ben Reuven, a former general in the military, said the reported attack on a facility used to manufacture precise weaponry

would send a message to Tehran and the Shiite militant group Hezbollah.

"We will not agree to a border with Iran and Hezbollah...and we will not agree to permanent production [of weaponry] for Hezbollah," he said. "Russia needs to see that Iran and Hezbollah are not on the border and not transferring weapons....It is also a message to the United States.

The United States isn't in the region, it's in Iraq, but it's given the Russians a free hand in creating the new Syria. The U.S. needs to be a part to maintain regional stability."

Israel has grown increasingly concerned about the threats emanating from the war in Syria. Prime Minister Benjamin Netanyahu told United Nations Secretary-General António Guterres last

week: "Iran and Hezbollah announce in advance that they are planning two war fronts against Israel. It is our right not to allow this noose to tighten around Israel."

For weeks, Israeli officials have been warning of an increased Iranian and Hezbollah buildup of arms in Syria as Islamic State rapidly loses ground and other parties in the multisided conflict look to

take control of the extremist group's territory. Israeli officials say they fear Iran will use Syria as a platform to attack Israel.

Iran has backed Syrian President Bashar al-Assad militarily and financially since a 2011 uprising-turned-war threatened his regime's rule. Tehran's primary interest in supporting the Syrian regime and Shiite militias who fight alongside the

Syrian military is to establish a land route from Iran running through neighboring Iraq into Syria and then on to Lebanon with its outlet to the Mediterranean. This would allow better links with its proxy Hezbollah, which has also played a key role in propping up the Assad regime's forces on the Syrian battlefield.

Iran has long shipped weapons to Hezbollah, prompting frequent Israeli airstrikes against convoys. Gen. Amir Eshel, the former commander of the Israeli air force, told Israeli media in August that since 2012, Israel has hit weapons convoys destined for Hezbollah nearly 100 times. Yet Israeli officials have said their warplanes can't hit every shipment bound for the Lebanese group, which vows to destroy Israel.

Syrian state media reported that the airstrikes hit a military position, adding that two soldiers had been killed. It wasn't clear how much damage the airstrikes caused to the facilities. A Syrian pro-government news site, Al Masdar News, reported that there was little to no damage.

Gen. Amos Yadlin, formerly Israel's military-intelligence chief, tweeted that the factory targeted near Masyaf produces the chemical weapons and barrel bombs that have killed thousands of Syrian civilians.

integrating Amazon services.

Once the second headquarters is built, Amazon senior leaders will get to choose whether they locate their teams in the Seattle headquarters, HQ2 or both, the company said.

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AMAZON

Continued from Page One

decade from a few thousand to more than 40,000. But Amazon recently has faced both space and hiring constraints as a result, according to people familiar with the company's thinking.

Amazon has struggled to attract and retain enough engineers to keep pace with the company's growth, the people said. It competes for talent in the region with Microsoft Corp., and is about 800 miles north of the heart of the tech world in California's Silicon Valley.

It is unlikely Amazon would choose a location in an area like Silicon Valley, where it would face fierce competition for engineers from companies including Alphabet Inc. and Apple Inc.

Other tech giants have caused recent frenzies over new locations. Tesla Inc. Chief Executive Elon Musk in June hinted the electric-car maker would build a new factory, while electronics manufacturer Foxconn Technology Group said in July it would be building a \$10 billion plant in Wisconsin.

Amazon itself has announced many new warehouses, most recently in New York, and in August held a job fair to hire 50,000 people.

Amazon currently employs more than 200,000 people in the U.S., with about 130,000 in the company's warehouses. It already has regional offices sprinkled throughout the U.S., including in Austin, Texas, Northern Virginia, Detroit and Los Angeles. The new headquarters will be in addition to those locations.

In soliciting bids for the project, which Amazon calls HQ2, the company is prioritizing metropolitan areas with more than a million people that are within 45 minutes of an international airport and near a strong university system.

Incentives from state and local governments will be "significant factors" in its decision, Amazon said. The announcement is likely to set off a frenzy among states and municipalities eager to recruit the company.

Amazon has received more than \$1 billion in incentives since 2000 from state and local governments to help the company build its warehouses, according to Good Jobs First, a group that is critical of cor-

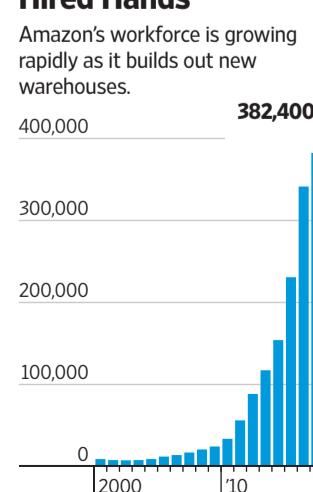
porate tax credits.

"They're going to want a gazillion dollars in benefits," said Erik Gordon, an assistant professor at the University of Michigan's Ross School of Business. "It's going to be a big price tag and expectedly so, because who else can bring you tens of thousands of jobs—good jobs—and change the image of who you are?"

Amazon expects the new jobs, many of which will be in software development, to have average compensation of

Hired Hands

Amazon's workforce is growing rapidly as it builds out new warehouses.



*As of Q2 2017 Source: the company

THE WALL STREET JOURNAL.

more than \$100,000. Mr. Gordon said cities outside of traditional technology hubs could use Amazon's headquarters to help quickly remake their image.

There are about 50 metropolitan areas in the U.S. with populations of more than one million people, according to U.S. Census estimates, and more elsewhere in North America.

Communities are eager to land a flagship corporate tenant because of the positive impact on the service sector—hospitality businesses, real-estate markets and philanthropy. Amazon moved its Seattle headquarters downtown in 2010, bringing an additional \$38 billion in investments to the local economy through 2016, the company said.

Amazon joins companies such as General Electric Co. and Boeing Co. in drawing publicity to the early stages of its selection process. The company knows its brand is strong and that it will receive aggressive proposals, said James McGraw Jr., CEO of KMK Consulting Co., a Cincinnati-based economic-development firm. "There's no downside risk of bad PR," he said.

Amazon, which has long favored growth and investments

over profit, has expanded rapidly with dozens of programs, including its instant-delivery service Prime Now and AmazonFresh. The company completed its acquisition of Whole Foods last week and began overhauling the grocery chain by lowering some prices and

integrating Amazon services.

Once the second headquarters is built, Amazon senior leaders will get to choose whether they locate their teams in the Seattle headquarters, HQ2 or both, the company said.

CORRECTIONS & AMPLIFICATIONS

Susquehanna International Group expects Apple Inc. in the September quarter to ship five million units of the pricier new iPhone it is expected to unveil on Sept. 12. A Technology article on Sept. 1 incorrectly said the estimate was 25 million.

A photo purporting to be a Free Syrian Army fighter in Azaz, Syria, and published with a May 18, 2016, World News article about the lack of progress in Syrian cease-fire talks has been withdrawn by distributor Zuma Press because it is unable to authenticate aspects of the photo.

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

WORLD NEWS

Miami Widens Storm Evacuations

MIAMI—Authorities ordered more than 650,000 people to evacuate the Miami area as Hurricane Irma churned toward a possible collision with the mainland U.S., and after the Category 5 storm killed at least seven people in the Caribbean.

By Jon Kamp,
Scott Calvert and
Arian Campo-Flores

"These are areas that may experience life-threatening storm surge," said Carlos Gimenez, mayor of Miami-Dade County. "I cannot stress this enough: don't wait to evacuate."

Irma—one of the most powerful storms ever recorded over the Atlantic—remained a "potentially catastrophic" storm, according to the National Hurricane Center's latest update.

Irma's eye was recently moving between the northern coast of Hispaniola and the Turks and Caicos Islands. The current forecast track calls for the storm to potentially reach south Florida by early Sunday, and tropical-storm-force winds could arrive by Saturday.

Hurricane and storm-surge watches were officially issued for south Florida including the Florida keys on Thursday, and Gov. Rick Scott expressed worry about both the side of the storm and flooding potential as he implored residents to heed evacuation orders.

"Look at the size of this storm, it's huge. It's wider than our entire state and could cause major and life-threatening impacts on both coasts," Mr. Scott said. He warned Irma could hit the state even harder than Andrew, a Category 5 hurricane



People sought higher ground on a flooded street on Thursday in Santiago de los Caballeros, Dominican Republic.

that slammed into Florida's southern region in 1992.

The National Hurricane Center forecast the storm surge in parts of south Florida could reach 5 to 10 feet above ground, if the peak surge coincides with high tide. "We could see houses covered," Mr. Scott said.

Miami-Dade County's Mr. Gimenez said officials are preparing shelters to accommodate as many as 100,000 people. He urged residents to stay with friends who live in safe areas in the county, rather than drive away.

"Look, if 600,000 people decide they want to leave Miami-Dade tomorrow, that's going to be a mess," he said. "We

need our neighbors and co-workers, etcetera, to take some folks in."

Irma also poses a rising threat to other states in the Southeast, with forecasts predicting the storm could potentially reach the Carolinas by early next week. Governors of South Carolina, North Carolina and Georgia declared states of emergency for all or part of their states on Wednesday.

Georgia Gov. Nathan Deal on Thursday ordered a mandatory evacuation for all areas east of Interstate-95 starting Saturday, including Savannah, home to about 147,000 people. In South Carolina, Gov. Henry McMaster said he may issue a mandatory evacuation order

effective Saturday morning, and that there would be lane reversals on I-26 that runs north from Charleston.

He warned there could be a burden on South Carolina highways because of residents fleeing Florida and Georgia, and I-95 was already congested on Thursday as people drive north.

Puerto Rico, population about 3.4 million, appeared to have been spared the ferocious assault that Irma delivered to other Caribbean islands, but the extent of damage remained unclear and the U.S. territory was contending with widespread power outages and the threat of continued flooding. A woman died in Arecibo,

on the northern coast, after she fell while walking to an emergency shelter, according to Ernesto Morales, a National Weather Service meteorologist in San Juan.

At least four people were killed and 50 were injured in French-administered St. Maarten, French Prime Minister Edouard Philippe said Thursday. One person died on the Dutch side, Dutch interior minister Ronald Plasterk said. That lowered the death toll from a previously reported eight dead on the island.

Irma killed at least one person after devastating the island of Barbuda, where the storm made landfall early Wednesday.

Turkish Ex-Minister Charged in Iran Case

By MARIA ARMENTAL

A former Turkish minister and three others were charged by U.S. federal prosecutors in an alleged scheme involving hundreds of millions of dollars' worth of financial transactions to help the Iranian government evade U.S. sanctions.

In an indictment filed Wednesday in a Manhattan federal court, prosecutors accuse Mehmet Zafer Caglayan of directing others, including officers at a Turkish state-owned bank, to handle and conceal a series of transactions prohibited under U.S. sanctions, which sought to restrain Iran's nuclear-weapons program. The alleged actions date to at least 2010 and continued through 2015, according to the indictment.

Mr. Caglayan served as Turkey's economy minister from 2011 to 2013. Before that, he had served as foreign trade minister.

Mr. Caglayan declined to comment through his lawyer.

On Thursday, Turkey's current economy minister, Nihat Zeybekci, defended Mr. Caglayan. "The ones who make these allegations have to prove them," Mr. Zeybekci said.

The charges stem from a high-profile case against Reza Zarab, a Turkish-Iranian gold trader who owned companies in Turkey and the United Arab Emirates and whose legal defense team includes former New York Mayor Rudy Giuliani and former U.S. Attorney General Michael Mukasey.

Mr. Zarab and Mehmet Hakan Atilla, who was a deputy general manager at Halkbank, one of the largest state-owned banks in Turkey, have been accused of conspiracy to evade U.S. sanctions against Iran. They have pleaded not guilty and remain in U.S. custody awaiting trial.

Wednesday's indictment charged Mr. Caglayan and three others on charges including conspiracy to defraud the U.S. and to violate the International Emergency Economic Powers



Former Turkish minister Mehmet Zafer Caglayan in May 2014.

Act, and committing bank fraud and money laundering.

Prosecutors say Mr. Caglayan was involved with Mr. Zarab in the alleged conspiracy to evade sanctions. Mr. Zarab, they say, arranged meetings in Turkey

that included Mr. Caglayan as well as Iranian government banking and oil officials in which they discussed some of the alleged transactions.

Some of the alleged transactions, according to the indict-

ment, were disguised as food and medicine purchases by Iran, which would have been exempt from U.S. sanctions. Prosecutors said Mr. Caglayan used his position to protect the alleged scheme from competitors and scrutiny. In exchange, he was paid tens of millions of dollars' worth of bribes in cash and jewelry while he was economy minister, according to the complaint.

In a statement, Halkbank said "our bank has repeatedly stated in detail that it has complied with all national and international regulations in all of its transactions."

Wednesday's indictment also charged Suleyman Aslan, a former general manager at Halkbank; Levent Balkan, who was assistant deputy manager at Halkbank; and Abdullah Happani, a business associate of Mr. Zarab's. Their lawyers couldn't be reached to comment.

—Yeliz Candemir and Erdem Aydin contributed to this article.

WORLD WATCH

SPAIN

Madrid Sets Cases Against Catalonia

Prosecutors said they are readying criminal cases against officials in Catalonia who are pushing ahead with an independence vote that the Madrid government has branded as illegal.

The announcement raises the stakes in the conflict between the central government in Madrid and the regional Catalan government in Barcelona, which has set a referendum on secession from Spain for Oct. 1.

State prosecutor José Manuel Maza said his office would pursue the criminal cases against lawmakers in Catalonia's regional legislature, which is controlled by pro-independence parties, who approved a bill on Wednesday to hold the referendum. Mr. Maza said he would also go after regional officials who have begun to organize the vote.

—Jeannette Neumann

leaflets in the country it said mistakenly contained an image insulting to Muslims.

Maj. Gen. James Linder, commander of the Special Operations Joint Task Force in Afghanistan, didn't describe the derogatory image, saying only that it was "highly offensive to both Muslims and the religion of Islam."

Images of the leaflet, air-dropped by U.S. forces in Parwan province Tuesday, circulated on social media. It shows a lion, symbolizing the U.S.-led coalition in Afghanistan, chasing a dog whose flank is embazoned with the Taliban flag and Islamic religious text known as the Shahada, a declaration of the oneness of God and the acceptance of Muhammad as his prophet. The portrayal of Islamic scripture on a dog is seen as offensive.

—Habib Khan Totakil and Craig Nelson

PHILIPPINES

Senate Questions Duterte's Son

Philippine President Rodrigo Duterte's son told a Senate inquiry he had no links to a seized shipment of \$125 million worth of narcotics from China,

dismissing as "baseless" the allegations of his involvement in the drugs trade.

Opponents of the president, who has instigated a fierce crackdown on a trade he says is destroying the country, say they believe his son Paolo may have helped ease the entry of the drug shipment at the port in Manila, the capital.

On Tuesday the president

said he had told Paolo to attend the Senate investigation if he had nothing to hide, besides advising him not to answer questions and invoke his right to keep silent.

The Philippine leader has repeatedly said he would resign if critics could prove any members of his family were involved in corruption.

—Reuters



Philippine President Rodrigo Duterte's son, Paolo, speaks to his attorney during a Senate session.

AUSTRALIA

Court Clears Vote on Same-Sex Marriage

The country's top court cleared the way for the government to hold a nationwide vote on legalizing same-sex marriage, setting the stage for intense "Yes" and "No" campaigns in coming weeks.

The court's decision Thursday to throw out a legal challenge to the survey came as a relief to Prime Minister Malcolm Turnbull, whose conservative government has been marred by internal divisions over same-sex unions.

Despite public support for changing the law—an Essential opinion survey this week put the figure at 59%—the issue of gay marriage is proving particularly difficult Down Under. Canada, New Zealand and most of Western Europe have enacted marriage equality through their parliaments, while the U.S. has done it through the courts. Australia has become the odd man out among English-speaking nations.

But the Parliament has twice blocked a compulsory national vote promised by Mr. Turnbull, with opposing lawmakers worried it will unleash a vitriolic campaign between supporters and opponents that would unnecessarily divide the country.

Underscoring those concerns, neo-Nazi groups were blamed this week for posters in the city of Melbourne that claimed "gay marriage enables pedophilia."

Mr. Turnbull, a moderate, favors legalizing same-sex marriage; his Sydney electorate hosts the city's annual Gay and Lesbian Mardi Gras parade.

—Rob Taylor

U.N. Says Pyongyang Skirts Sanctions

By IAN TALLEY

WASHINGTON—United Nations member countries are helping North Korea evade international sanctions meant to halt its nuclear-weapons program, a new U.N. report alleges, including through prohibited trade in arms and commodities and financing.

The draft report, prepared by the U.N.'s panel of experts on North Korea for the Security Council and reviewed by The Wall Street Journal, comes as the U.S. is urging the sanctions be strengthened in response to North Korea's latest nuclear and missile tests. It reinforces longstanding U.S. complaints about shortfalls in compliance, which have led Washington to act on its own.

"Despite an increased rate of member states' submission of national implementation reports to the Security Council, the actual implementation of the sanctions lags far behind what is necessary to achieve the core goal of denuclearization," the panel of experts said.

North Koreans in Africa, Mideast are acting on behalf of sanctioned entities.

This latest panel report, which gauges compliance as recently as early August, found that as the U.N.'s sanctions regime expands, so does the scope of evasion.

The Trump administration has threatened to ban U.S. trade with countries, such as China, that continue to do business with North Korea, though experts and analysts have said this would be difficult. As it seeks to pressure China, Russia and other nations to cut off business and financial ties, the administration is expected soon to roll out additional actions targeting Chinese companies and banks.

President Donald Trump refused to rule out military action during a White House press conference on Thursday, but stopped short of answering a question as to whether he would tolerate a nuclearized North Korean state as long as the threat was contained.

North Korea doesn't recognize the sanctions as legitimate. A man identifying himself as a staff member of North Korea's mission to the U.N. said they represent hostile policy toward his country.

The U.N. panel of experts said it documented the presence of North Koreans throughout Africa and the Middle East acting on behalf of sanctioned entities.

WORLD NEWS

Colombia Tries to Heal Wounds of War

Pope Francis, on pastoral visit, urges nation to 'build bridges' to reconciliation

By KEJAL VYAS
AND JUAN FORERO

NEIVA, Colombia—Edna Rocio Pinto said she was just 10 years old when combatants from the FARC rebel group grabbed her as she was fetching water near her family farm and raped her. The family soon after fled their land.

Eighteen years later, Ms. Pinto says she is conflicted as she watches the FARC transform into a political party as part of a peace deal that ended a half-century guerrilla war. She wants justice, she says, but also national reconciliation, Pope Francis' main theme as he visits this country of 48 million.

"The victims need truth, justice, reparations," said Ms. Pinto, now 28 and a counselor for victims in this provincial city, Neiva, a former rebel zone. "Instead, sometimes it feels like we're rewarding our victimizers."

The Vatican strongly supported the negotiations here that led to an accord with the FARC last year. But the pontiff is finding a polarized country during his five-day tour, with polls showing a majority of Colombians skeptical of a deal they see as overly generous to former rebel commanders.

Pope Francis' most direct engagement with victims of war comes Friday when he holds a prayer service in the cattle city of Villavicencio with 6,000 of them and a group of former rebels. Ms. Pinto plans to attend.



Pope Francis, left, and Colombian President Juan Manuel Santos chat at the presidential palace in Bogotá.

"The more demanding the path that leads to peace and understanding, the greater must be our efforts to acknowledge each other, to heal wounds, to build bridges," Pope Francis said Thursday in a speech in Bogotá. "This visit intends to offer you an incentive, a contribution that in some way paves the path to reconciliation and peace."

Some 6,000 former rebels, who disarmed under the peace accord, last week officially became a political party. The president's conservative rivals fiercely oppose the rebels' new status, calling it impunity for a group that fueled a 52-year conflict that cost 220,000

lives and forced millions of poor farmers off their land.

President Juan Manuel Santos argues the deal—trading arms for ballot boxes—is good for Colombia. FARC commanders are unlikely to see jail time but are required to compensate victims, admit their crimes and be investigated under a special tribunal.

"We opted to put the victims at the center of the solution to the conflict," Mr. Santos told The Wall Street Journal in an interview. "We have to heal the wounds, the open wounds; one sees them every day."

Several victims who will greet the pope, though, said that while they support peace

they remain deeply suspicious of the FARC and question whether they will truly find closure.

These people—who like Ms. Pinto are registered in the government's official database of victims—include Holmes Fabian Ordóñez, who lost a foot to a rebel land mine, and Magdalena Rivas, whose son was held hostage by the guerrillas and eventually slain.

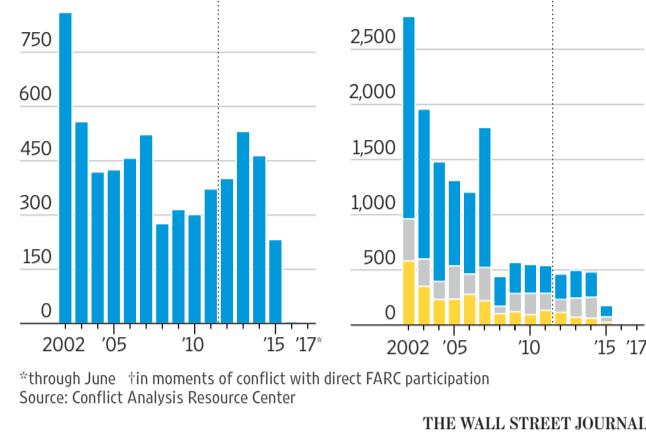
Yolanda Perea Mosquera, 33, said she was raped by rebels as a child; when her mother complained to the FARC, they killed her. She wants to have the opportunity to confront the killers.

"I need to know, 'Why me? And why my family?'" she

Violence Down

Rebel attacks and combat deaths fell as FARC guerrillas and the government neared a peace deal.

FARC offensive actions



*through June †in moments of conflict with direct FARC participation

Source: Conflict Analysis Resource Center

THE WALL STREET JOURNAL.

said. "Why did they leave me without a mother?"

The former rebel leaders and their supporters say they hope the pope's visit will prod conservatives to support the pact, which calls for a modernization of the countryside, reparations for victims, a joint rebel-government effort to fight drugs and other policies.

"The pope is coming here at the best time to give us air, give us strength, to generate confidence between us Colombians and to show us that co-existence is possible," said Imelda Daza, a political activist working with the FARC.

Despite the economic and security benefits that Mr. Santos says peace will bring, the

president's approval rating fell to 24% in July from 38% a year earlier, according to the pollster Cifras y Conceptos.

Respondents ranked housing for the poor and computers in public schools as Mr. Santos's top achievements, well ahead of the peace deal.

Mr. Santos said that was understandable because of the concessions the government had to make, including allowing top commanders to likely avoid prison. "Peace has a price. You can't think in normal terms about the application of normal justice and normal rules," Mr. Santos said. "This accord is not perfect. A peace accord can't be perfect by definition."

U.K.'s May Faces Big Test On Brexit in Parliament

British Prime Minister Theresa May faced her first major parliamentary hurdle on Brexit since negotiations with the European Union kicked off, as lawmakers on Thursday debated whether a bill designed to transpose thousands of EU laws onto the U.K. statute book hands over too much power to the executive.

By Jenny Gross in London and Valentina Pop in Brussels

In the six months since the U.K. formally started the process of severing four decades of ties with the EU, lawmakers have largely acquiesced to Mrs. May's negotiating goals on terms of Britain's departure.

But the picture is becoming more difficult for Mrs. May after poor election results in June undermined her authority in Parliament and emboldened the main opposition Labour Party.

Labour in recent weeks has strengthened its stance against a definitive break from the EU and said it would vote against the bill unless it is amended to prevent ministers from sneaking controversial changes into U.K. law, such as watering down rights for workers.

Even so, Mrs. May is ex-



British Prime Minister Theresa May faces concern from some members of Parliament about having enough say on the EU exit.

pected to gather enough support in Parliament for the bill to pass—with the backing of a Northern Irish party, she has a working majority of 13—but any attempt by lawmakers to amend the bill would be a headache for the government and signal more complications to come in future votes.

The bill is designed to ensure there is no legal vacuum in the U.K. after Brexit. Britain's Brexit secretary, David Davis, said Thursday that he will work with lawmakers wherever he can to identify EU laws that aren't being transposed into U.K. law.

Lawmakers will vote Monday on whether the bill can

move to the next phase in the legislative process.

"We are not rejecting EU law, but embracing the work done between member states in over 40 years of membership and using that solid foundation to build on in the future, once we return to being masters of our own laws," he said.

Negotiations with the EU have stalled in recent weeks, with the two sides unable to agree on how much the U.K. owes the EU for commitments Britain already made and how to resolve border issues between Ireland, an EU country, and Northern Ireland, which is part of the U.K.

ECB

Continued from Page One
month how it plans to start reducing its balance sheet.

But in a sign that the ECB's path out of stimulus might be as hesitant as the route in, Mr. Draghi warned that the bank's next steps would depend partly on the strength of the euro, which has surged by more than 12% against the dollar over the past five months.

The euro seethed during Mr. Draghi's remarks. It jumped almost a cent to \$1.2047 after the ECB chief unveiled higher economic growth forecasts, but later fell back to around \$1.20. Yields on German government bonds slid lower.

A strong currency complicates the ECB's exit from QE because it makes eurozone exports less competitive and weighs on import prices and thus inflation. That impact was evident in the ECB's new economic forecasts, which reduced expected inflation for the coming two years.

Investors had expected Mr. Draghi to try to verbally check the euro's rise, but his remarks didn't prevent traders from pushing the currency higher.

"As long as the ECB is prepared to talk but not act on the exchange rate, there's little standing in the way of further euro appreciation," said Lena Komileva, an economist with G+ Economics in London.

The ECB is wrestling with a tricky combination of stronger economic growth, a rising currency and weak inflation. Eu-

rozone inflation was 1.5% last month, some way from the ECB's target of just below 2%.

Senior German officials have been calling with increasing urgency for a policy reversal, warning that ultralow rates hurt the nation's conservative savers and pensioners. Earlier this week German Finance Minister Wolfgang Schäuble



Mr. Draghi said the next steps would partly depend on the strength of the surging euro.

called for more "normal" monetary policy, pointing to the strong economic recovery.

Deutsche Bank Chief Executive John Cryan made a similar plea on Wednesday. The bank's stock was down more than 1% on Thursday after Mr. Draghi indicated that a key ECB interest rate would remain below zero for some time, regardless of the plans for QE.

Investors are on edge, waiting for a clear plan from the ECB on the future of QE after December, when the €60 billion-a-month program is cur-

rently due to end. Since its launch 2½ years ago, the program has helped keep down borrowing costs and the euro's exchange rate, fueling a robust recovery across the eurozone.

ECB officials have indicated in recent months that QE will probably be phased out by mid-2018, but that economic developments could change the timetable.

Mr. Draghi gave few clues about the exit plan, stressing that discussions had been "very, very preliminary" and that policy makers would await further analysis from ECB staff before deciding.

The ECB remains "on track to taper its asset purchases from the start of next year, although we may have to wait until the October meeting—or maybe longer—to see the details," Adrian Hilton, head of global rates and currency at Columbia Threadneedle Investments in London, said in a research note. "Were the euro to push on towards the 1.25 level versus the dollar, however, the bank may find itself trapped between a disinflationary exchange rate and a need to phase out its QE purchases before it runs out of bonds to buy," he said.

Mr. Draghi painted a rosy picture of the region's economy, unveiling stronger growth forecasts for 2017, and pointing to early signs of an uptick in underlying inflation. The ECB now expects the currency area's gross domestic product to rise 2.2% this year. That would be the eurozone's fastest expansion since 2007, before the global financial crisis.

BRUSSELS BEAT | Stephen Fidler

U.K. Hunts Holy Grail of Frictionless EU Trade Post-Brexit

Here is the big economic question for the U.K.'s Brexit negotiators when they get around to talking about the future: To what extent will British companies be free to sell goods and services inside the European Union after Brexit without confronting a plethora of new bureaucratic hurdles?

An easy way to avoid them would be for the U.K. to remain attached to the EU's single market and customs union. But there is a price: London would have to follow EU regulations, submit to the jurisdiction of the European Court of Justice, and allow EU workers and their families the same access they now have to the U.K. Joining new bilateral

trade deals with other countries would also be ruled out. The U.K. may take this route for a limited transition period, but Brexiteers didn't campaign to leave the EU only to jump into an arrangement where the U.K. follows all the EU's rules without getting a say over new ones.

On the other hand, the U.K. insists it is seeking "the freest and most frictionless trade possible in goods." This raises the question, so far unanswered, of how the government proposes to do this.

A clue to its thinking lies in a paper it released about Northern Ireland where it discusses trade in food and agricultural products. It suggests the U.K. and the EU should agree "to achieve the

same outcome and high standards, with scope for flexibility in relation to the method for achieving this."

Under such "regulatory equivalence," the U.K. would promise it would insist on high standards and its products would enter the EU without hindrance—and vice versa. Could this be the Holy Grail, the "cake-and-eat-it" Brexit beloved of free traders?

The short answer is No. Sabine Weyand, deputy to the EU's chief Brexit negotiator Michel Barnier, took to Twitter this month to pour cold water on the idea.

She pointed out that the EU's only mutual-recognition agreements with non-EU countries are of very limited scope, simply aimed at avoiding the double testing of products to make sure they conform to EU standards.

Such arrangements nowhere near reach the scope of the EU's single market, in which frictionless trade is based on harmonized or recognized standards, backed up by EU supervision and enforcement mechanisms.

One big concern of the EU is that regulatory equivalence could allow the U.K. after Brexit to become a gateway for goods that didn't meet EU standards: for example, the chlorine-washed chicken that might enter the U.K. under a future preferential trade deal with the U.S.

This concern isn't motivated just by politics or a preference for chicken that doesn't taste like a swimming pool. A different regulatory philosophy is at work. The EU aims to guarantee the quality of its

food by applying high standards along each step of the food chain; the U.S. achieves food safety by being more relaxed about what happens earlier in the food chain and disinfecting the poultry before it hits the supermarkets.

So from the EU's perspective, the equivalence idea seems to cross a red line.

"The U.K. wants to take back control; it wants to adopt its own standards and regulations. But it also wants to have these standards recognized automatically in the EU," Mr. Barnier said last week.

"This is simply impossible. You cannot be outside the single market and shape its legal order."

There are questions about whether this approach is practical. "Supply chains cross sectors," a report from the Institute for Government think tank pointed out last month, with cars being built with some parts that come from outside the car industry.

The EU also has fundamental objections to what it calls "cherry picking," in which the U.K. opts into the bits of the single market it likes and out of those it doesn't.

If the EU doesn't allow the U.K. to pick any cherries, it forces the country to one extreme that may be unpalatable—staying inside the single market—or the other: an arm's-length relationship.

The latter would throw serious obstacles in the way of trade that would hurt businesses on both sides of the English Channel.

U.S. NEWS

Trump's Son Defends Russian Meeting

Donald Jr. said that he hoped for insights into Clinton's 'fitness' from lawyer tied to Kremlin

BY BYRON TAU
AND REBECCA BALLHAUS

WASHINGTON—President Donald Trump's eldest son told congressional investigators on Thursday that he agreed to meet a Russian lawyer last summer who he was told had damaging information about Hillary Clinton because he believed the meeting could shed light on the "fitness, character or qualifications of a presidential candidate."

In a closed-door meeting with the bipartisan staff of the Senate Judiciary Committee, a Republican-run panel conducting an investigation related to Russian activity during the campaign, Donald Trump Jr. delivered his most in-depth statement to date about a June 2016 meeting at Trump Tower in New York with a Russian lawyer with ties to the Kremlin. A copy of Mr. Trump's statement was released by his spokesman.

"Depending on what, if any, information they had, I could then consult with counsel to make an informed decision as to whether to give it further consideration," the younger Mr. Trump said in the statement. He added: "I did not collude with any foreign government and do not know of anyone who did."

The president's son has previously said that no useful information came from the June 2016 meeting.

On Thursday, the younger



Donald Trump Jr., right, attended a closed-door meeting with staff members of the Senate Judiciary panel in Washington on Thursday.

Mr. Trump also defended his reply of "I love it" to the email promising damaging Clinton information, saying the response "was simply a colloquial way of saying that I appreciated Rob's gesture," referring to a publicist who set up the meeting.

Mr. Trump said he had three "very short" phone calls with Emin Agalarov, an Azerbaijani-Russian pop star who also helped arrange the meeting, on June 6 and June 7, 2016, but that he didn't recall the content.

Two other attendees of the

June meeting—Jared Kushner, the president's son-in-law, and Paul Manafort, the elder Mr. Trump's former campaign chairman—have been interviewed by Senate Intelligence Committee staff, which is conducting a similar inquiry.

Democrats and Republicans on the Judiciary Committee remain divided on the next steps in the investigation, with Democrats calling for the younger Mr. Trump to appear in front of the committee for an open, public hearing.

"I'm very much looking forward to a public hearing in

front of the Senate Judiciary Committee where I and other senators can ask questions on the record—sworn testimony—of Donald Trump Jr. and others. Today's staff interview is just laying the groundwork for that future public hearing," said Sen. Chris Coons (D., Del.).

But Republicans on the panel remained noncommittal, saying that the results of the staff interview would determine the next steps in the panel's investigation, which is a sensitive probe of a president of their own party.

Separately, the new Federal Bureau of Investigation Director Chris Wray said he hadn't detected "any whiff of interference" by White House officials in the federal investigation into Russia's meddling in the 2016 election.

According to a January report from the U.S. intelligence community, the highest levels of the Russian government were involved in directing electoral interference to boost Mr. Trump at the expense of Mrs. Clinton.

Moscow has denied meddling in the U.S. election.

CARLOS BARRIA/REUTERS

Facebook Identifies Political Ads Linked to Russia

WASHINGTON—Facebook Inc. said it has identified about 500 "inauthentic" accounts responsible for \$100,000 in advertising spending that it believes have ties to Russia, following a review of ad buying on the site in response to intelligence community concerns about Russian activity during the 2016 U.S. election.

The findings mark the first time that Facebook has acknowledged that Russian actors may have used its platform during the presidential campaign. The conclusion is a shift from July, when a Facebook spokesman said the company had no evidence that Russian entities bought ads targeted at Americans on the platform during the election season.

The social-media giant said Wednesday that the ads it identified didn't typically reference any particular political candidate. Rather, the company's review found that the ads focused on "amplifying divisive social and political messages across the ideological spectrum—touching on topics from LGBT matters to race issues to immigration to gun rights."

Facebook officials provided their findings to House and Senate investigators looking into Russian interference in the presidential election, according to people familiar with the matter.

—Shane Harris and Deepa Seetharaman

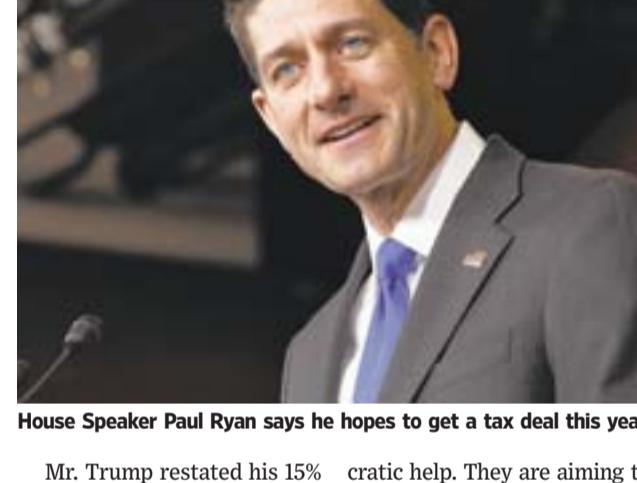
the end of September. Congress is expected to face competing fiscal deadlines later this year. The short-term agreement that Mr. Trump reached Wednesday with Democrats on government spending and the debt ceiling means that lawmakers may have to spend much of December addressing those issues again.

In a Wednesday phone call with Rep. Mark Meadows (R., N.C.), Mr. Trump said he was motivated to cut a debt-ceiling deal with Democrats because he wanted to clear the agenda to focus on passing tax legislation, Mr. Meadows said.

"He told me that," Mr. Meadows said at a Bloomberg News event on Thursday. "That's why he struck the deal—he said we've got to get tax reform done."

White House officials made similar statements on Wednesday, and didn't respond to a request for comment on Mr. Meadows's remarks.

—Siobhan Hughes, Kate Davidson and Kristina Peterson contributed to this article.



House Speaker Paul Ryan says he hopes to get a tax deal this year.

AARON P. BERNSTEIN/GETTY IMAGES

Mr. Trump restated his 15% goal on Wednesday in a speech in North Dakota.

"Ideally, we would like to bring our business tax rate down to around 15%," he said. "That's a tremendous drop."

Republicans are constrained by budget rules that prevent them from increasing long-run deficits if they want to pass a bill without significant Demo-

catic help. They are aiming to use the procedure known as reconciliation, which can allow for tax cuts in the near term but not after the end of the budget-scoring window, typically 10 years.

Mr. Trump's speech contained little about the trade-offs required to get rates down permanently.

"It's one thing to talk about

tax reform. It's quite another to do it," said Rep. Richard Neal of Massachusetts, the top Democrat on the House Ways and Means Committee. "If you keep the conversation general, everybody's on board. [Once, there is] specificity, people find out what they're not going to get."

At some point, Republicans are expected to put a plan forward and see where the opposition comes from.

"I think we need to get work product on the table soon," Sen. Mike Crapo (R., Idaho) said.

Mr. Ryan stuck to the goal of finishing a tax bill by the end of the year, and Treasury Secretary Steven Mnuchin said on Fox Business Network that the target was "still very viable."

So far, Republicans haven't released a bill or scheduled any committee votes.

Republicans on the Senate Budget Committee met Thursday morning, and its chairman, Sen. Mike Enzi (R., Wyo.), said the panel could consider a budget blueprint by

the end of September.

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—Siobhan Hughes,

Kate Davidson

and Kristina Peterson contributed to this article.

Skepticism Grows Over College Degrees

By JOSH MITCHELL
AND DOUGLAS BELKIN

Americans are losing faith in the value of a college degree, with majorities of young adults, men and rural residents saying college isn't worth the cost, a new Wall Street Journal/NBC News survey shows.

The findings reflect an increase in public skepticism of higher education from just four years ago and highlight a growing divide in opinion falling along gender, educational, regional and partisan lines. They also carry political implications for universities, already under public pressure to rein in their costs and adjust curricula after decades of sharp tuition increases.

Overall, a slim plurality of Americans, 49%, believes earning a four-year degree will lead to a good job and higher lifetime earnings, compared with 47% who don't, according to the poll of 1,200 people taken Aug. 5-9. That 2-point margin narrowed from 13 points when the same question was asked four years earlier.

The shift was almost entirely due to growing skepticism among Americans without four-year degrees—those who never enrolled in college, who took only some classes or who earned a two-year degree.



Americans are losing faith in the value of a degree, a survey shows.

Four years ago, that group used to split almost evenly on the question of whether college was worth the cost. Now, skeptics outnumber believers by a double-digit margin.

Conversely, opinion among college graduates is almost identical to that of four years ago, with 63% saying college is worth the cost versus 31% who say it isn't.

Big shifts occurred within several groups. While women by a large margin still have faith in a four-year degree, opinion among men swung significantly. Four years ago, men by a 12-point margin saw college as worth the cost. Now, they say it is not worth it, by a 10-point margin.

Likewise, among Americans

18 to 34 years old, skeptics outnumber believers 57% to 39%, almost a mirror image from four years earlier.

Today, Democrats, urban residents and Americans who consider themselves middle- and upper-class generally believe college is worth it; Republicans, rural residents and people who identify themselves as poor or working-class Americans don't.

Research shows that college graduates, on average, fare far better economically than those without a degree. For example, the unemployment rate is 2.7% among college graduates, compared with 5.1% among high-school graduates who never attended college.

Likewise, among Americans

Overhaul Planned For Handling Assault Cases on Campus

Education Secretary Betsy DeVos on Thursday said the department plans to roll back the Obama administration's guidance on how colleges and universities should handle sexual assault cases.

Expressing concern about the toll such cases take on both survivors of assault and on the accused, Mrs. DeVos said the Education Department will seek "more effective, equitable enforcement of Title IX" that provides "justice for all students."

Title IX of the Education Amendments of 1972 prohibits schools from discriminating on the basis of sex.

Sexual assault has been a flashpoint on college campuses for years, as schools struggled to interpret a 2011 letter that spelled out how the institutions should investigate such allegations.

Opponents of the Obama-era guidance argue that it forced schools to jettison due process for the accused, often not allowing them access to a lawyer or the opportunity to question their accusers.

—Melissa Korn

U.S. WATCH

NORTH KOREA THREAT

President Won't Rule Out Military Action

President Donald Trump declined to rule out military action against North Korea during a White House news conference on Thursday. But he stopped short of answering a question as to whether he would tolerate a nuclearized North Korean state as long as the threat was contained. "North Korea is behaving badly and it's got to stop," Mr. Trump said.

Continuing several months of harsh rhetoric between the U.S. and North Korea over Pyongyang's accelerating pace of weapons tests, the president told reporters that he would prefer a diplomatic solution to the prolonged impasse. He also noted that years of talks have done little to rein in North Korea.

—Eli Stokols

FEDERAL RESERVE

Low Inflation Gives Bank Pause on Rates

Stubbornly low inflation readings are giving Federal Reserve officials second thoughts about whether they will be in a position to raise short-term interest rates again this year.

Several Fed officials have indicated in recent interviews and public comments they are

poised to announce at their meeting Sept. 19-20 that in October they will start slowly shrinking the central bank's \$4.5 trillion holdings of bonds and other assets and to leave rates unchanged.

The bigger question about the meeting is how many officials will again project one more interest-rate increase this year, as a large majority did in June.

—Nick Timiraos

WASHINGTON

FDA to Update Drug Evaluations System

Food and Drug Administration Commissioner Scott Gottlieb said the FDA is hurrying to modernize the way it evaluates a flood of new drug applications derived from the fast-growing fields of gene and cell therapy.

In a talk Thursday before a coalition of corporate and academic research entities, Dr. Gottlieb announced steps the agency will take to begin to grapple with the new science. He said the FDA will focus on conducting early scientific conversations with startup and small biotechnology companies. He said they "sometimes don't have a full understanding of what it will take to get" applications filed and approved. "It's often the smaller companies or individual researchers who are working with the most novel technology platforms."

—Thomas M. Burton

IN DEPTH

HARVEY

Continued from Page One

Never before in the modern era has a hurricane created such damage in one of the U.S.'s major corporate hubs. Houston, the nation's fourth-largest city with 2.3 million people, has an economy roughly the size of Sweden's and is home to more Fortune 500 companies than any U.S. metropolis except New York.

Harvey's record-setting floods, which have damaged or destroyed more than 300,000 homes in southeast Texas, disrupted lives here on a scale seldom before seen in the U.S., affecting executives and laborers alike. The scale of the problem is testing CEOs, who see themselves as caretakers for their workers in and out of the office and as civic and community leaders in times of crisis.

Managers said they are focused primarily on giving staff the time and help they need to take care of their homes and families and cope with deep personal loss.

For now, the interests of employers and employees are aligned—both want to get their lives in order and get back to work. In the long run, their interests may diverge, if costs become intolerable. Companies will face pressure to get back to full strength to meet business targets to satisfy customers and shareholders, economists and analysts said. Missteps could harm corporate images.

It is a dilemma more bosses may soon face as a second major storm, Hurricane Irma, threatens to slam into the Southeastern U.S. coastline this weekend.

The assistance companies are committing to flooded employees could be one of their biggest costs as they scramble to get back to work. Many businesses estimated that plants and refineries will be back to 100% in weeks but that it will be months before employees are.

An informal poll by the Greater Houston Partnership, the regional chamber of commerce, found that the typical company had 10% to 11% of employees with homes substantially affected by flooding.

"That's a very high level of impact that's hard to really make the office function as you'd like," said Bob Harvey, the partnership's chief executive. Companies in some heavily flooded areas, such as oil and gas producer ConocoPhillips, were opting to keep main offices closed until next week.

Productivity could drop 10% in the Gulf Coast region for at least the next two months, which would cause a \$3 billion reduction in economic output, said Ray Perryman, a Texas economist and forecaster based in Waco.

Covestro, a maker of raw materials for adhesives, polyurethanes and other chemicals spun off from the pharmaceutical giant Bayer AG in 2015,



Chemicals maker Covestro AG is helping Jill and Javan Williamson, an employee, recover from Harvey. Covestro employee Dennis Hullum, below, is helping repair the Willamsons' home in Baytown, Texas, after the storm flooded the neighborhood.

SCOTT JULIAN FOR WALL STREET JOURNAL

Senate Passes Bill On Aid, Debt Limit

WASHINGTON—The Senate approved a contentious deal struck between President Donald Trump and Democratic leaders that rolled together emergency relief for Harvey victims with a short-term extension of the government's funding and its borrowing limit.

In a 80-17 vote that came together swiftly on Thursday, the Senate passed legislation approving \$15.25 billion for relief and recovery efforts for the Harvey and Irma hurricanes, as well as provisions keeping the gov-

ernment running and its debt limit suspended until Dec. 8.

The Senate vote, held with unusual speed just hours after the bill was released late Wednesday, dispatched three of the most urgent measures facing Congress this month. Congress rarely acts before an 11th-hour deadline; most lawmakers were expecting a fight over the debt ceiling and government spending to consume most of the month.

The government's current funding expires by Oct. 1 and Treasury Department officials had said Congress had to raise the debt limit by month's end to avoid any risk of defaulting on the debt. But the destruction

wrought by Harvey and Mr. Trump's decision this week to strike a deal with Democrats appears likely to free up much of the fall for negotiations on other issues, including immigration and an overhaul of the tax code.

The package now heads to the House, which was expected to vote on it Friday. Many conservatives are reluctant to vote to increase the debt limit without taking any other steps to curb federal spending. But most, if not all, Democrats are likely to support it, as are many Republicans from Texas, Louisiana and Florida, all states affected by or bracing for the storms. —Kristina Peterson

estimated 15% of its more than 1,000 Houston-area staff were hit by flooding.

Company managers assigned flooded employees a score to determine how much assistance to provide: Level 1 meant minor home damage and an estimated recovery time of less than a month; Level 2 indicated recovery could take up to three months and that some temporary housing was required; and Level 3 signified total losses or major home damage and as much as six months of recovery and shelter were needed. Of the roughly 150 employees who sustained damage, more than 60 were either Level 2 or 3.

"All the stuff we're doing in the first couple of weeks, those are, in a way, the easier things," Mr. MacCleary said. "It's the longer term that's tougher."

Three miles from Covestro's Baytown plant, a team of company employees worked Wednesday to finish stripping the inside of co-worker Javan Williamson's three-bedroom home down to its studs—it had been flooded to 5 feet.

Water covered the SUV in the garage and set the back-yard deck afloat like a raft,

saving the two dogs that had been left behind when Mr. Williamson—expecting only a few inches of flooding—moved his pregnant wife and two small daughters to a friend's house for what he thought would be the night. A co-worker, Brett Ward, later waded with him through waist-high water to rescue the dogs.

On Wednesday, the family's ruined belongings—nearly all of them—were piled high on the sidewalk around the house: a couch, a mirror, various toys. Mr. Williamson's wife, Jill, said the couple's wedding photos were a total loss, but some snapshots of the children would dry.

Covestro also lent the Willamsons a car and is arranging a furnished apartment for the family for three months.

"I never thought a company I work for would be so willing to put out these types of resources," Mr. Williamson said. "Allowing me to be off work and not worrying about my job is absolutely critical."

Companies now tending to their employees are likely in for a long haul.

Paul Kusserow, CEO of Amedisys Inc., a home health-care company based in Baton Rouge,

La., said it has taken until now for the company to recover fully from catastrophic floods last year that left a quarter of its 400 employees with flooded homes and properties.

Mr. Kusserow estimated the company has spent "well into the millions" of dollars in housing, cash, counseling and other aid for displaced employees, plus countless hours helping them negotiate with insurers, purchasing supplies and finding quality contractors to rebuild workers' homes.

"Even if it's not a question of economics, you as an employer get so much in return," he said. "What we got was a lot of good will and a lot of cohesion and loyalty."

He said he believes the effort is one reason the company's turnover rate has fallen to about 18% from the low-30% range before the floods.

Amedisys never hit a point where it considered pulling back and didn't feel pressure from investors to rein in spending, he said. "Our board wrote checks, and I expected them to write checks," Mr. Kusserow said.

He said he has gotten calls from companies in Houston

As he waded through waist-deep water around BP's corporate campus last week, John Mingé, president of BP America, said he realized it isn't just desks and cubicles that were swamped, but the company's expansive day-care center, too. About 300 children are cared for from early in the morning until the end of the workday.

"This is going to create stress, and we'll have to work through it," he said, referring to working parents who counted on campus child care.

At Exxon Mobil, which has about 23,000 employees in Texas and Louisiana, senior executives held a conference call each day with about 50 people keeping tabs on the status of Exxon business units and personnel, said Steve Hart, vice president of global logistics and leader of Exxon's relief effort.

Mr. Hart and his team also guided operational priorities such as the refinery shutdowns and startups. He said he realized only later that some people on the calls coordinating the recovery were trying to manage their own flooded homes.

Some had moved in with co-workers and quietly kept doing their jobs. "They look at this as their role," Mr. Hart said. "They know that this is what they need to do."

Reno Castillo, an Exxon instrument specialist, was among a large crew of critical employees that stayed at the Baytown refining and chemical complex and helped safely shut it down during the storm.

He and others were stuck at the plant for days after floodwaters cut off access. He eventually got home—traveling at one point on a friend's bass boat—where his house was also flooded with 2 feet of water. Exxon hired a crew to rip out drywall and clean up—one of more than 100 contractors the company has mobilized to help employees.

In less than a week, his home was ready to start renovations, and by Tuesday he was able to get back to work on the turbines in the Baytown plant.

"They were trying to get my life back in order as quickly as possible," he said.

Once people get back to work, "their attention is going to be divided," said Curt Ross, a managing director in the Houston office of recruiting and consulting firm Russell Reynolds Associates. "These people are going to be talking to insurance companies and adjusters and contractors for months." He estimated it could be six months before workers return to full productivity.

"Given that people will need time off...absenteeism is likely to be a drain on productivity," said Mr. Perryman, the economist. "Perhaps an even greater concern will be 'presenteeism,' where workers are physically present but preoccupied with family and property concerns."

—Bradley Olson

contributed to this article.

NEWS

Continued from Page One

Francis Bacon. The copy editor was Lawrence Breed, known as Ember, a 77-year-old renowned Silicon Valley computer programmer. "I always wanted to be a pressman and I never got around to it," he said.

Black Rock City, the alien-like village in the barren Nevada desert that draws about 70,000 festivalgoers each August, is a fully functioning temporary town with post offices, hospitals, a library, a gas station and a department of public works. One thing it lacks, however, is reliable connectivity.

The tech entrepreneurs who flock to Burning Man have fueled the digital revolution that is sapping the dead-tree newspaper industry. But here, they have restored the same conditions that drove the heyday of the printed press.

Burning Man doesn't have just one newspaper, but two—and they're engaged in an old-fashioned rivalry.

Adrian Roberts, editor of the alternative BRC Weekly, said, "Two newspapers are distributed [at Burning Man]. Only one is worth reading." Ron Garmon, a Los Angeles music critic dubbed Rockstar who is a reporter for the near-daily hard-news publication, the Beacon, fired back that BRC Weekly "is like a gossip column written by a 70-year-old blue-haired lady." For the record,

both journalists have pink hair. Burning Man co-founder Michael Mikel, a 73-year-old technology futurist known here as Danger Ranger, started the first Burning Man newspaper in 1992 and believes print journalism still has a long future in Black Rock City. "There's something about being in camp and getting that piece of paper," he said. "A naked person rides up to camp, hands you a newspaper out of their bike basket, and I think that is so cool."

Black Rock Beacon reporters work on 17-year-old Mac PowerBook G3 laptops that can withstand the extreme conditions. Without reliable phone service, reporters have to find their subjects in person, often leaving messages with dazed campmates or tapping notes to RV doors.

Editors struggle, too, with distractions like massive art installations, trampolines and open bars on every street. "You send a reporter out on a story, and they see a shiny object and you never see them again," said Beacon Editor Mitch Martin, 59, a former International Herald Tribune editor who has been reporting at Burning Man since 2000.

The Beacon, he says, "is the last newspaper job I'm going to be able to get."

BRC Weekly shortcuts the technical hurdles of producing a newspaper in the desert by putting it together before the event. BRC Weekly printed 25,000 copies of its single edition. This year's cover shouted

"The Six Types of People Who Will Ruin Burning Man Just By Being Here."

This year, the officials who run Burning Man gave away the Beacon's prime downtown location—to BRC Weekly.

Burning Man draws tech eminences who have included serial entrepreneur Elon Musk and Google co-founders Larry Page and Sergey Brin, as well as a crowd of so-called Burners, many of whom shed their clothes and engage in intense revelry.

The Beacon publishes a spectrum of stories, from practical items, such as the sunrise schedule and arrest reports, to lighter fare, like a survey of whether attendees preferred bacon or pie. It also does serious journalism, such

as reporting on a man who ran into the event's ceremonial fire this year, just hours after it happened. Sticking with Burning Man's ban on commerce—except sales of ice and coffee—the papers are free and lack advertising. Donations, including from the staff, fund the paper.

Mr. Martin dispatched a reliable reporter—Gayle "Curious" Early—to find out why much of the mail sent to Burning Man last year was returned. Ms. Early, a 52-year-old freelance journalist from La Mesa, Calif., spent the day reporting in boots, a dusty cowboy hat, polka-dot hot pants and a sheer top.

Black Rock City is laid out like a clock, with its own ad hoc post offices at 3:00, 6:00 and

9:00. At the 3:00 post office—designed like a giant mailbox with a DJ on the roof—Burning Man attendees who volunteer there told Ms. Early an influx of packages overwhelmed the actual U.S. post office nearby. After gathering some scuttlebutt about the other faux post offices, she hopped on the white furry seat of her bike to set out for the 6:00 post office.

There, her story hit a snag. An assistant on duty while the bosses were away said, "I'm not saying a word." Ms. Early then faced a dilemma: Head back to her tent to make deadline or bike across the desert city to hear from the 9:00 office. She kept pedaling.

However, at her final stop, she found only a 21-year-old Russian jewelry saleswoman

from New York attending her first Burning Man. The saleswoman didn't have any information, but did offer plenty of free postcards.

Ms. Early returned to the Beacon just before deadline, and Mr. Martin agreed to hold the story until Saturday. He and another editor huddled in a cramped trailer to lay out the paper on newer computers that they stored in oversize Ziploc bags to protect them from the elements. They communicated via whispers while the trailer's owners napped.

In past years, Mr. Martin and other staffers drove three hours by car to deliver a thumb drive with the next day's paper to a Reno, Nev., printing plant. This year, they secured an internet connection at another camp, a sign of technology's increasing creep into the remote event. (The Beacon's digital presence is limited to a website with PDFs of previous years' editions.)

The Beacon printed 17,000 copies across five editions last week. Editors picked up each edition in a storage locker in a nearly deserted mining town nearby.

Adult paperboys and papergirls then made the rounds via bicycle. Ms. Early's husband, Dr. Charlie Hamori, was one of them, and he gathered gifts from readers along the way. One day's haul included two necklaces, a snow cone, an Old Fashioned cocktail and a piece of Hungarian cake. "This is the best paper route ever," he said.



Beacon President Alexandra Davies and editor Mitch Martin lay out the next day's paper in a trailer.

JACK NICKAS/FOR WALL STREET JOURNAL

Editor Mitch Martin, 59, a former International Herald Tribune editor who has been reporting at Burning Man since 2000.

The Beacon publishes a spectrum of stories, from practical items, such as the sunrise schedule and arrest reports, to lighter fare, like a survey of whether attendees preferred bacon or pie. It also does serious journalism, such

BOOKS

'From Stettin in the Baltic to Trieste in the Adriatic, an iron curtain has descended across the Continent.' —Winston Churchill

A World That Came In From the Cold



JOSEF KOUDELKA/MAGNUM PHOTOS

An epic history destroys the idea of a single global ideological battle

BY PAUL KENNEDY

HOW DO YOU MEASURE the shape of that historically most important happening, the Cold War? That's not a trick question, and the matter is much more complicated than you might first suppose.

Was it simply a zero-sum struggle between the two greatest of the world powers that had emerged victorious from World War II—America and Russia—leading to an international rivalry scarier than all previous ones because of the existence of nuclear weapons? Was it a tussle that waxed and waned from, say, the Yalta Conference of 1945 until the collapse of the U.S.S.R. in 1991—and then it was all over? Or was it even more than that, perhaps an intense segment of the giant ideological struggle that has been waged between Western liberalism and its ideological foes since the coming of those twin drivers of modernity, the Enlightenment and the Industrial Revolution?

The Cold War: A World History
By Odd Arne Westad
Allen Lane, 710 pages, £30

Was the Cold War essentially a European "thing," founded in the chaos of the post-world-war wreckages, and ended when Moscow could no longer control its European satellites? Or was it more and more a global event, one that knew no continental boundaries?

In sum, when a scholar writes about it, what should he put in, and what, if anything, can be left out? An explosion of newly opened state archives everywhere, plus thousands and thousands of specialist studies and revealing autobiographies published in the past quarter-century makes even keeping up with all the new facts a difficult task. Pity the scholar, then, who has the temerity to attempt a grand synthetic study within the confines of a single volume, even a very hefty volume like Odd Arne Westad's "The Cold War: A World History."

Mr. Westad, a professor of history and of U.S.-Asia relations at Harvard University, is the author of several books on modern international history, including his best-selling study of China's foreign policy, "Restless Empire." His epic account—there are 630 pages of text, all admirably fluent—is basically chronological and therefore easy for a reader to follow.

But there are also many parallel narratives as his analysis of international politics since World War II grows more and more global. Thus, a chapter on the Cold War and Latin America is neatly sandwiched between a chapter on Vietnam and another on Brezhnev's crumbling domestic scene. The chapter about the Cold War and India is followed by one on Middle East convulsions. There are truly fine stories in each; the pages on the crushing of the Hungarian Uprising of 1956, for example, though few in number (there are only about five), are quite gripping.

"When the main building of the hated security services was finally occupied," the author writes, "the revolutionaries showed no mercy: 'Six young officers came out, one very good-looking. Their

When, really, did this giant contest between Moscow and Washington end—or did it truly end at all? Communism may have receded, but the regional flashpoints remain the same.

shoulder boards were torn off. They wore no hats. They had a quick argument. 'We're not so bad as you think we are. Give us a chance,' they were saying.... Suddenly one began to fold; they were going down the way you'd cut corn. Very gracefully. They folded up smoothly, in slow motion. And when they were on the ground the rebels were still loading lead into them.'

One reason Mr. Westad's narrative is so strong is its use of fresh archival sources from across the globe. The author continues the multilingual, multiarchival research for which he is known. The publishers have, alas, chosen not to include an alphabetical list of archival sources (which doesn't help a professional scholar wanting to follow in the author's footsteps), but I kept circling references to items in depositories like the following: "Records of the German Foreign Office," "Churchill College Archives," "Foreign Policy Archive of the Russian Federation," "Eisenhower Library," "National Archives of India, New Delhi," "John F. Kennedy Library Archives," "National Archives of Egypt, Cairo" . . . and on. The author traveled the world to write this "world history."

This is important because all these citations bring something new, or at least confirm in a much better way what scholars suspected about policy makers and policy. Thus, a reference by Mr. Westad to an Indian archives source brings us to a March 1969 document from India's ministry of foreign affairs, showing Prime Minister Indira Gandhi's deep suspicion of both superpowers and her determination to pick India's own best course between them. When readers get to see the maneuvers and ambitions of the Indians—and along with them the Vietnamese, Egyptians, Brazilians, Saudis, Poles (let alone de Gaulle or the Communist Chinese)—they may realize how contrived the term "bi-polar" really was when used to describe the world of 50 years ago. It suggests that international politics consisted of lots and lots of atomlike nation-states rotating around two fixed poles of Washington and Moscow. In Mr. Westad's nuanced account, nothing

Please turn to page A9

The spy master's latest entwines today's world with a lost one

BY HENRY HEMMING

A FORMER MI6 OFFICER told me that, back in his day, the job of persuading someone to become a British spy was occasionally made easier by two imaginary men. One was James Bond, the other George Smiley. The enduring appeal of Bond, he went on, encouraged potential recruits to think that working for MI6 would be glamorous and fun. Smiley's character, on the other hand, gave the MI6 officer himself a certain mystique, suggesting a rich hinterland. So the current generation of British spooks may be pleased to know that after a long absence George Smiley, John le Carré's best-known literary creation, is back.

A Legacy of Spies
By John le Carré
Viking, 264 pages, £20

"A Legacy of Spies" is Mr. le Carré's 24th novel in a career spanning six decades. As he once wrote, regrettably, there is no longer in the publishing world such a thing as "a 'small' le Carré book," nor has there been since the break-out success of his third novel, published in 1963, "The Spy Who Came In From the Cold." That book changed his life. It turned him into a brand-name author, effectively ended his MI6 career and, at a stroke, transformed our expectations of the spy novel. It is "The Spy" to which Mr. le Carré now daringly returns.

Our narrator is Peter Guillam, Smiley's former protégé and bagman, who is seeing out his dotage on an idyllic farmstead in Brittany when a letter summons him on a matter "of some urgency" to the headquarters of his former employer, "the Circus." In London, Guillam is installed in Dolphin Square (the same apartment block used as a base by the man Mr. le Carré reported to early in his own intelligence career) and begins to be grilled about his role in "Operation Windfall."

This was an elaborate scheme—dreamed up 50 years earlier by Smiley and his boss, Control—in which a British agent and his former lover, sent to East Germany, were to bring down a senior figure in the Stasi. Unknown to the agents, Windfall was designed to protect its apparent target, a British double agent.

A letter summons a retired agent back to 'the Circus,' and what starts as an inquiry into the events of le Carré's most famous novel becomes 'a night-time journey of the soul.'

Except the plan went wrong, and the two Britons involved were shot as they crossed the Berlin Wall.

This is of course the plot of "The Spy," in which Alec Leamas and Liz Gold unwittingly frame Stasi officer Josef Fiedler. Half a century later, as explained by a young Circus lawyer, the delightfully named Bunny, all bluster and false bonhomie, they are all "faced with the ludicrous Shakespearean premise whereby the ghosts of two victims of a fiendish Circus plot rise up to accuse us in the form of their offspring." The children of Leamas and Gold want to take legal action against the Circus and all those who sailed in the not-so-good ship Windfall, including Peter Guillam.

There follows "a night-time journey of the soul" as Guillam begins to pick through old Windfall files. The action cuts deftly between the investigation (although never stated, the year is roughly 2010) and Windfall itself, which takes us back to the old Circus in its rickety prime. The historical thread is made up of documents such as agent reports, handler reports, transcripts of conversations, personal letters and initialed minutes of emergency meetings, a device that works superbly.

These texts feel fastidiously authentic, down to the inclusion of prosaic details, such as an aside on the parlous state of an embassy safe room's air-conditioning unit. "Anyone using the place just stews and suffocates," one junior diplomat writes in the middle of a nerve-racking account of an agent exfiltration.

In the present day, Guillam begins to be shadowed around London by a potential litigant, and he decides to track down Smiley. Guillam's interrogation by Circus lawyers becomes more hostile as they look to work out if he has slept with a vulnerable British agent. We then discover that Guillam, Smiley and Control concealed Windfall's most controversial detail—the twist at the end of "The Spy"—namely, that the operation was designed to protect a murderous British spy. Much of the rest of the book is taken up with Guillam's attempts to keep this detail from the lawyers.

Superficially at least, this is a tale of one generation passing judgment on another but without understanding the context. "The historic blame game," as one character puts it. "Today's blameless generation versus your guilty one." This element of the book is undermined slightly by the blunt characterization of the young Circus staff. "I'm a lawyer. Right?" one of them declares improbably. "A pretty f—ing good one." The new guard is ignorant, disrespectful, brash, overly familiar and full of hubris, so it comes as little surprise when the old-timers start to run rings around them.

Yet this does not distract from the novel's agile examination of its meatier questions: How much collateral damage can be justified by the need to protect a source? What are the implications of our

Please turn to page A8

A definitive biography shows a Soviet leader changing his mind

BY MAX BOOT

FEW FIGURES in the post-1945 world have had as much success in transforming the world as Mikhail Gorbachev—or been as frustrated with the consequences.

He took over as the leader of the Soviet Union in 1985, inheriting the anachronistic title of general secretary of the Central Committee of the Communist Party along with the creaky infrastructure of a totalitarian state. Private property did not exist. Dissent was outlawed. The Cold War was raging. Eastern Europe was ruled by Soviet satraps. Soviet troops were fighting in Afghanistan.

By the time he left office, at the end of 1991, the Berlin Wall had fallen, the Cold War was over, the Communist Party was no longer in control and the Soviet Union had ceased to exist. Russia, its largest republic, was embarked on an experiment in free-market democracy.

By then Mr. Gorbachev had won the Nobel Peace Prize and the adulation of the world. But he was widely reviled at home for leading his country to chaos. Although he fended off a hard-line coup in 1991, he was forced to cede power to his hated rival, Boris Yeltsin, and then watch as Yeltsin's successor, Vladimir Putin, destroyed the vestiges of Russian democracy.

What makes this odyssey all the more stunning is that it had not been forced on Mr. Gorbachev. True, the U.S.S.R. was rundown and impoverished when he took over. It was losing a high-tech arms race, struggling to feed its own people and facing greater pressure from a more assertive America led by Ronald Reagan. But as the examples of North Korea and Cuba demonstrate, even decrepit dictatorships can survive for decades. Continuing repression was a real option but one that Mr. Gorbachev never seriously entertained, because by the time he took power he was no longer a Communist true believer but, rather, a European-style social democrat.

How did a closet liberal rise to supreme power in a state created by Lenin and Stalin? William Taubman, an emeritus professor at Amherst and the author of a Pulitzer Prize-winning biography of Khrushchev, is superbly qualified to answer that question. With "Gorbachev: His Life and Times," he delivers a meticulously researched, clear-eyed volume that will undoubtedly stand for years as the definitive account of the Soviet Union's last ruler. His biography is not a thing of literary beauty, but it is reliable and judicious, admiring but never hagiographical.

Mr. Gorbachev was born in 1931 in the village of Privolnoe in Russia's North Caucasus region. His childhood was hardly placid. As Mr. Taubman notes: "Stalin's Great Terror of the 1930s swept up both of Gorbachev's grandfathers: his

Like many other revolutionaries, the man who introduced *glasnost* lost control of the changes he begat. Gorbachev's attempts to reform the Communist system destroyed it.

mother's father arrested in 1934, his other grandfather in 1937. Then on June 22, 1941, the Nazis invaded the USSR, occupying Gorbachev's village for four and a half months in 1942. Famine struck again in 1944 and 1946. And following the war, when the Soviet people hoped for a better life at long last, Stalin cracked down again, forcing them to sacrifice once more for the glorious future that Communism promised but never delivered."

The horrors of Stalinism and World War II left a profound mark on young Mikhail, fostering a lifelong aversion to political repression and military conflict. Yet somehow he emerged from his seemingly horrific upbringing as a happy, optimistic, self-confident fellow. He was lucky that his grandfathers survived the Gulag and that his father survived his military service during the war, even if a false report, in the summer of 1944, announced that he had been killed in action.

Mr. Gorbachev was smart and diligent, and he was blessed with a good education denied to his peasant parents. He became a star pupil at his local schools and then later at the Soviet Union's premier college, Moscow State University. His path was smoothed by his coming from the perfect Bolshevik background. One of his grandfathers chaired a collective farm, and Mikhail himself became a leader in the Komsomol, the Communist youth organization, and won the Red Labor Banner in 1949 "for helping his combine-driver father break harvesting records."

At Moscow State, which he entered in 1950, Mr. Gorbachev became close friends with Zdenek Mlynar, a Czech student who would go on to become the chief ideologist of the Prague Spring in 1968. The two men influenced each other as they lost faith in Stalinism and adopted a more humane creed that later became known as "socialism with a human face."

Mr. Gorbachev was a serious undergraduate with little time Please turn to page A9

BOOKS

'Sometimes, the world don't give you what you need, no matter how hard you look. Sometimes, it withholds.' —Jesmyn Ward

FICTION CHRONICLE: SAM SACKS

Communing With Spirits



WHILE DISCUSSING the supernatural elements of her novel "Beloved" in a 1992 interview, Toni Morrison remarked,

"No matter what anybody says we all know that there are ghosts." But do we? If by ghosts we mean the Gothic variety of table-tipping poltergeists, then no, probably not. But if we broaden the definition to refer to specters from the past that haunt the living, then surely we're all believers. These are the ghosts that roam through Ms. Morrison's novels—historical memories granted form.

They are familiar spirits in today's fiction as well. In Hari Kunzru's recent "White Tears," the vengeful ghost of a 1920s bluesman inhabits a white 21st-century audiophile. And in Jesmyn Ward's "Sing, Unburied, Sing" (Bloomsbury Circus, 289 pages, £16.99), modern-day Mississippi is visited by the restless phantoms of men victimized by unanswered racial injustice.

Like Ms. Ward's 2012 National Book Award winner, "Salvage the Bones," the novel begins in the fictional coastal town of Bois Sauvage, where Jojo, age 13, and his infant sister, Kayla, live with their devoted grandparents. Jojo's father, a white man named Michael, is in prison in the north of the state for dealing meth, and his mother, Leonie, shows up erratically to spray insults that "gathered and lodged like grit in a skinned knee." But when the novel opens, Michael has been issued parole and Leonie arrives with a bartender friend to fetch the kids and pick him up.

The road trip to and from the prison, tenuously likened to the journey in "The Odyssey," serves to bolster Leonie's credentials as the world's worst mother, as she neglects to feed her children or give Kayla proper medicine for a stomach virus, and at one point she swallows an entire baggie of crystal meth so that a state trooper doesn't see it. It's difficult to reconcile the meanness of her behavior with the writerly sophistication of her interior monologue (peeking at Jojo she notices "the mow of his lips, the low eyebrows"), and readers aren't alone in being nonplussed. Leonie is accompanied by the ghost of her brother Given, who was murdered by a cousin of Michael's and who seems to sit in silent judgment of her



GETTY IMAGES

marriage and the drug habit she nurtures to achieve forgetfulness.

Jojo has visions, too. It happens that over half a century earlier his grandfather was locked up in the same prison as Michael. There he befriended a teenager named Richie, one of countless innocent black men hounded to death in the work camps. The story splices a flashback to the episode into Richie's purgatorial appeals to Jojo for some understanding of his demise. The forgotten dead, Ms. Ward writes, are doomed to stay behind and wander, "wanting peace the way a thirsty man seeks water."

Haunted by these spirits, the living also seem lost and unmoored, "crying loose" in an age of perpetuated iniquity. Though provocative on their own, these vagrant personal dramas don't hook together into a coherent pattern. Yet one relationship feels powerfully developed. Jojo has looked after Kayla since her birth and their connection is bone deep, beyond language. He alone knows where he's needed and where he belongs.

Like George Saunders's recent best seller "Lincoln in the Bardo," Italian writer Antonio Tabucchi's posthumous novel "For Isabel" (Archipelago, 140 pages, £12.48) derives its ideas about the dead from

the tenets of Eastern spirituality. The narrator is the Polish-Portuguese poet Tadeus Slowacki and the story traces his search for a childhood love, a student radical who disappeared after being arrested in Lisbon during

A trio of novels in which ghosts—or 'memories granted form'—haunt and guide the living.

the dictatorship of António de Oliveira Salazar. His investigation takes him from Portugal to Macau to the Swiss Alps as he elicits the testimonies of a chain of enigmatic characters who came into contact with Isabel, including a prison guard, the priest of a leper colony and an opium-addicted poet.

The story's procedural structure rather pleasingly echoes an episode of "Law and Order." But to Tadeus the encounters represent the concentric circles on a mandala, a symbol of wholeness in Indian philosophy. By following these rings toward the obscured figure at the center, he hopes "to give some meaning to [Isabel's] life, and to my rest."

What does he mean by his rest? In Tabucchi's 1991 novel "Requiem," Tadeus is introduced as a name on a tombstone, and there are eerie glimmers throughout "For Isabel" that he is carrying out his search in a plane of the afterlife peopled by the remorseful wraiths of both those who opposed and were complicit with the Salazar regime. But whether its setting is real or supernatural, this tantalizing, quicksilver novel, subtly translated by Elizabeth Harris, illuminates a soul in transit, yearning to complete the story that will release him from his suffering.

Contrary to what you might guess from its title, Brendan Mathews's "The World of Tomorrow" (Little, Brown, 552 pages, £21.83) takes place against the backdrop of the 1939 New York World's Fair. It views its teeming cast of characters as though from the observation deck of one of the city skyscrapers that seem to "burst from the pages of a comic book." Included in the panorama are an immigrant photographer, a Harlem jazz musician, a bigwig Bronx politico, the marriageable heiress to a robber baron and an IRA terrorist hiding overseas and scheming one last strike against the British crown.

The entertaining if at times exhaustingly madcap tale centers on the Dempsey brothers. Francis and Michael have fled Ireland with a bundle of the IRA's funds after surviving an accidental explosion in one of the organization's safe houses. Disguised as Scottish nobility and staying in style at the Plaza Hotel, Francis tracks down their brother Martin, who's been in the metropolis for a decade building his reputation as a musician. But before long Francis is collared by an IRA tough and blackmailed into taking part in a crazy plot to assassinate the King of England when he attends the World's Fair.

A story this outsized would be incomplete if it only featured the living. Michael was badly wounded by the explosion in Ireland and in his shell-shocked state he is visited by the ghost of the mystic poet William Butler Yeats, who leads him on a quest through Manhattan for a fortune teller who will reveal the directives of the "spiritus mundi," "the universal memory that binds us all." Reveling in bold twists and fantastic coincidences, Mr. Mathews's big, expressive debut inhabits a world that's neither of the past nor the future but wholly of the imagination.

The New Le Carré

Continued from page A7
new obsession with historical crime?
Mr. le Carré even touches on Brexit, including an eloquent and heartfelt defense of a European identity.

"If I had a mission," explains one retired member of the Circus, "if I was ever aware of one beyond our business with the enemy, it was to Europe. If I was heartless, I was heartless for Europe. If I had an unattainable ideal, it was of leading Europe out of her darkness towards a new age of reason. I have it still."

We see two moral codes pitted against each other, present-day le Carré versus his younger self.

"A Legacy of Spies" offers, finally, the fascinating spectacle of a talented novelist casting a critical eye over his early masterpiece, marking it for style and moral substance. In "The Spy" and "Tinker Tailor Soldier Spy" (1974), Smiley frequently wrestles with the idea that the death of an innocent person could be seen as a necessary cost. There is a nod to this in "A Legacy of Spies" when Smiley is required to come up with an especially unalluring cover name and chooses "Ethics." Yet in late-period le Carré novels, particularly "A Delicate Truth" (2013), collateral damage is depicted as reprehensible, and unequivocally so. In this new book we see the two moral codes pitted against each other, present-day le Carré vs. his younger self, certainty against doubt, a struggle that continues right to the end.

Mr. le Carré once wrote that the early success of "The Spy" meant that his future "experimentations would have to take place in public," and he has never been content to sit in the same stylistic groove. Although there are moments when this book does not quite work, and though some readers will simply prefer "The Spy" or "Tinker Tailor," "A Legacy of Spies" deserves to be seen as a very different literary enterprise.

As well as being an inspired feat of plotting, it is the boldest and most inventive Smiley novel to date. It is also a finely wrought examination of one man's struggle to come to terms with his past.

Mr. Hemming is the author of "Agent M: The Lives and Spies of MI5's Maxwell Knight."

A Most Improbable Machine

The Chinese Typewriter

By Thomas S. Mullaney

MIT, 481 pages, £27.95

BY PETER NEVILLE-HADLEY

'THE CHINESE TYPEWRITER: A History' sounds a highly implausible title for a book, perhaps invented as a comic example of extravagant dullness. The Western imagination has long considered the Chinese typewriter a fantastic, ridiculous or simply impossible device, probably as room-filling and keyboard-laden as a church organ, and it's the implausibility of the machine that leads to suspicion of the title. But in his perfectly serious study, Thomas S. Mullaney, a professor of Chinese history at Stanford, chronicles the invention of various entirely practical Chinese typewriters and narrates the lives of their long-forgotten inventors.

He allows himself to expound on the nature of written Chinese, the sound of typewriters (*gada gada gada* in Chinese), the consequences for typewriting of Japanese occupation of China, the encoding of Chinese for telegraph use, the feminization of the clerical workforce and much more.

This is all far from dull, but comedy survives in some of his self-consciously florid phrasemaking: "We will climb into the manholes, crawl spaces, and airshafts of Chinese," he promises, "exploring all of the complex and fascinating meaninglessness that makes meaning tick."

Mr. Mullaney has certainly left no architectural feature unexplored in his search for references. Actor Tom Selleck, author Bill Bryson and rapper MC Hammer all appear as promoters of the idea of a monstrous,

room-size machine—Mr. Selleck for his role in long-forgotten 1979 TV movie "The Chinese Typewriter." Mr. Mullaney might also have sought out Wong Kar-wai's Palme d'Or-nominated "In the Mood for Love" (2000). In several scenes, actor Tony Leung, as journalist Chow Mo-wan, is seen seated at a real-world Chinese typewriter.

But then Western audiences might not have recognized the machine on the screen. One of Mr. Mullaney's key points is that a device for rapidly printing business correspondence did

Reimagining a Western technology for Chinese characters led inventors in all sorts of directions.

not have to have a keyboard or a carriage. But by the 1920s nearly all machines were of the single-keyboard-plus-shift-key variety, the Western imagination faltered and the evolution of the typewriter came to a halt.

It proved adaptable to foreign languages, even if extra "dead keys" had to be created so that an accent might be overtyped or if the carriage had to travel in the opposite direction, as for Arabic. But Arabic had to be adapted, with alternative forms of some letters abandoned so as to fit the standard number of keys. Chinese seemed immune to such adaptation, and its characters would perhaps have to be abandoned altogether.

Modernizers in early 20th-century China also felt that the unwieldy nature of its written language held the country back. Communist Party co-founder Chen Duxiu, writer Lu Xun and even Mao Zedong demanded ei-

ther a newly designed Chinese phonetic system or a wholesale adoption of Roman letters.

Mr. Mullaney quotes Lu Xun: "If Chinese characters are not exterminated, there can be no doubt that China will perish." But announcements of the death of the characters proved premature, and Mr. Mullaney claims that Chinese script is now "among the

Thus many Chinese typewriters came to employ a standard set of around 2,500 common characters, grouped according to the frequency of their use. An arm with a pointer was moved over a table of characters to make a selection, and the press of a lever caused the corresponding type to be lifted and struck onto the paper. The result was a speed of per-



MIT PRESS

STRIKE HARD A Chinese propaganda poster from 1956.

fastest and most successful within our era of electronic writing." The 140 characters allowed by services like Twitter or its Chinese counterpart, Weibo, are enough for merely a slogan when using Roman letters, while 140 Chinese characters can make a meaning-filled mini-essay.

Fundamental to Chinese *amour propre* is the belief that the language is too difficult for foreigners, who will never master its complete set of characters. But no more than a handful of Chinese do that either. Missionaries working in China demonstrated that even the Confucian texts at the heart of Chinese education employed fewer than 3,000 different characters.

haps 20 characters a minute by those who had memorized the layout.

Typing speed eventually increased when typists were allowed to arrange their own type trays, putting frequently paired characters close together and in easier reach. The missionary inventors of early versions grouped the characters for Jesus (*ye* and *su*) together among the most commonly used characters. By the 1950s, Mr. Mullaney writes, the secretarial equivalents of model workers reached speeds of as much as 3,337 characters per hour (some 55 characters a minute) by grouping them together in radiating patterns with their common compounds,

such as those for "revolution" and "American imperialist."

Mr. Mullaney sees this as a fore-runner of the predictive techniques that make entering Chinese characters so easy in the digital age. As soon as the spelling of a character is begun using a Roman keyboard, digital devices suggest appropriate characters as well as the ones likely to follow.

Twice Nobel-nominated novelist Lin Yutang, who in the first half of the 20th century was America's favorite elucidator of the Chinese condition, did finally invent a machine that resembled the Western ideal of a typewriter. Characters were stored in whole or in parts on a set of intricately arranged drums and bars and assembled with combinations of keystrokes.

What Lin had developed was inputting rather than typing. "Mechanical Chinese typewriting became the doorway into new domains of information technology more properly called word processing and early computing," claims Mr. Mullaney.

So, far from being dull, the story of the Chinese typewriter turns out to be part of the early history of computing. Any dullness in the book arises from writing that is sometimes both as repetitive as typing and as leaden as type itself. Often an idea that's fresh and interesting but quite simple is labored over until it takes up a page and a half.

Mr. Mullaney closes with an extended advertisement for a second volume, to be the first history of Chinese computing. It may seem premature to say so before this further volume appears, but with a little editing a single book might have sufficed to "make meaning tick."

Mr. Neville-Hadley is a Vancouver-based writer.

BOOKS

'When the winds of change blow, some build walls and others build windmills.' —Chinese proverb

The Eastern Time Bomb

Asia's Reckoning

By Richard McGregor

Allen Lane, 396 pages, £20

BY ROBERT D. KAPLAN

OVER THE SPAN of the decades since World War II, the U.S. Navy has made Asia rich but not altogether stable. It was only the security guarantee provided by the U.S. Navy that allowed Asian countries not to fear one another and thus to concentrate on building their economies instead of their militaries.

The result has been the Asian economic miracle. Of course, Asians themselves have ascribed their success to "Asian values"—the emphasis on order and hierarchy embodied in the Confucian ethos. But "the region's peaceful postwar coexistence, far from being somehow organic to local political cultures," notes Richard McGregor in "Asia's Reckoning," "had been underwritten by the U.S. military."

Now the situation is changing. The rise of the Chinese navy and the arms race that it has set off across Asia have made the region's stability tenuous. "A single shot fired in anger" in the East China Sea (where China's claims face off against Japan's), or in some other zone of dispute, could send financial markets tumbling, Mr. McGregor notes, and affect "trade routes, manufacturing centers, and retail outlets on every continent."

A former Financial Times bureau chief in Beijing and Washington, Mr. McGregor has written a shrewd and knowing book about the relationship between China, Japan and America over the past half-century. Among much else, he shows how the world's top three economies are now imprisoned by increasingly unstable dynamics, and not only in the military realm.

Though Mr. McGregor has pored over archives to put together a hard-to-surpass narrative history of high diplomacy in Asia, the strength of his book is its old-fashioned journalism, in which empathy and explanation outweigh mere exposé.

Indeed, "Asia's Reckoning" has the aura of a "tour-ender," the kind of conspectus that foreign correspondents of a generation ago and further back would put together after they had finished a multiyear stint in some far-flung place. Here are insightful, detail-rich profiles of everyone from Zhou Enlai and Henry Kissinger to Kakuei Tanaka (Japan's prime minister in the early 1970s) and Jiang Zemin (China's leader from 1989 to 2002).

The centerpiece of "Asia's Reckoning," though, is the trilateral relationship, in which the U.S. "has its arsenal trained on China," a country that is, in turn, an existential menace to Japan, which, for its part, is arguably America's most important ally in the world.

"China is the key to Asia," Mr.



OLD WOUNDS Visitors at the Anti-Japanese War Museum of the Chinese People in Beijing.

McGregor writes, while "Japan is the key to China" and "the United States [is] the key to Japan." If a conflict is triggered at any point in this circuitry, the post-World War II system in Asia and elsewhere could disintegrate.

While culturally intertwined and geographically close, Mr. McGregor observes, China and Japan remain psychically remote, and Japan's affinity with Taiwan, China's nemesis, goes back to the late 19th century.

Nobody, he emphasizes, should underestimate Asia's ethnic animosities. China's current leader, Xi Jinping, in a meeting with President Barack Obama, denounced Japan in such strong terms that Mr. Obama had to remind him that Japan was an American ally. The old State Department hand Christopher Hill, with experience negotiating in both the Balkans and East Asia, once said after contentious discussions between the Japanese and South Koreans: "Give me the Bosnian Serbs any day!"

Economic development under China's overtly authoritarian system and Japan's officially democratic system (but one with covert authoritarian aspects) has done nothing to quell national hatreds arising from Japan's World War II crimes against humanity.

In China, from popular culture up to the highest leaders, it is believed that Japan should serve a life sentence of humiliation for its wartime conduct. In Japan, statements of remorse have been undermined by periodic visits of Japanese leaders to Tokyo's Yasukuni shrine, where the souls of the 14 Class A war criminals responsible for the vast barbarity against Chinese civilians in the 1930s and '40s are venerated along with 2.5 million others who died in Japan's wars.

Then there has been the tendency among Tokyo officials to play down the issue of the "comfort women" pressed

into sexual slavery by the Imperial Japanese Army in the territories it occupied. At the same time, though, China's behavior on these matters has been cynical in the extreme.

The Chinese pick apart Japanese statements of regret in order to appease right-wing elements inside China, undercut Japan diplomatically and mask the fact that Mao Zedong, though fiercely anti-Japanese, exploited the Japanese invasion to advance the Communist takeover in Beijing in 1949.

If a conflict is triggered at any point in East Asia, the entire postwar system could disintegrate.

Ethnic discord and the unresolved demons of the past have been slowly undermining the effects of democracy and middle-class prosperity across East Asia, even as the region becomes more geopolitically important and, as such, more troubling to the West.

In the 1980s, Mr. McGregor reminds us, "Japan, not China, was the emerging economic superpower" and thus instilled more fear in Washington than China did. America's economic battles with Japan back then were a "dress rehearsal" for America's strategic rivalry with China. In 1990, at the peak of Japan's economic bubble and just before the Soviet Union disintegrated, twice as many Americans saw Japan's economy as a greater threat to their interests than the Soviet military.

Since then, Japan has declined and China has risen. But the larger picture remains the same: American anxiety over Asian competition, a feeling that stems in part from the

threat posed by a value system that is based more on order and hierarchy than on mass democracy.

Mr. Obama's "pivot" to Asia was less an original strategic concept than something that would have happened decades ago, following the collapse of the Berlin Wall, had only Saddam Hussein's invasion of Kuwait, 9/11, and the Afghanistan and Iraq wars not intervened. In short, America had long wanted to pivot to the Pacific; it was the Middle East that didn't allow it.

Meanwhile, the Trump administration's withdrawal from the free-trade agreement known as the Trans-Pacific Partnership has weakened America's prestige in the region. The administration's action may constitute the greatest self-inflicted American blunder in Asia since the Vietnam War.

Asians are all about *trade* and *business* and thus are the ultimate realists. By leading them up to the altar of free trade and then abandoning them, the U.S. has shown itself to be unreliable—no longer a pillar of security.

Perhaps, as Mr. McGregor says, the principal calculation preventing China from going to war against Japan in the East China Sea or elsewhere is the fear that China might lose—a prospect so disastrous for China that it could result in regime change in Beijing and the end of the Chinese Communist Party. Clearly democracy and prosperity in the region have been insufficient to quell its tensions. Thus the U.S. military, principally the Navy, remains the most important factor in keeping the peace. And the U.S. Navy, as we know from recent mishaps at sea, is being stretched to the limit.

Mr. Kaplan is the author of "Asia's Cauldron." He is a senior fellow at the Center for a New American Security and a senior adviser at Eurasia Group.

A World History of the Cold War

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seems further than the truth.

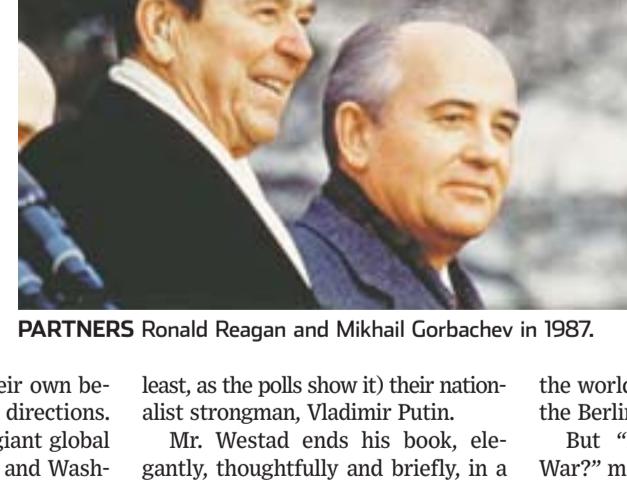
It is a commonplace in today's fractured world order to lament that "things were simpler during the Cold War," and to suggest that the U.S. in particular has lost the affection and support of so many countries and their publics across Europe, Asia, the Middle East, Africa and so on. Mr. Westad's more complicated narrative points again and again to how foreign governments were always selfish and calculating players, rarely if ever letting their ideological and cultural feelings for Washington or Moscow affect their own policy objectives. After all, both the U.S.S.R. and the U.S. could have chosen to pull back from Vietnam, Afghanistan, Central America or the Congo, while the Afghans and Congolese could not. The stakes were different, priorities were far higher and commitments greater.

Isn't there a lesson for us today? If the Cold War "ended" in November 1989 when the Berlin Wall fell, or in December 1991 when, amazingly, the then-leaders of Russia, Ukraine and Belarus hastily dissolved the Soviet Union, it ended only in the sense that it was a gigantic global football match that had been waged between two national teams. This shift definitely affected, say, the mutual workings of America and Russian military planners, their defense budgets and their allocations of troops abroad.

But the geopolitical changes may have meant much less in so many other parts of the globe that were deeply preoccupied by their own affairs—affairs that would go on, re-

gress of Vienna, or West Germany after the end of the Third Reich.

Since it didn't happen like that, we are left with a disgruntled Russia, an economically damaged half-great power, and a Russian people so angry at Mr. Gorbachev and America that they have repeatedly embraced (at



PARTNERS Ronald Reagan and Mikhail Gorbachev in 1987.

least, as the polls show it) their nationalist strongman, Vladimir Putin.

Mr. Westad ends his book, elegantly, thoughtfully and briefly, in a mere 12-page afterward, "The World the Cold War Made," just after a chapter on the collapse of the Berlin Wall, East Germany and the Warsaw Pact. But his conclusion is, perhaps, too brief, and this reviewer is surely not alone in thinking that much of the Cold War, not just in military and economic rivalries but also in ideological differences, has endured. On the same morning the publisher's proofs of "The Cold War: A World History" ar-

rived in my mailbox, I found myself perusing an article in this newspaper detailing Moscow's current efforts to make mischief in Syria, Libya, Egypt, the Persian Gulf, Venezuela, Turkey, the Baltic states and elsewhere. This systematic effort to undermine an American-based order and its many global institutions and partnerships would seem very familiar to an experienced diplomat of the 1960s or 1980s.

"How Big Was the Cold War?" is easy to answer: It was huge, as this book demonstrates, not only because of the perilous stakes but also because of the size of the two main actors.

"How Deep Was the Cold War?" is also easy to answer, and Mr. Westad does that so very well, showing how it reached into so many places in

the world that were a long way from the Berlin Wall.

But "How Long Was the Cold War?" may be a question we are still not able to answer. Almost 30 years after the international political landscape crumbled, around the walls of Berlin, the dust still hasn't settled and the topography of the next world order remains out of sight.

Mr. Kennedy is a professor of history at Yale University and the author and editor of many books, including "The Rise and Fall of the Great Powers."

Mikhail Gorbachev

Continued from page A7

for frivolity or dating, but he was smitten by a comely and intelligent fellow student named Raisa Titarenko. His future wife (they married in 1953) thought of herself as an intellectual and went on to do graduate work in sociology. Their romance would be as contented and fulfilling as that of Nancy and Ronald Reagan, even though the insecure Nancy and the know-it-all Raisa could not stand each other.

After graduation, Raisa gave up hopes of an academic career to follow Mikhail back to his home region of Stavropol, where he rose rapidly within the ranks of the Communist Party. Mr. Gorbachev was smarter and harder-working, soberer and more honest than the other apparatchiks, and by 1970 he was party boss of the region. Ten years later, he became a full member of the Politburo, the senior decision-making body within the Soviet Union. Leonid Brezhnev was on his last legs; he died in 1982. His sickly successors, Yuri Andropov and Konstantin Chernenko, also died in short order. Younger and more energetic, Mr. Gorbachev was the natural next-in-line.

Two sickly predecessors died in short order, making young Gorbachev the natural next-in-line.

And so in 1985 he took absolute power and launched his twin initiatives of *perestroika* (restructuring) and *glasnost* (openness). The latter succeeded better than the former. Mr. Gorbachev could not make the Communist system more efficient, and he hesitated to introduce radical free-market reforms that would be opposed by hard-liners. But he had no hesitation about introducing free speech, releasing political prisoners and eventually holding free elections.

At the same time, Mr. Gorbachev pulled out of Afghanistan and cultivated Western leaders such as Margaret Thatcher and Ronald Reagan in a successful attempt to end the Cold War. His most crucial decision occurred in 1989, when he refused to use force to preserve the Communist regimes in Eastern Europe. His forbearance made it possible for Germany to be reunited and its neighbors to join the European Union and NATO.

Like many other revolutionaries, Mr. Gorbachev lost control of the changes he begat. His attempts to reform the Communist system destroyed it, and he ultimately proved better at back-room maneuvering within the Politburo than at winning support from the masses. (Running against Yeltsin, he received 0.5% of the vote in the 1996 presidential election.) But, Mr. Taubman argues, that does not make Mr. Gorbachev a failure: "By introducing free elections and creating parliamentary institutions, he laid the groundwork for democracy. It is more the fault of the raw material he worked with than of his own real shortcomings and mistakes that Russian democracy will take much longer to build than he thought."

That is a generous judgment—maybe overly generous, given that Russia has returned to autocracy under the former KGB agent Vladimir Putin. Perhaps Russia's dire straits, with an imploding economy overseen by a corrupt oligarchy, could have been avoided if Mr. Gorbachev had engineered a smoother transition from dictatorship to democracy, from communism to capitalism. But the dissolution of every great empire has been a messy, bloody business. By the standards of the Romans, Mongols, Manchus, Ottomans and Habsburgs, or even the more liberal French and British empires (whose ends caused bloodletting from India to Algeria), Mr. Gorbachev didn't do so badly. Mr. Taubman is persuasive in calling him "a tragic hero who deserves our understanding and admiration," even if it is a judgment that few of his countrymen share.

Mr. Boot is a senior fellow at the Council on Foreign Relations and author of "The Road Not Taken: Edward Lansdale and the American Tragedy in Vietnam," to be published by Liveright next year.

OPINION

REVIEW & OUTLOOK

Trump's Malaysia Swamp

A visit to the White House is a diplomatic plum that world leaders covet. So why is President Trump bestowing this honor on Malaysian Prime Minister Najib Razak, who jailed an opposition leader and is a suspect in a corruption scandal that spans the globe?

Mr. Najib will visit the White House next week for a presidential photo-op that could help him win the next general election and imperil Malaysia's democracy. Yet it isn't clear that Mr. Trump and U.S. Secretary of State Rex Tillerson are getting anything in return for associating with a leader their own Justice Department is investigating. This could set them up for a repeat of the way Mr. Najib humiliated Barack Obama.

Mr. Najib oversaw the creation of 1MDB, a state-owned fund that was supposed to attract foreign investment. The U.S. Justice Department alleges that the Prime Minister and his associates looted the fund of \$4.5 billion. The DOJ has filed civil lawsuits to freeze more than \$1.6 billion of assets allegedly stolen from the fund. Five other nations are also investigating, and Singapore has convicted five financiers of money laundering and fraud. Mr. Najib hasn't been charged and denies wrongdoing, and Malaysia's Attorney General cleared him.

Under Mr. Najib, Malaysian authorities also conducted a six-year prosecution against opposition leader and former Deputy Prime Minister Anwar Ibrahim on dubious charges of sodomy, for which he was sentenced to five years in prison. That legal farce helped Mr. Najib's party win a narrow victory in the 2013 election.

So how should the U.S. engage a troubled Malaysia? Mr. Obama cozied up to Mr. Najib

and chose to ignore the prosecution of Mr. Anwar when he made the first visit by a U.S. President in 60 years to Kuala Lumpur in April 2014.

Eight months later, he invited Mr. Najib for a showy round of golf in Hawaii.

But that precedent isn't consistent with Mr. Trump's promise to "drain the swamp" of Washington politics. Two months after that golf round Mr. Anwar was jailed again. And shortly after Mr. Obama made nice with Mr. Najib, Frank White Jr., who served as co-chair of President Obama's re-election committee before becoming a lobbyist for Malaysia, sold a stake in a 1MDB-linked solar technology firm back to the fund for \$69 million.

The benefits of commuting with Mr. Najib aren't obvious. Perhaps Mr. Tillerson thinks Malaysia will help tighten the financial screws on North Korea, which has long used the country as a business hub.

But Mr. Najib isn't likely to stop his strategic drift toward China. Keeping 1MDB afloat will require cash infusions, and China, eager to help fellow authoritarian, can deploy its One Belt, One Road slush fund. Mr. Najib can then buy off the opposition and consolidate power.

If Malaysia slides into dictatorship, it will almost surely fall into Beijing's orbit. The U.S. relationship depends on Malaysia remaining a viable democracy. That's why helping Mr. Najib at this critical moment is a mistake.

Mr. Trump will be told that it's too late to cancel the meeting, but the U.S. can find a diplomatic excuse in Hurricanes Harvey and Irma or congressional battles. Any embarrassment is better than giving a scandal-tainted leader a White House photo-op.

The Pelosi-Schumer-Trump Congress

The American people may think they elected a Republican government last November, but it's increasingly hard to tell. The latest evidence came Wednesday when President Trump accepted a Democratic offer to raise the federal debt ceiling for a mere three months in return for \$8 billion for Hurricane Harvey relief.

"We had a very good meeting with [Democratic leaders] Nancy Pelosi and Chuck Schumer. We agreed to a three-month extension on debt ceiling," Mr. Trump said Wednesday aboard Air Force One on his way to a rally in North Dakota.

"So we have an extension, which will go out to December 15. That will include the debt ceiling, that will include the CRs [to fund the government] and it will include Harvey—the amount of money to be determined, but it will include—because everyone is in favor obviously of taking care of that situation," he added. "So we all very much agree."

Ah, dogs and cats living together.

What really happened is that Mr. Trump overruled his Treasury Secretary and GOP leaders who wanted a debt-ceiling increase to run past the 2018 election. Mr. Trump instead gave Democrats exactly what they want, which is to set up an even steeper fiscal cliff on debt and spending in December when Republicans hope to be focusing on tax reform.

Republicans will now have to take at least two difficult votes to raise the debt ceiling, while Democratic leverage will increase when the day of reckoning comes. The chances of a government shutdown in December have now risen sharply, or at least they have if Mr. Trump wants to pass something with more than a few Republican votes.

Mr. Trump may not like GOP leaders Paul Ryan and Mitch McConnell, but is he trying to

elect Speaker Pelosi? As Nebraska Sen. Ben Sasse put it in a press release: "The Pelosi-Schumer-Trump deal is bad."

Part of the problem is that Congressional Republicans once again helped put themselves in this box. Congress can't let the U.S. default on its debt, so the majority party has to raise the debt ceiling

whether it likes it or not. The smart GOP play was to attach a long-term debt increase to some other must-pass legislation and get it over with. One and done.

In familiar self-defeating fashion, the usual House suspects refused, insisting that the debt ceiling get a stand-alone vote. House Freedom Caucus Chairman Mark Meadows and Republican Study Committee leader Mark Walker also claim to be miffed that the debt-limit increase won't include spending cuts.

Yet most of these same Members won't vote to raise the borrowing limit no matter what they're offered. They find the actual work of governance beneath their dignity. Their mutiny means that Mr. Ryan lacked a GOP majority to raise the debt ceiling, which meant he had to go hat in hand to Mrs. Pelosi for Democratic votes. She and Mr. Schumer came up with their three-month gambit, which Mr. Ryan immediately labeled "ridiculous" and "unworkable," only to be sandbagged by Mr. Trump.

This may all sound like inside baseball, but it's politically relevant because it illustrates the Republican inability to govern. The Senate killed health-care reform. The House can't pass a budget resolution that is essential for tax reform. Mr. Trump is sore that Republican leaders failed on health care, so he now undermines their fiscal strategy and all but hands the gavels to Democrats. Readers might take note and hold off on spending that tax cut.

Senate Democrats fired off a letter in July to HHS Secretary Tom Price condemning the "short-sighted" cut that "puts at risk the health and well-being of women and our most vulnerable youth."

Remember this program has existed for a mere seven years. HHS's Office of Adolescent Health—there is such a thing—allowed grantees another year to wrap up projects.

The letter notes that the rate of teen pregnancy has dropped precipitously in recent decades, and the birth rate among 15- to 19-year-olds dipped to around 22 per 1,000 women in 2015, down from roughly 40 in 2007. Academics can debate the reasons for this good news, but everyone can agree no credit is owed to these HHS programs, which reach fewer than 1% of American teenagers. Zeroing out the program two years before the grants expire saves about \$200 million.

The Senate hasn't confirmed the assistant health secretary who would oversee such Title X grants, and President Trump's nominee is Texas pediatrician Brett Giroir. Sen. Patty Murray (D., Wa.) asked Mr. Giroir about the teen-pregnancy funding in his confirmation hearings. She later said she's "unconvinced" he would fight the Trump Administration's "ideological attacks on women," as if no one of good faith can disagree about the benefit of federal subsidies to teach 11- and 12-year-olds about sex when local sex-ed courses can already do the same.

Mr. Giroir deserves a prompt confirmation, and HHS deserves credit for allocating this public money to more productive uses.

Washington doesn't need to spend \$200 million on a failed sex-ed program.

The U.S. has virtually no economic or financial leverage over Pakistan. There are only 23 U.S. companies that are full members of the U.S.-Pakistan Business Council, which is virtually dormant.

I have served in Washington the past six years as an honorary invest-

The Republicans' Immigration Morass



WONDER LAND
By Daniel Henninger

After the Mayflower landed at Plymouth Rock in 1620, ships of people kept coming from Europe. As a result of this uncontrolled influx, the region's native tribes voted unanimously to pass the Immigration Control Act of 1632. As we know, it didn't work.

Fast-forward 354 years and the tribal council known as the U.S. Congress passed the Immigration Reform and Control Act of 1986. That one didn't work either.

There must be a lesson in here somewhere for President Trump, who tweeted a demand that Congress legislate a solution for the immigrant children called Dreamers. Don't bet on Congress getting the job done.

Immigration control has become modern America's version of Prohibition, which should have proved that some tides of human behavior are so strong that no legislation can shut them down. This is a truth normally associated with conservatives, except on immigration.

A conservative minority, citing the death of the culture and rule of law, has turned immigration into a political and legislative morass. An incomplete list of Congress's recent efforts to regulate illegal immigration includes the 1996 Illegal Immigration Reform and Immigration Responsibility Act, the 2002 Enhanced Security and Visa Reform Act, the 2002 Homeland Security Act, the 2004 Intelligence Reform and Prevention Act and the 2005 Real ID Act.

Until the late 19th century, the U.S. had virtually no controls on immigration. Still, the human animals resented incursions into their turf. Ethnic gangs slugged it out on city streets. You would be fired today if you say or write the slurs used then for Italians, Jews, Chinese, Poles, Hungarians, Slovaks, Irish, blacks or Germans. But somehow America boomed as immigrants flowed in from all over the world.

During World War II, with so many men away fighting the war, the nation's agriculture industry needed workers to get produce from the fields to market. Congress enacted the Bracero Program, which created temporary work permits, mainly for Mexicans—in effect, a guest-worker program. President Lyndon Johnson ended the program in 1965, which is the last time the U.S. had a system that allowed market demand to decide how many foreigners the economy needed.

Immigration—legal or illegal—is propelled everywhere almost entirely by economic forces as strong and inexorable as the currents of the sea. In America in the 1980s, two things happened simultaneously to create the current obsession with immigrants:

The Latin American debt crisis hammered the region's economies, most notably Mexico's; and Ronald Reagan's supply-side economics—tax cuts and deregulation—created a boom in the U.S., which extended through the Clinton presidency.

Two decades of U.S. economic vitality pulled workers out of floundering Latin American economies and into jobs here in agriculture, construction, fisheries, textiles, restaurants and hotels.

This great migration peaked and began to fall around 2005 as Mexico's economy stabilized. In other words, the only thing that will ever reduce immigration flows is jobs-producing economic policies in Latin and South America, which should be a self-interested U.S. policy priority, but isn't. Mr. Trump's threat to terminate the North

This issue has turned into a deadweight loss by the day.

American Free Trade Agreement would re-create the regional economic imbalances of the 1980s and guarantee a second great migration of illegal immigrants that no wall will stop.

The 800,000 so-called Dreamers are essentially bystanders to Congress's refusal since 1986 to allow 11 million stranded illegal immigrants to leave the U.S. when their jobs are over and come back if their help is needed.

Attorney General Jeff Sessions, announcing Tuesday that the Deferred Action for Childhood Arrivals program was being rescinded, said it had "denied jobs to hundreds of thousands of Americans."

I'm open to proof that American workers are willing to pack fish in Massachusetts, clean bathrooms at a Motel 6 in Georgia or tar roofs during the summer in Texas—at any wage. But I don't believe it. I don't believe Mr. Sessions and his allies would support a guest-worker program, such as the state-run visa program proposed by Wisconsin's Sen. Ron Johnson, to normalize the in-and-out flow of foreign workers and create an immigration law with any hope of compliance. They just want them out.

A Wall Street Journal/NBC News poll this week had 64% of respondents agreeing that "immigration strengthens the U.S." Even a plurality of rural voters agreed. Immigration is becoming a deadweight loss by the day for the Republican Party and conservative politics.

Most likely, the House's anti-immigrant members will make Republican-led DACA reform impossible. What an astonishing irony it will be to see people seeking a life in the private sector driven into the ranks of the public-sector Democrats.

Write henninger@wsj.com.

LETTERS TO THE EDITOR

The Afghanistan Problem Begins in Pakistan

Your balanced editorial "Trump's Afghan Commitment" (Aug. 23) rightly points out that Donald Trump's most significant shift is the challenge to Pakistan. As many observers have stated, Pakistan is unlikely to modify its Afghan policy under threats, especially since it now has strong support from the second-most powerful country in the world—China.

For Pakistan, the boundary with Afghanistan, known as the Durand Line, is an almost existential issue. It was negotiated ("imposed," according to the Afghans) by the British in 1893 and was inherited by Pakistan in 1947. That line has never been recognized by Afghanistan, which claims the whole of Pakistan's Khyber Pakhtunkhwa province because its population is Pashtun, the largest ethnic group in Afghanistan.

Afghanistan was the only country to oppose Pakistan's United Nations membership in 1947. Even the Taliban, a Pakistani creation dependent on Pakistan for military and other vital support, has refused to recognize the line.

According to Ahmed Rashid in his book "Descent Into Chaos," Afghanistan's president at the time, Mohammed Najibullah, offered to recognize the Durand Line during the U.N.-led negotiations in the late 1980s, but Pakistan refused the offer. One possible reason for that is Pakistan would prefer to leave the border undefined so it can't be accused of violating an international border.

A lasting solution to the Afghan crisis won't be possible unless the boundary issue is settled to the satisfaction of both sides.

CHINMAYA GHAREKHAN

Scarsdale, N.Y.

Mr. Gharekhani is a former ambassador of India to the United Nations.

ment counselor for the Pakistan Board of Investment, but in that time there has been no U.S. investment in Pakistan and not a single Pakistani or U.S. trade event, program or delegation either way, to or from Pakistan.

China is now the overwhelming economic lifeline for Pakistan. And frankly, few if any U.S. firms have or will choose to engage in the Pakistani market, preferring instead the five-times-larger Indian market.

CHARLES KESTENBAUM

Senior foreign service officer (Ret.)

Vienna, Va.

Mr. Trump might learn something from another leader who was mired in "the graveyard of empires." At a Nov. 13, 1986 Politburo meeting, Mikhail Gorbachev said it is time to go: "We have been fighting in Afghanistan for already six years. If the approach is not changed, we will continue to fight for another 20-30 years.... What are we going to fight endlessly as a testimony that our troops are not able to deal with the situation? We need to finish this process as soon as possible." Moscow got out of its hole and never looked back.

Americans should leave it to the neighboring countries—China, Iran, Pakistan and Russia—which have a stake in cauterizing the malignant Islamic State and other terrorist cancers that would emerge in a collapsed Afghanistan and threaten their security. They should fashion a regional containment policy as the U.S., offshore, allocates air power and special forces to knock out terrorist cells as they emerge. Anything more risks the U.S. staying in the hole we've been in for 16 years. It is time to stop digging.

BENNETT RAMBERG

Los Angeles

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OPINION

U.S. Democrats Have the Green Party Blues

By George Melloan

The political commentariat has unleashed a torrent of words since the 2016 election analyzing what befell the Democrats. Donald Trump won because of his TV fame; he tweeted his way into the White House; the Russians did it; etc.

Why not spend a few more words on the current demeanor of the Democratic Party? It was losing badly in elections at all levels as early as 2010, well before Mr. Trump came along. Despite its deeply flawed candidate, Hillary of the indiscreet emails, it won the popular vote for the presidency and therefore still has to be taken seriously.

The party's environmental extremism puts it at odds with working people whose aspiration is prosperity.

Its members and backers, particularly at influential media organizations like the New York Times, the Washington Post and MSNBC, have been heaping abuse on the new president, suggesting Mr. Trump's victory was illegitimate. When they hurl the words "fascist" and "plutocrat" wildly, their anger begins to sound pathological.

We know that the Democrats have been, since the New Deal, the party of government. Some of the outrage at Mr. Trump comes from federal bureaucrats who fear for their jobs. That's understandable enough—sim-

ple economic determinism, as the Marxists might say.

But recent history reveals something else that may help explain the Democratic Party's problems. Whereas it became the party of labor in the late 1930s and then snatched the civil-rights banner out of Republican hands in the 1960s, of late it has veered in a direction that doesn't particularly suit the interests of either working people or people of color with ambitions to climb the economic ladder.

It has become, in essence, America's Green Party, eclipsing the tiny party that bears that name.

Underlying the Green philosophy is a distrust of economic growth. That's what distinguishes Greens from garden-variety environmentalists who simply want a safe and clean environment, as everyone does.

Although the Greens operate under the flag of environmentalism, they have greater ambitions. They are a modern manifestation of a back-to-nature movement, feeding on the guilt and anxiety that accompany scientific advance.

Greens adopted the Democratic Party precisely because it is the party of government. They see government power as the way to suppress the animal spirits of private enterprise that produce innovation and new wealth.

Under Green influence, Democratic lawmakers, when they controlled Congress, designated large tracts of the American West as new "wilderness areas." They fostered the Endangered Species Act, which has been an effective barrier to industrial or agricultural development in more than a few states, often on



DREW ANGERER/GETTY IMAGES

Protesting a planned Scott Pruitt speech at New York's Harvard Club, June 20.

specious claims of endangerment. They vastly expanded the amount of private property officially designated as "wetlands," thus restricting its use. Other examples abound.

And of course the Democrats, with Al Gore as their Joan of Arc, took up arms against fossil fuels with the fantastic claim that burning them endangers the planet. If that isn't a call for a return to the dark ages—literally—what is?

Without oil, coal and gas to run the power plants that supply electricity for lights, household appliances and factories, the economy would shut down. In Australia, Green attacks on coal have in fact caused blackouts.

To demonstrate how Green the Democrats have become, one need go no further than President Obama's statement last year that climate change (the new code word for

global warming) is the nation's No. 1 problem. He also claimed 97% of scientists agree that "climate change is real, man-made and dangerous." But actual scientists don't agree 97% on much of anything.

The modern Green movement got traction from the 1968 founding of the Club of Rome at that city's Academia dei Lincei. Describing itself as a global think tank concerned with the "future of humanity," it produced a global best seller called "The Limits to Growth," predicting, inaccurately, that at the then-current rate of development mankind would soon exhaust the Earth's natural resources.

Maurice Strong, a self-described socialist and former oil tycoon, imported the Club of Rome's philosophy into the United Nations, launching the U.N.'s propagation of the global warming theory.

The Democrats still claim to be the party of labor, but their attack on the energy sources that keep the economy running can hardly be described as pro-worker. Government employee unions still adhere to the Democrats, but the leaders of industrial unions, who now represent only a single-digit percentage of the workforce, are belatedly beginning to have second thoughts.

Working people, fed up with the diktats of the Greens who infest their farms and factories, were a major factor in the election of Mr. Trump. The Greens, concentrated in coastal blue states, were shocked that anyone would question their motives.

But to many Americans it looked like the Greens were disdainful of the aspirations of working people to live the good life—and there may have been some truth to that. When Mrs. Clinton described them as "deplorables," that was the last straw.

If the Democrats want to make a comeback, they should think about purging their ranks of these zealots. Greens want to deprive the economy of its basic energy sources, and they have little regard for the consequences, mainly because they don't think they will be among the victims.

It might take some doing, but ditching the Greens is, if you'll excuse the expression, Democrats' best path out of the wilderness.

Mr. Melloan is a former deputy editor of the Journal editorial page and author of "Free People, Free Markets: How the Wall Street Journal Opinion Pages Shaped America" (Encounter, 2017).

Why Corporate-Tax Reform Is a Bipartisan Cause in America

By Laura Tyson

Corporate-tax reform is one of the few issues that attract bipartisan support in Washington. Lawmakers from both sides agree that the current system is deeply flawed. Because the U.S. hasn't updated its tax code in 31 years, Congress has a once-in-a-generation opportunity to level the playing field for American businesses and workers.

When U.S. multinationals sell products abroad, it spurs production, employment and income at home. Facing the highest corporate-tax rate in the developed world—38.9% on average, including state taxes—and a system of taxation that follows them wherever they go, U.S. companies are at a disadvantage in global markets. This discourages investment, innovation and job creation back home.

In 2013, U.S.-based multinationals directly employed 23 million Americans and supported another 53 million American jobs through their domestic supply chains and employees' spending. To serve global markets, U.S. multinationals locate significant shares of their world-wide economic

activities in the U.S.—more than two-thirds of their value added, their capital expenditures, and their research and development, and just less than two-thirds of their employment in 2014.

U.S. multinationals face increasing global competition from businesses in developed and emerging-market economies. Between 2000 and 2016, the number of U.S.-headquartered companies in the Forbes 500 declined more than 25%. The outdated U.S. corporate-tax system was partly to blame.

The U.S. corporate-tax rate was among the lowest among developed countries after the 1986 tax reform. It is now the highest. A recent study confirms that even after accounting for deductions, credits and other tax-reducing provisions, U.S. multinationals face among the highest effective tax rates in the world.

Many U.S. companies opt out of the corporate-tax system by organizing as partnerships and "pass-through" businesses. In 2013, corporations accounted for only 44% of business income in the U.S. compared with about 80% in 1980.

The world-wide American corporate-tax system subjects U.S. compa-

nies' foreign earnings to the U.S. corporate tax, with the amount owed offset by credits for taxes paid in foreign jurisdictions. In contrast, 29 of the 35 countries in the Organization for Economic Cooperation and

The number of Forbes 500 companies that have their headquarters in the U.S. has fallen 25% since 2000.

Development have adopted territorial systems, which largely exempt the foreign business earnings of their multinationals from home-country taxation.

This puts U.S. multinationals at a competitive disadvantage when doing business abroad. They face the high U.S. corporate rate on their earnings in foreign markets while their global competitors face the much lower local rates. This difference translates into a sizable cost advantage for foreign multinationals, allowing them to charge lower prices and capture market share from U.S. companies.

Current law allows U.S. multinationals to defer U.S. tax payments on foreign earnings until they are repatriated. Most American companies take advantage of this option for at least some of their foreign earnings.

As foreign earnings have grown and foreign corporate-tax rates have plummeted, the deferral option has become more attractive. An estimated \$2.6 trillion of U.S. companies' foreign earnings is now trapped abroad. This is money that might otherwise be used to finance investment, job creation and domestic growth.

Tax considerations also influence corporate decisions about how acquisitions are financed and where merged or acquired entities are headquartered. The combination of a high corporate-tax rate and an outdated world-wide system has caused some U.S. companies to move their headquarters overseas or pursue an acquisition by a foreign competitor. It has also reduced U.S. companies' competitiveness in cross-border acquisitions.

In such acquisitions, a U.S. purchaser of a foreign company owes U.S. tax on the resulting foreign income stream. That's tax that wouldn't be owed by a foreign pur-

chaser headquartered in a country with a territorial tax system.

According to an analysis of Thomson Reuters data, foreign acquisitions of U.S. companies were more than three times greater in deal value than U.S. acquisitions of foreign companies in 2015. That suggests the U.S. is no longer the country of choice for global companies' headquarters and activities.

The competitive dynamics of the global economy were different in 1986, when the U.S. last reformed its tax code. It's time for comprehensive reform that reduces the corporate rate, broadens the tax base, simplifies the system and adopts a modern territorial approach with safeguards to protect the U.S. tax base. Lawmakers on both sides should work together to craft reforms that will benefit America's workers, companies and economy.

Ms. Tyson is a distinguished professor of the Graduate School at the University of California and serves as an economic adviser to the Alliance for Competitive Taxation. She headed the Council of Economic Advisers and the National Economic Council during the Clinton administration.

Germany's Boring Election Is Nothing to Snore At

By Josef Joffe

Germany goes to the polls in little more than two weeks, but you'd never know it with a campaign as thrilling as a week-old weather report. Nobody doubts that Angela Merkel will get her fourth four-year term on Sept. 24. The only question is who her junior coalition partner will be: the center-left Social Democrats, the center-right Free Democrats or the Greens, who are somewhere in between.

It matters little whom Mrs. Merkel will pick. Germany is a nation pleased with itself and its three-term leader. There's no Donald Trump, who makes "House of Cards" look soporific, no Emmanuel Macron, who promises to make La France great again.

The campaign posters tell it all, offering nothing that might enthuse, let alone rile, a placid electorate. Here's

a sampling: "Good jobs and good wages." "For a Germany where we like to live and live well." "Education must be free of charge." Or, best of all: "Have a nice holiday!"

A vacation from politics. Just what Dr. Merkel ordered. Just what the patient wants.

Picking your way through this smorgasbord of pap, you couldn't tell which party is touting what. Up there in Red Heaven, Marx's sidekick Friedrich Engels must be smiling. His dream has come true in 21st-century Germany.

Engels famously predicted that, after the revolution, the "rule over men" would be replaced by the "administration of things"—by the end of politics, no less. No more "contradictions," as the Marxists have it, no class struggle or culture wars. Just a wise bureaucracy directing society's traffic.

Naturally, the media, which thrive on conflict, don't like it. There isn't even a decent campaign-finance scandal. The tabloids must make do with obscenely expensive soccer trades topping out at €222 million (\$264.7 million). So the pundits ridicule the mainstream parties while desperately searching for pickings among the two smallish outliers.

The Left Party tries to score with "Socialism, Not Barbarism," while at the other end of the political spectrum the anti-immigrant Alternative for Germany (AfD) fishes for votes with subtly racist slogans.

Voters in the vast middle aren't biting. Anti-Muslim resentment might work in France or Holland, but not in Germany. The nation remembers how communism crashed in East Germany and Nazism ended in catastrophe.

Centrism is Germany's civil religion now, and Mrs. Merkel—known as *Mutti*, or mom—is its high priestess.

What's wrong with boredom? "May you live in interesting times," as the curse goes. The Germans have had their fill of excitement in the 20th century. This is why they keep electing Mrs. Merkel.

Even better, Mrs. Merkel, a national conservative, has moved her party to the left, signaling to the electorate: You can have it all—social spending and tax cuts, gay marriage and family values. Her ideological imperialism has left little room

A bland and predictable campaign should be admired in the midst of a chaotic Continent.

for her challenger, Martin Schulz, whose Social Democrats trail Mrs. Merkel's Christian Democrats by up to 17 points.

Nor does Mrs. Merkel threaten any surprises. If she makes a move, it's only a couple of degrees to the right or left. When she does jerk the tiller, as she did in 2015 by suddenly taking in about a million refugees, she swiftly reverses course. The so-called Balkan Route was quickly sealed, and now border controls are back. The flow was down in July to a manageable 15,000. Not coincidentally, the AfD is now down to single digits.

Notable & Quotable: 'A Socialist Impulse'

New York magazine interviewing Mayor Bill de Blasio, Sept. 4:

In 2013, you ran on reducing income inequality. Where has it been hardest to make progress? Wages, housing, schools?

What's been hardest is the way our legal system is structured to favor private property. I think people all over this city, of every background, would like to have the city government be able to determine

If Germans could elect their chancellor directly rather than vote for the parties, Mrs. Merkel would win in a landslide, 52% to 30%, over Mr. Schulz, the long-term president of the European Parliament who last won a German election as mayor of a tiny town. These numbers reflect a truth transcending personalities: Mrs. Merkel presides over 80 million happy subjects.

Look around. Britain is torn in two over Brexit. France is an economic basket case, its savior, Mr. Macron, plugging in the polls. Italy remains ungovernable. In the East, Hungary and Poland are going authoritarian. Mr. Trump's America is abdicating U.S. leadership with his what-do-we-care nationalism.

Meanwhile, boring Germany boasts full-employment and bloated trade surpluses. Extremism is safely contained on the fringes. The bureaucracy runs smoothly. It doesn't take 10 years, as it does in Italy, to get a verdict in civil court. Income inequality is lower than in Britain, France or Italy. Germany's social safety net is the envy of the world, drawing masses from the Middle East and North Africa. Integration remains iffy, but there are no *banlieues* as in France or no-go zones as in Belgium.

Socrates was supposedly asked, "How is your wife, Xanthippe?" To which the philosopher replied, "Compared to what?" Compared to the rest, Germany is a country at ease, light years removed from its horrifying 20th-century incarnations.

Can its luck last in a world whose liberal order is under assault? The electorate, at least, seems intent to say, as it has since 2005: "In *Mutti* we trust."

Mr. Joffe is editor of Die Zeit in Hamburg and a fellow of Stanford's Hoover Institution.

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LIFE & ARTS

ART REVIEW

Immortality and the Cosmos

BY PETER PLAGENS

THIS IS A horizontal city whose cultural institutions—probably more per capita than in any other major metropolis—enjoy lots of floor space. That is especially true of the Haus der Kulturen der Welt (the “House of the World’s Cultures”), whose building was a gift from the U.S. Opened in 1957 and designed by Hugh Stubbins—an Alabama-born architect who taught at Harvard and would go on to design the slant-roofed Citicorp Center in New York—the edifice is known by locals as “the pregnant oyster.” To this writer, however, it looks more like a late-’50s sci-fi spaceship that’s landed next to the vast Tiergarten park.

The now retro-futuristic HKW is the perfect venue for the grandiosely packaged and staged, but somehow poignantly slight, “Art Without Death: Russian Cosmism.” It’s not really an art exhibition as such—with just one big dark-gray room sparsely installed with 55 mostly small paintings and drawings, two of those “black box” video chambers, and a large star-shaped platform in the lobby, on which rest allegedly relevant books in both German and English. (The show also offers an ancillary timeline punctuated by little TV screens showing the likes of Lenin’s funeral and Yuri Gagarin going into orbit.) Rather, “Art Without Death” is an explication-by-artifact of the influence of the philosophy of Nicolai Fedorov (1829-1903) on idealistic early modern Russian artists.

As the press release succinctly puts it, Fedorov’s “Russian Cosmism was a movement that called for material immortality and resurrection, as well as travel to outer space. It developed out of the spirituality of nineteenth-century Russia and a strong fascination with science and technology.” The hitch in Fedorov’s philosophy is that he was an atheist—or at least he had a big falling-out over religion with onetime admirer Leo



Still from Anton Vidokle's 'Immortality for All,' above, and Ivan Kliun's 'Red Light.'

Spherical Composition' (1923), below.

Tolstoy. Fedorov’s brand of immortality would be accomplished without God or a spiritual afterlife. Think “put a human being on Mars by 2030” squared, plus the necessity of colonizing other planets, since the billions of corporeal humans brought back to life would make the New York subway at rush hour seem like midnight in the Sahara Desert.

Fedorov realized the magnitude (to put it mildly) of Cosmism’s central task, and called upon everybody in every profession and enterprise to make material immortality humanity’s “common project.” After all, he reasoned, we struggle to overcome hunger and disease, so why don’t we all get together to struggle equally if not more so to overcome the ultimate bummer, death

itself? Such pie-in-the-sky (or borsch-in-the-cosmos) appealed to the likes of Aleksandr Rodchenko (whose “Construction on White [Robots],” 1920, is one of the better works in the paintings gallery), Maria Ender (the fully

abstract “Transcription of Sound,” 1921), and Gustav Klucis (whose logo design from 1922 reflects Cosmism’s onward-and-upward imperative).

Alas, Cosmism predictably fell afoul of Stalin, who had no dictatorial use for anything beyond the here and now, especially artists’ dreams of eternity. Many of its adherents were imprisoned or executed. A 2014-17 film trilogy, “Immortality for All” by Anton Vidokle (on constant cycle in those video rooms) looks around, in sunlit melancholy, from Siberia to Kazakhstan and back to Moscow for traces of Cosmism’s influence.

The camera pans over a cemetery, a man swims with his dog, while quotes from Fedorov are heard in a deadpan voiceover. The books in Arseny Zhilyayev’s 2017 installa-

tion, “Intergalactic Mobile Fedorov Museum-Library, Berlin,” strain for connections to the movement, which the exhibition as a whole tries to maintain on art-historical life-support.

“Art Without Death” is the sixth in HKW’s 15-part series of events gathered under the rubric “100 Years of Now,” which started in 2015 and continues into next year. The whole project, the institution says, is “an analysis of the present time by linking back to historical utopias.” The series seems to those of us who’ve seen Wim Wenders’s high-minded 1987 film, “Wings of Desire” (angels who look like average guys come down to Earth to give advice), both typical of a German bent to philosophize somewhat opaquely about everything, and a continuing desire, particularly in Berlin itself, to come to terms with the consequences of the fall of the Wall.

Given the archaeological nature of the exhibition’s digging around in the ruins of Cosmism, it would have been better if the works of art from the time had been more than one room’s worth, and had been more carefully considered and less conveniently gotten: All the work in the conventional gallery comes from a single collection, that of the Moscow-born Greek diplomat George Costakis, which is now housed in the Greek State Museum of Contemporary Art.

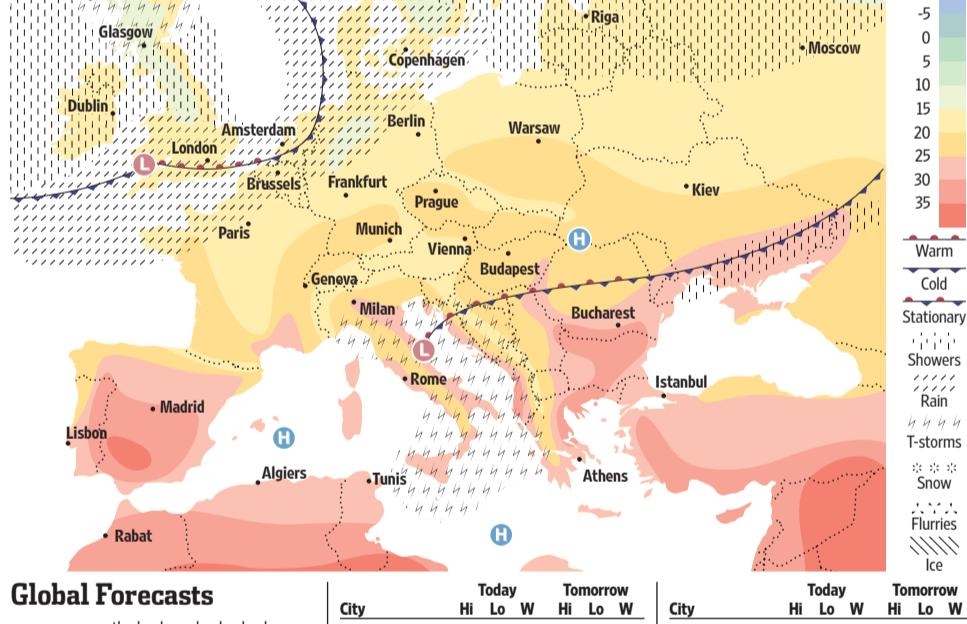
As it is, there’s an oddly forlorn feeling to an exhibition about something so wildly optimistic at its inception. In the surprisingly empty HKW (especially for an opening weekend) it was clear that nobody at all was ever materially resurrected. It also seemed like the entire population of Berlin was someplace else, too.

Mr. Plagens is an artist and writer in New York.

Art Without Death: Russian Cosmism

Haus der Kulturen der Welt, through Oct. 3

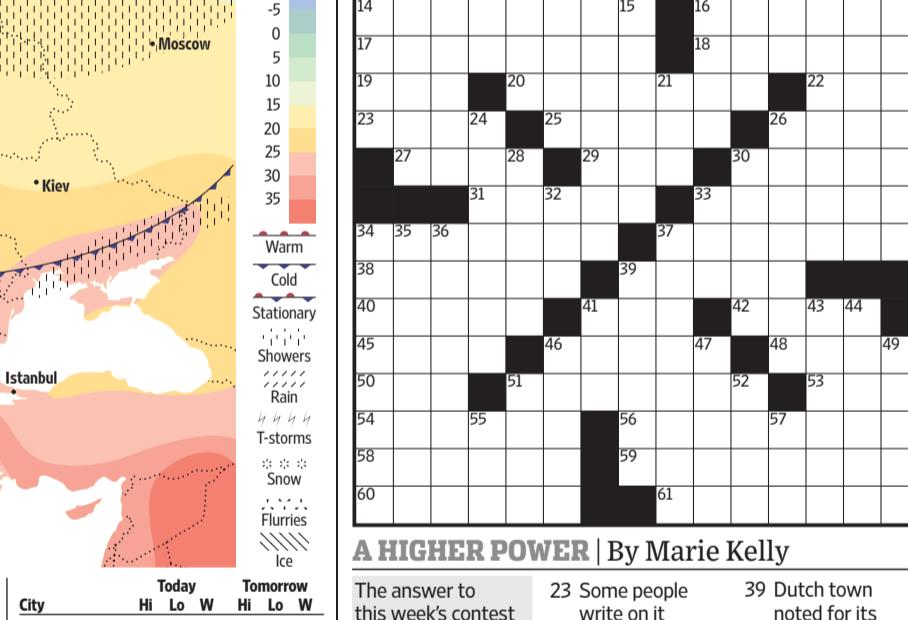
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| Baltimore | 23 | 11 | s | 21 | 11 | s |
| Bangkok | 34 | 27 | t | 34 | 27 | pc |
| Beijing | 32 | 20 | pc | 31 | 21 | c |
| Berlin | 18 | 14 | c | 21 | 13 | sh |
| Bogota | 19 | 9 | r | 18 | 8 | c |
| Boise | 32 | 17 | pc | 31 | 16 | t |
| Boston | 23 | 13 | pc | 20 | 13 | pc |
| Brussels | 16 | 11 | r | 17 | 10 | t |
| Buenos Aires | 20 | 15 | c | 20 | 15 | r |
| Cairo | 34 | 23 | s | 34 | 23 | s |
| Calgary | 27 | 11 | pc | 27 | 10 | pc |
| Caracas | 32 | 25 | pc | 32 | 24 | t |
| Charlotte | 25 | 13 | s | 25 | 12 | s |
| Chicago | 19 | 10 | pc | 21 | 10 | s |
| Dallas | 30 | 18 | s | 30 | 18 | s |
| Denver | 31 | 15 | pc | 32 | 16 | s |
| Detroit | 18 | 8 | c | 19 | 9 | s |
| Dubai | 41 | 32 | s | 40 | 31 | s |
| Dublin | 16 | 9 | sh | 16 | 10 | sh |
| Edinburgh | 15 | 8 | t | 16 | 8 | sh |
| Frankfurt | 20 | 13 | c | 18 | 10 | r |

AccuWeather.com



The WSJ Daily Crossword | Edited by Mike Shenk



A HIGHER POWER | By Marie Kelly

| | | |
|--|----------------------------|-------------------------------------|
| The answer to this week's contest crossword is a school subject. | 23 Some people write on it | 39 Dutch town noted for its pottery |
| Across | 25 Make a lot costlier | 40 Like proverbial milk |
| 1 Puzzled | 26 Source of low pitches | 41 Nikkei unit |
| 8 Some shooters | 27 Hit sharply | 42 Some raiders |
| 14 Budgeting consideration | 29 Cabinetmaker's material | 45 Coop residents |
| 16 Misbehaving | 30 Scrap | 46 Moor |
| 17 Guardian Angels topper | 31 Uninterestingly written | 48 Gillian's role on "The X-Files" |
| 18 Not flashy | 33 Vet | 50 Throw in |
| 19 Joint ownership word | 34 Ideal | 51 Make the wrong call, in a way |
| 20 "The Birds of America" creator | 37 Crossword components | 53 Unruly bunch |
| 22 Funny fellow | 38 Stage direction | 54 Frank |
| | 56 Not paid hourly | |

► Email your answer—in the subject line—to crossovercontest@wsj.com by 11:59 p.m. Eastern Time Sunday, Sept. 10. A solver selected at random will win a WSJ mug. Last week's winner: Sue Burgdorf, St. Charles, MO. Complete contest rules at WSJ.com/Puzzles. (No purchase necessary. Void where prohibited. U.S. residents 18 and over only.)

58 Free from worry

59 Take-home pay

60 Proof, perhaps

61 There's interest in their line of work

Down

1 Big dos

2 Commuters' annoyances

3 Sixth in line of succession to the British throne

4 Research spot

5 High draft rating

6 Prepare for surgery

7 Furthest from posh

8 Man of morals

9 Puckish expression

10 Pitcher's pride

11 "City juice," in diner lingo

12 Company man, perhaps

13 Components of ranch dressing?

15 Like hunks

21 Loafer

24 Softener measures

26 Took to task

46 Took on

47 Cause of some bad decisions

49 Fathomless feature

51 Monument Valley sight

52 Spot for a flamingo, maybe

55 Highlander's "huh-uh"

57 Young fellow

Previous Puzzle's Solution

| | | |
|------------|------------|-------|
| HOPED | BUSKES | MBA |
| ATSEA | IMPEI | ORC |
| STAR | BAREFRUI | ST |
| LIEU | APTESTS | |
| TAMESPORTS | VETO | |
| ROI | ADJUST | IRAN |
| INSNOOB | OPS | |
| PETIT | SICAESOP | |
| PAL | TEAR | LIKE |
| MESH | ICICLE | DRE |
| EXPO | MANESTREAK | |
| THINKER | ORAL | |
| HATEWAVES | EVICT | |
| OLE | ADENT | EENIE |
| DES | NERDY | SNEAD |

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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Euro vs. Dollar 1.2011 ▲ 0.79%

FTSE 100 7396.98 ▲ 0.58%

Gold 1345.10 ▲ 0.84%

WTI crude 49.09 ▼ 0.14%

German Bund yield 0.303%

10-Year Treasury yield 2.061%

Yuan's Rise Challenges Beijing

Leadership wants stability ahead of key gathering, but faces a blow to exports

A surge in the value of the yuan has blindsided Wall Street and stands to complicate China's efforts to simultaneously manage a slowdown in growth while deepening its ties to global markets.

The yuan jumped to its strongest level in 16 months this week, bringing its total gain versus the dollar to 7% in 2017, more than recouping all of its decline last year. Last

month alone, the yuan soared 2% against the dollar, notching its biggest monthly advance since July 2005.

Traders and analysts attribute the shift both to the dol-

By Lingling Wei
in Beijing
And Saumya
Vaishampayan
in Hong Kong

lar's softening and to the Chinese central bank's stepped-up controls over the yuan—through an altered mechanism to guide its value—which have reduced expectations for it to weaken and prodded compa-

nies that had been hoarding dollars to convert them into local currency.

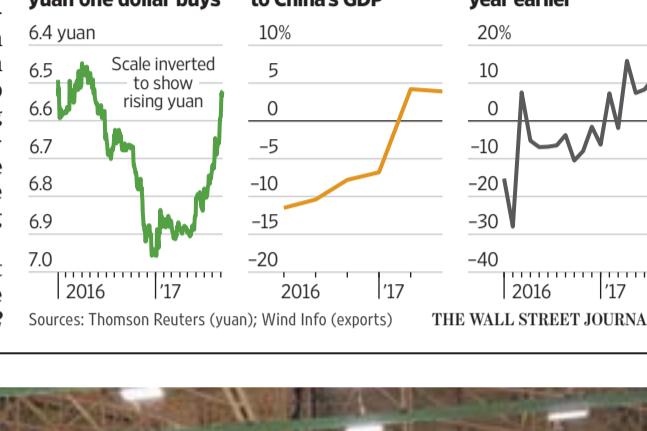
In recent trading sessions, investors have regularly pushed the yuan stronger than the level set daily by central bank—a rare occurrence for a currency that has more often been battered over the past year. In Hong Kong, a yuan-trading hub outside the mainland, rising yuan bank deposits suggest individuals are growing more comfortable holding on to the currency rather than swapping it for foreign alternatives.

"Market expectations are at work here," an official at the

Please see YUAN page B2

Changing Fortunes

A supercharging yuan is starting to hurt Chinese exports, a bright spot that has helped China bolster growth this year.



Sources: Thomson Reuters (yuan); Wind Info (exports)

THE WALL STREET JOURNAL.

Pension Funds Dial Up The Risk

BY DONATO PAOLO MANCINI AND JON SINDREU

LONDON—As the developed world's population ages rapidly, pension funds are being pushed into riskier assets.

Ultralow interest-rate policies at central banks have left pension plans grappling with huge deficits, just as the swelling ranks of retirees are adding to outflows of money. They are hard-pressed to squeeze more out of their investments.

So even as central banks are poised to start rolling back monetary-stimulus measures, pension plans' demand for risky, income-generating assets such as corporate bonds and real estate is likely to keep increasing, investors say.

"There's a trend towards less liquid structures," said David Rae, head of client strategy at **Russell Investments**, which provides management services to pension plans. "The focus now is on guaranteeing returns."

The world's six largest pension systems—the U.S., the U.K., Japan, Netherlands, Canada and Australia—will have a joint shortfall of \$224 trillion by 2050, the World Economic Forum said in May.

By that year, there will be only four workers for each pensioner, compared with eight now, according to the forum.

The **Hoover Institution** estimates that public-pension systems in U.S. states and cities have a funding hole of \$3.8 trillion. Such deficits have driven Detroit to file for bankruptcy protection.

But the danger looms larger in Europe, which has the world's biggest pensioner population. And it is especially acute in Britain, where there are more corporate pension plans offering fixed payouts to clients, known as defined-benefit plans.

According to consulting firm Mercer, 55% of U.K. defined-benefit funds are cash-flow negative and, of those that aren't, nearly 85% are likely to be over the next decade.

Such plans have obligations that stretch far into the future, but their assets are often shorter-dated. So after interest rates fell to record lows, the value of what they owed rose at a much faster pace than the value of what they owned. Many tried to plug the hole by making their assets as long-dated as their liabilities and created extraordinary demand for government debt maturing in 50, 80 or 100 years.

Now that central banks are expected to tighten policy, deficits have stopped increasing. Yet, many pension funds remain severely underfunded.

Corporations have ramped up contributions to compensate. Last year, Royal Bank of Scotland Group PLC made the largest pension payment ever by a British company by pouring £4.2 billion (\$5.47 billion) into its main pension plan, consulting firm LCP said.

In a survey this year, BlackRock Inc., the world's largest

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INSIDE



A scene from the Marvel film 'Guardians of the Galaxy Vol. 2.'

receives from Netflix. However, it will bolster the amount of premium content available on its own digital service and thus, Mr. Iger is betting, its appeal to consumers.

"We're going to launch big and we're going to launch hot," Mr. Iger said of the digital service, speaking at a media-business conference on Thursday.

Mr. Iger also said Disney's earnings per share for its fiscal 2017, which ends Sept. 30, would be roughly in line with those of fiscal 2016. Among the factors he cited were higher costs for National Basketball Association rights; the lower performance of last December's "Rogue One: A Star Wars Story" at the box office and in consumer-product sales.

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JITTERS PRECEDE NEW IPHONE

SMARTPHONES, B4

vice or continue to license them to Netflix.

In deciding to retain the rights to two of its biggest franchises, including superhero movies such as "Avengers" and the annual "Star Wars" sequels and spinoffs, Disney is giving up tens of millions of dollars per movie it

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People's Bank of China says.

The yuan's ascent comes with a heavy price for Beijing. It has dialed back long-running efforts to make the yuan a freer currency and imposed strict controls on money leaving China. Even as those measures have helped stem outflows—official data Thursday showed China's foreign-exchange reserves rose for a seventh straight month to \$3.092 trillion in August—the steps have damped demand from overseas for Chinese assets.

Meanwhile, pent-up desire among Chinese companies and individuals to diversify their assets offshore means that pressures on the yuan to weaken have merely been bottled up, economists say. The economy's growing challenges, from debt and industrial overcapacity to an out-of-balance housing market, also suggest a lack of drivers to keep the currency going up.

Bryan Carter, head of emerging-market fixed income at BNP Paribas Asset Management, believes the policy-driven advance in the yuan is essentially done. He expects the currency to give up some of its recent gains after the Communist Party's twice-a-decade congress next month, which will help shape the nation's power structure for years to come.

With that transition looming, China's leadership wants its currency to be stable to buttress the economy and avoid trade disputes. A roaring yuan, however, is putting pressure on manufacturers who are counting on foreign orders as domestic demand remains lackluster. (An appreciating yuan makes Chinese goods more expensive overseas.)

Wu Yinhe, who runs a stainless-steel kitchenware and furniture manufacturer in southern China, says her company is among those feeling the pinch from a soaring yuan.

"External demand is pretty good," says Ms. Wu, general manager of Golden Star Steel Furniture Factory in the city of Jiangmen. But the yuan's strengthening means she is getting less bang for her dollar earnings when she converts them into the Chinese currency, she says.

Such pressure on Chinese businesses doesn't bode well for an economy that has been struggling with tepid private investment and consumption.

Already, the yuan's newfound strength has started to weigh. Official data show that year-over-year growth in Chi-

nese goods sold overseas dropped to 7.2% in July from 11.3% in the previous month.

Over the years, China has sharply reduced its reliance on exports, with the contribution of trade to the economy much smaller now compared with the early 2000s. Still, analysts say, Beijing can afford a slumping export sector.

How China manages the yuan is closely watched by policy makers and investors. Its foreign-exchange regime has been a lingering source of uncertainty. Two years ago, the central bank's sudden 2% devaluation of the yuan set off a global market selloff.

The yuan's rise is the latest ripple from the 2017 decline in the U.S. dollar. Many investors expected the yuan to weaken to 7 to the dollar this year, reflecting a strengthening U.S. economy and Chinese efforts to cushion the export sector. Instead the yuan's appreciation to near 6.5 to the dollar has forced a reassessment.

"Most people, including me, are somewhat surprised" by the recent strengthening in the yuan, says Ben Sy, head of fixed

income, currencies and commodities at J.P. Morgan Private Bank in Hong Kong. "I don't think the yuan can rally a lot from here."

Some traders and analysts say the People's Bank of China may take measures to limit the yuan's rise because of the potential toll on growth. But others expect the central bank will let the yuan continue rising for now to make room for it to weaken in the event of any dollar rebound.

Many reform-minded officials and academics have called on Beijing to take advantage of the current market sentiment to renew its efforts to liberalize the yuan.

But for now, there are few signs of any meaningful change. In fact, the yuan's recent surge started when the central bank in late May asserted greater control over the currency by adding what it calls a "countercyclical" factor into the way it sets the yuan's official rate against the dollar to prevent big fluctuations.

This has given the central bank greater leeway to lift the yuan as the dollar weakens: More than 80% of the yuan's gain this year occurred after the introduction of that factor.

China's leadership wants its currency to be stable to buttress the economy.

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pliers for cost savings and dead-line commitments.

Plane makers' leverage, though, has lessened as the circle of suppliers has shrunk in recent years. United Technologies snapped up rival Goodrich Corp. in 2012. Its deal with Rockwell Collins will make it the world's biggest plane-parts provider.

Another big tie-up is in the works: Plane-parts maker Safran SA is haggling to buy cabin-interior specialist Zodiac Aerospace SA.

Bringing production in-house helps level the playing field.

Those parts makers traditionally have also been able to suck out more profit for their

Battling for Their Margins

Western companies take steps in China to fight overcapacity and local competition

BY NINA TRENTMANN

Western multinationals are fighting harder to hold on to their margins in China because of overcapacity and an improvement in the quality of Chinese-made products.

Companies including Merck KGaA, United Technologies Corp. and Honeywell International Inc. are responding in myriad ways, from slashing costs to improving customer service.

Still, several companies concede margins will stall long-term because of local competition.

"Our margins have been on a downward trend for over five years now," said Philipp Baechtold, general manager at **Eftec China** Ltd., a Swiss chemicals company that produces glues and coatings for the car industry.

Pharmaceutical company Merck reported net sales of €1.35 billion (\$1.61 billion) in China last year, around 9% of total net sales of €15.02 billion. Still, it suffers from a



STAR MEDIA/INTEROPTICS/ZUMA PRESS

Merck KGaA's Marcus Kuhnert says Chinese goods' quality is up.

buildup of local capacity. "The quality of Chinese products has improved," finance chief Marcus Kuhnert said in an interview with **CFO Journal**. He was referring to Merck's liquid-crystals business, an important revenue generator.

Keeping margins of its performance-materials unit at roughly 40% next year will be a challenge, because of an unfavorable business mix and the most recent weakness of the U.S. dollar, Mr. Kuhnert said during an earnings call in early August. Some of his customers now source their liquid crystals from several suppliers, he said, exerting more pressure on price.

The company is stepping up customer support to justify higher prices than its Chinese

competitors. A potential sale of the consumer-health business, announced Tuesday, is unrelated to the woes of its liquid-crystals business in China, a spokesman said.

Honeywell International, an industrials company, in recent years also noticed a change in the quality of Chinese products. "Chinese companies are becoming more savvy," said Shane Tedjarati, president of Honeywell's high-growth-regions unit. "We cannot become complacent."

Chinese companies have always used price as a lever, said Joe Ngai, managing partner at McKinsey & Co.'s Greater China practice. Even though many Western companies recently reported higher revenues from China, confi-

dence is low because of domestic competition and the glut of production capability in the market.

"Western multinationals are getting more worried about margins," Mr. Ngai said.

According to a recent report by the American Chamber of Commerce in Shanghai, slightly more than 80% of U.S. companies said competition from Chinese companies is one of their most pressing issues. Even more, 93%, cited rising costs—which adversely affect margins—as a challenge.

China-based sales at United Technologies' Otis elevator unit declined 10% in the second quarter, compared with the year-earlier period. "The pricing pressure will continue," said finance chief Akhil Johri during the company's July earnings call.

"There is still overcapacity in the Chinese market, and we've just got to see how it plays out," said Mr. Johri, according to a transcript of the call. The country's elevator production capacity stands at 700,000 units annually, versus demand of about 500,000 to 525,000 units a year, he added.

The company said Monday it would buy airplane-parts maker Rockwell Collins Inc., for \$23 billion, but didn't cite its China business as a reason for the acquisition.

markets.

"I think if you have a manager who's capable of picking the right credits, you are probably in a reasonably good spot," said Donal Kinsella, investment director at Janus Henderson.

Yet, managers of private-debt funds said that pension plans often don't understand the complexity of structures in these markets. Investing in illiquid assets like real estate also means they are less able to sell on short notice if needed.

"What was a long-term investing institution now becomes a short-term investor madly scrambling around to find enough cash to just pay their beneficiaries," said Adam Lane, a consultant at Mercer.

PLANS

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money manager by assets, found that, among global pension funds planning allocations for this year, 52% wanted more private credit, 24% more real estate and 23% more high-yield bonds.

Most said they would cut exposure to stocks and government debt.

As a result, pressure is easing off the government-bond market and pushing up the prices of riskier assets, said James McAlevey, portfolio manager at Aviva Investors.

Yields on global high-yield corporate bonds are roughly 5.2%, not far from historic

lows, according to **Bank of America Merrill Lynch**. Yields fall as bond prices rise. A recent survey by consulting firm Bfinance found that managers of unlevered senior private debt funds expect a return of more than 8%, but are getting between 5% and 6%.

Focus on returns is often part of a new investment strategy called "cash-flow-driven investment," which aims to align inflows with outflows regardless of whether the fund is in deficit.

Simeon Willis, head of investment strategy at **KPMG**, defined it as "a mind-set change" over the past couple of years.

An example is the U.K.'s **Local Pension Partnership**, which manages more than £10

billion of local government workers' pensions in London and Lancashire County. Its funds' outflows now outpace inflows, as retirees increase in number compared with workers enrolled. Their answer has been to double the share of investments in infrastructure, real estate and corporate debt over the past five years.

"We are trying to invest into a balance of income and capital gains, whereas before it was mostly capital gains we focused on," said Chris Rule, the LPP's chief investment officer. "We are looking at a wider set of risks."

Indeed, apart from picking stocks and sovereign bonds, pension managers now need to understand the risk of not getting paid in a range of new

STREET

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seem to fit this story, but look a bit closer and they do. The market is being held up by growth stocks, less reliant on economic expansion for profits than on new technology and business models. The Russell 1000 growth index has outperformed value by 14 percentage points this year, an eight-month performance last

beaten

BUSINESS NEWS

Volkswagen Is Intent on Restructuring

BY WILLIAM BOSTON

WOLFSBURG, Germany—**Volkswagen AG** is actively working on deals for its noncore assets as well as acquisitions, but discussions of a possible merger with **Fiat Chrysler Automotive NV** are “speculation,” Chief Executive Matthias Müller said.

In an interview at the car maker’s headquarters late Wednesday, Mr. Müller said the company is open to talks and a new team is working to sell a businesses no longer considered critical. These noncore assets account for as much as 20% of the company’s current annual revenue, he added.

Mr. Müller declined to comment directly on talks the company is believed to be holding with Fiat Chrysler about developing light utility vehicles.

He did say the company is now routinely engaged in such exploratory talks with many manufacturers, but it isn’t likely that Volkswagen is going to get involved soon in a merger of mass-volume car makers, as Fiat Chrysler’s Chief Executive Sergio Marchionne has been preaching for the past two years.



CEO Matthias Müller, right, said it isn’t likely Volkswagen will soon get involved in a merger of mass-volume car makers.

strategy would be put on hold.

Mr. Müller said he didn’t believe that labor representatives were blocking the Ducati discussions, but, as Volkswagen’s unique governance structure involves both the state and **IG Metall** trade union in decisions, the talks were a larger strategic debate that takes time.

“The list [of asset disposals] has not been put away on the shelf. But we’re not going to let anyone tell us which decision to make,” Mr. Müller said.

Some investors and analysts have been pressing Volkswagen to consider even more far-reaching changes than selling off fringe businesses such as Ducati. Encouraged by Fiat Chrysler’s successful spinoff of Ferrari NV, some investors are pushing Mr. Müller on units such as **Porsche Automobil Holding SE**, **Audi AG** and Volkswagen Trucks to boost the share price.

“Of course, we discuss these things,” Mr. Müller acknowledged, but declined to elaborate.

“We hear the speculation in the public discussion, but we aren’t allowing it to distract us.”

Müller said.

“If we say we’re speaking to Fiat, then we’re also speaking to five or six other companies in order to see how we can optimize our business,” he said. “The difference with the

past is that Volkswagen is now willing to get involved in such exploratory talks,” he added.

Over the summer, a potential sale of Volkswagen motorcycle brand Ducati sparked in-

terest among a number of suitors, including **Harley-Davidson Inc.** Talks for the brand stalled after labor rep-

resentatives opposed the sale, raising speculation that the car maker’s entire divestment

Nestlé’s annual sales last year came in at about \$94 billion.

Moss Landing, Calif.-based Sweet Earth bills itself as a natural, ethical, environmentally conscious company that substitutes plant proteins for animal ones in meals.

“We’re experiencing a consumer shift toward plant-based proteins,” said Paul Grimwood, chief executive of Nestle’s U.S. arm. Plant-based food, as a sector, is growing at double-digit percentages rates, Nestle said.

Nestle didn’t disclose the brand’s current sales, but said it expects the sector to reach \$63 billion last year.

Nestle—the world’s biggest tea maker with brands such as Lipton, PG Tips and Brooke Bond—has been working to shift its portfolio toward higher-growth tea types such as green and herbal tea.

Nestlé and Unilever Are Gobbling Up Niche Brands

BY SAABIRA CHAUDHURI

LONDON—Two of the world’s biggest packaged-food giants, **Nestlé SA** and **Unilever PLC**, disclosed separate, small deals to buy the sort of homegrown, natural brands that have been eating the industry’s lunch.

Switzerland-based Nestlé said Thursday it agreed to buy **Sweet Earth Foods**, the California maker of plant-based meat substitutes such as “Benevolent Bacon” and “Harmless Ham.” Anglo-Dutch rival Unilever said it was purchasing Pukka Herbs Ltd., a British-based organic herbal tea maker.

Though both deals are small and terms weren’t disclosed, they represent the latest in a series of steps Nestlé, Unilever and other big companies in the sector are making to catch up with fast-changing consumer tastes.

The global packaged-food industry is facing fierce competition from a burgeoning number of small but high-growth food and beverage brands. These brands have struck a chord with consumers looking for locally produced or more healthy, natural choices.

Amid this shift, sales from traditional players have flagged, spurring consolidation,

cost-cutting and restructuring.

Unilever fended off an unsolicited takeover by Kraft Heinz Co. earlier this year. Activist investor Dan Loeb’s Third Point hedge fund in June dis-

cused on cost-cutting and promises to boost dividends, while going on the hunt for nimble food and beverage brands with the potential to accelerate growth.

Big packaged-food companies look to compete with firms selling healthier, natural products.

closed a major stake in Nestlé, calling for changes in strategy to improve shareholder returns. In response, the two consumer-goods firms have fo-

Nestlé’s deal to buy Sweet Earth comes less than three months after it bought a stake in subscription-meals company Freshly, which sells healthy,

prepared meals to consumers across the U.S.

Moss Landing, Calif.-based Sweet Earth bills itself as a natural, ethical, environmentally conscious company that substitutes plant proteins for animal ones in meals.

“We’re experiencing a consumer shift toward plant-based proteins,” said Paul Grimwood, chief executive of Nestle’s U.S. arm. Plant-based food, as a sector, is growing at double-digit percentages rates, Nestle said.

Nestle didn’t disclose the brand’s current sales, but said it expects the sector to reach \$5.3 billion in sales by 2020.



The Indianapolis-based drugmaker plans to eliminate about 3,500 jobs, including 2,000 in the U.S.

Lilly to Cut 8% of Workforce

BY PETER LOFTUS

Eli Lilly & Co. plans to cut its global workforce by about 8% and close several facilities, a step it said it needs to make to lower costs and raise investment in new drugs as the company faces patent expirations that will erode sales of older products.

The Indianapolis company, which makes the diabetes treatment Humalog and erectile-dysfunction pill Cialis, said Thursday it plans to eliminate about 3,500 positions, with about 2,000 of the cuts in the U.S.

Lilly said it expects to achieve most of the U.S. reductions through voluntary early-retirement packages offered to eligible employees. Lilly has about 41,241 workers globally, including more than 18,500 in the U.S.

Lilly expects the moves to generate savings of about \$500 million a year. Last year, Lilly earned \$2.7 billion in profit on \$21.2 billion in revenue.

“We would like to free up resources from fixed to variable costs to make sure we can invest behind R&D projects,” Lilly Chief Executive David Ricks said in an interview.

Big drug companies have been cutting their workforces periodically for more than a decade, as they encounter generic competition to their top-selling medicines and troubles developing new drugs. In 2013, Merck & Co. announced a plan

to cut its workforce, then at 81,000, by 20% over two years. In 2013, Lilly laid off about 1,000 sales representatives.

The job cuts come despite a general improvement in Lilly’s financial fortunes over the past few years. Earlier this decade, Lilly’s sales and earnings were hurt by a wave of patent losses that exposed drugs such as the antidepressant Cymbalta to generic competition.

But revenue and earnings have risen since 2014, aided by strong sales of several newer products such as diabetes drug Trulicity and cancer treatment Cyramza. Lilly’s share price has roughly doubled since 2012, closing Wednesday at \$80.51.

Still, Lilly continues to face patent expirations. In May, the U.S. patent expired for the attention-deficit, hyperactivity disorder drug Strattera, clearing the way for inexpensive generic copies. The U.S. patent for Cialis is due to expire in November, putting the drug’s \$1.5 billion in annual U.S. sales at risk of erosion from generics.

Mr. Ricks, who took over as Lilly CEO Jan. 1, said he still expects Lilly’s sales to grow despite the patent losses, but the expirations contributed to his decision to cut costs.

Also, he said Lilly’s operating expenses as a percentage of revenue—about 55% in 2016—have been higher than the drug industry’s average, and the cost cuts will make the company more competitive with rivals.

Lilly expects to book charges of about \$1.2 billion, or 80 cents a share, in the third and fourth quarters of 2017 to cover the costs of the job cuts.



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TECHNOLOGY

Production Glitches Spark iPhone Jitters

Some worry that summer setbacks will hurt holiday sales of Apple's latest model

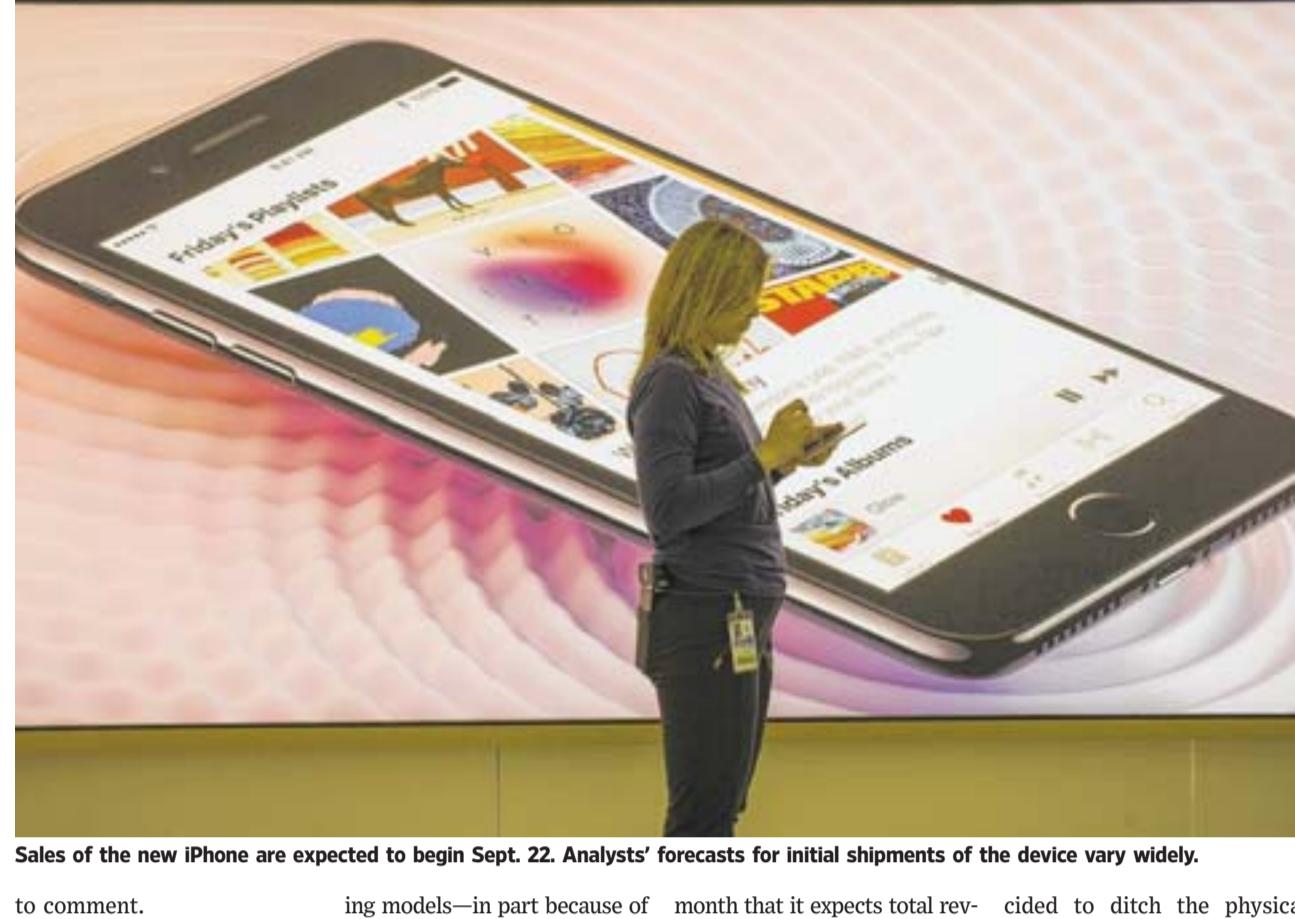
Apple Inc.'s new iPhone, which is expected to be unveiled Tuesday, was plagued by production glitches this summer, according to people familiar with the situation, which could result in extended supply shortfalls when customers start ordering the device later this month.

By Yoko Kubota and Takashi Mochizuki in Tokyo, and Tripp Mickle in San Francisco

New iPhones typically are in short supply when first released. But if shortages of the new phone extend beyond the initial sales period, which is expected to begin Sept. 22, analysts and investors could dial back their projections for sales in the crucial holiday period.

The glitches, which occurred early in the manufacturing process, set back the phone's production timetable by about a month. Foxconn Technology Group, the Apple contractor that assembles iPhones, has been ramping up production at its complex in Zhengzhou, China. The company is paying bonuses to employees who can help bring new hires on board at its Zhengzhou plant, which Foxconn said in June employs about 250,000 people.

Apple and Foxconn declined



ROBERT NICKELBERG/GETTY IMAGES

Sales of the new iPhone are expected to begin Sept. 22. Analysts' forecasts for initial shipments of the device vary widely.

to comment.

There are big expectations for the new iPhone, informally dubbed the iPhone 8 or iPhone X by industry watchers. Investors, betting the new phone will rejuvenate Apple's sales after a recent slump, have pushed Apple's share price to record highs in recent months.

The new device is expected to have a base price near \$1,000—a significant premium over exist-

ing models—in part because of more expensive components. Analysts' forecasts for initial shipments vary widely, with some projecting as many as five million units shipped in the last week or so of September.

Complicating demand estimates for the new phone, Apple is also expected to release updates to its iPhone 7 and iPhone 7 Plus.

The company said last

month that it expects total revenue of \$49 billion to \$52 billion for the quarter ending Sept. 30, figures that exceeded some analysts' estimates.

The production delays earlier this summer stemmed in part from Apple's decision to build new phones using organic light-emitting diode, or OLED, screens similar to those used by rival Samsung Electronics Co.

At the same time, Apple de-

cided to ditch the physical home button that contains fingerprint sensors for unlocking the device. Apple tried to embed the Touch ID function, or fingerprint scanner, in the new display, which proved difficult, the people familiar with the process said.

As deadlines approached, Apple eventually abandoned the fingerprint scanner, the people said, and users will un-

lock the phone using either an old-fashioned password or what is expected to be a new facial-recognition feature. Nonetheless, precious time was lost and production was put back by about a month, according to people familiar with the situation.

Apple and its suppliers also ran into trouble manufacturing the OLED displays. The display modules are being produced in Vietnam by an affiliate of Samsung Electronics. Unlike the OLED display module in Samsung's own smartphones, in which the display and touch panel are integrated, iPhone's display module has the touch panel outside of the display, said a person familiar with the technology.

The iPhone manufacturing process requires more steps and more layers of adhesive and protective film than are involved in Samsung's manufacturing process, the person familiar with the process said, creating a greater risk of manufacturing error.

A spokesman at Samsung Display, which operates the Vietnam affiliate, declined to comment.

Apple often has faced supply shortfalls with new iPhones released since 2008. The last time Apple changed the iPhone's appearance was in 2014—and Foxconn, formally known as Hon Hai Precision Industry Co., struggled then with low output because of display manufacturing issues.

—Yang Jie in Beijing and Eun-Young Jeong in Seoul contributed to this article.

CHINA CIRCUIT | By Li Yuan

Dear Mom, I Don't Like Your Voice Messages



Whenever Wang Ziwan receives a series of voice messages on the WeChat messaging app from her mother, the 32-year-old chef-in-training looks at them and sighs. She dreads having to listen to them one by one, sometimes over a dozen in total, and having to listen again if she misses something. "I really don't want to open them," she says. "But what can I do? She's my mom."

Her mother—Song Zhi-hong, a 58-year-old retiree in Shanghai—takes her daughter's complaints to heart, mostly. She is typing more messages on WeChat, the popular social-messaging platform developed by **Tencent Holdings**. But texting seems cold, she says, and reading text on a phone screen is difficult for people her age. Ms. Song still uses voice messages when communicating with her former schoolmates.

Ms. Wang says she has seen how her mom interacts with those friends on WeChat. "They use their phones like walkie-talkies," she notes.

Voice messaging—those push-to-talk notes that last no more than 60 seconds—was an early feature that helped WeChat gain traction after its launch in early 2011. It can feel more personal than text messaging. It is easier for people who fumble with smartphone keypads. A few years ago, speaking to smartphones was as fashionable as toting an iPhone in its early days.

Now, voice messaging is seen as the province of seniors, plus a few on-the-go groups such as salespeople and drivers. When I asked my followers on the Twitter-like social-media platform Weibo whether they use WeChat voice messages, the majority of the nearly 200



A WeChat logo in Guangzhou, China. Varied use of the messaging app speaks to demographic differences.

who responded said they disliked them and described heavy users as selfish, uneducated and old.

With nine out of 10 Chinese internet users on WeChat and with half of them spending more than 90 minutes a day on the app to chat, read, work and shop, WeChat is where China's national conversation takes place. For many Chinese, voice messages are seen as an intrusion, adding to information overload. Some don't want to receive any at all.

"I reject WeChat voice message because it inconveniences the sender but burdens the receiver," says Liu Zhaojian, an intellectual-property consultant in the commercial hub of Guangzhou. He is annoyed by his sister, a 30-year-old bank clerk in the smaller southern city of Hui-zhou, who likes sending him voice messages because it feels more intimate.

The divergent attitudes toward voice messaging reveal another fault line in China's complex digital divide that encompasses rural versus urban, young versus old, rich versus poor and

well educated versus less educated. Those different socioeconomic backgrounds congregate and clash on WeChat, in effect trying to hash out new social norms.

Some users and industry observers have urged WeChat to disable the feature or give users more say in who can send them voice messages.

Tencent didn't respond directly when asked about voice-messaging complaints other than to say that WeChat has a vast number of users and the company aims to provide services to cater to their diverse needs.

Voice commands and video are seen as critical to bringing the mobile internet to the world's next billion users, many of them poorer and less educated. On average, 16% of WeChat messages sent in 2016 were via voice, compared with about 1% for WhatsApp users in 2014, according to internet statistics firm Statista.

While China's younger, better-educated users in big cities have shaped online products and services for the past two decades, internet companies are now paying

attention to those outside that demographic.

Though people age 39 and below make up 72% of China's 751 million internet users, only cohorts 40 and over registered any growth in users in the first half of 2017, according to the government's China Internet Network Information Center.

Some 27% of Chinese online live in rural areas, 12% have a college or higher degree and 92% earn monthly salaries of 8,000 yuan (\$1,200) or lower, according to the report.

Those online demographics are helping to drive the popularity of mobile apps such as Kwai, the social-networking video app that captures what life is like outside China's biggest cities, and news-aggregating app Jinri Toutiao, whose algorithm led it to a similar user base.

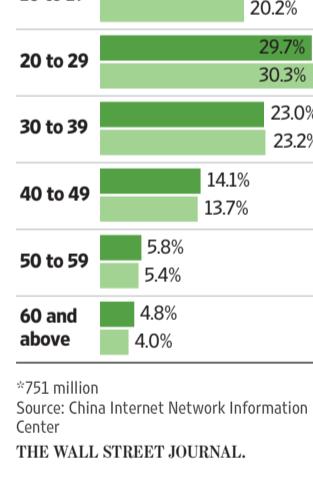
WeChat's 2016 user report shows that while people over 55 made up only 1% of the platform's user base, one out of five messages they sent were voice, compared with one in 10 for users under 21.

Tencent has been courting seniors. The company produces a video package show-

Senior Moment

With China's online population already huge, new growth is coming from Chinese 40 and older.

Breakdown of total online population* by age group



*751 million
Source: China Internet Network Information Center

THE WALL STREET JOURNAL.

ing seniors how to use WeChat. For an annual event last December, WeChat produced a video showing how the app is changing seniors' lifestyle, including the convenience of voice messaging.

Like it or not, people are going to need to learn to live with voice messages.

While users take nine seconds on average to read 100 characters, they need 22 seconds to listen to the same 100 characters, excluding pauses, says Liu Xingliang, head of research at Beijing-based analytics firm Data Center of the China Internet.

"Only when you listen to WeChat voice messages will you find out how long a minute is," Mr. Liu says.

Follow Li Yuan on Twitter @LiYuan6 or write to li.yuan@wsj.com.

BUSINESS WATCH

CONDÉ NAST

Graydon Carter To Leave Vanity Fair

Vanity Fair editor Graydon Carter is leaving the magazine at the end of 2017, capping a 25-year career that saw the publication become a leading chronicler of popular culture, the comings and goings of Hollywood celebrities, and the fashion and literary crowds.

Mr. Carter, 68 years old, was a founding member of Spy magazine. He was named editor of Vanity Fair in July 1992. His departure comes at a difficult juncture for Condé Nast, whose other leading titles include Vogue, the New Yorker and GQ. Like many traditional publishers, Condé Nast is struggling with falling print advertising and newsstand revenue.

—Jeffrey A. Trachtenberg

EMIRATES AIRLINE

U.S. Flight Capacity Could Be Restored

Emirates Airline may fully restore capacity on flights to the U.S. in the coming months, with demand recovering after Washington sought to limit immigration from some Middle East countries and imposed a ban on use of electronics on inbound flights.

Emirates Airline President Tim Clark said demand during the summer was stronger than expected, suggesting many of the reductions in U.S.-bound flights could be reversed. Residential capacity is running above 90% of seats sold, he said.

The travel ban, first issued in January, barred individuals from several Muslim-majority countries from entering the U.S. It caused chaos at airports as airlines were forced to prevent ticketed passengers from boarding flights to adjust to new U.S. immigration rules. Courts set aside the measures.

Emirates Airline, the world's largest carrier by international traffic, saw demand on U.S.-bound flights fall sharply. The Dubai-based carrier cut flight frequencies on many U.S. routes.

—Robert Wall

JAGUAR LAND ROVER

New Models To Shift To Electric After 2020

Jaguar Land Rover, the British luxury car maker, said new models of its Jaguar luxury line and high-end Land Rover SUVs will be powered by either hybrid or electric engines after 2020. The move by JLR, a subsidiary of India's Tata Motors Ltd., follows a similar commitment earlier this year by Sweden's Volvo Cars.

—Tapan Panchal

DISNEY

Continued from page B1
compared with December 2015's "Star Wars: The Force Awakens"; as well as the looming impact of Hurricane Irma. Disney already has canceled three cruise-ship itineraries and recorded cancellations at Walt Disney World in Orlando, Fla., he said.

Disney rarely gives investors guidance on financial results before publicly reporting them. In afternoon trading Thursday, the company's shares were off 4.7% at \$96.79.

Analysts polled by Thomson Reuters had been expecting Disney's earnings to rise 2.6%, to \$5.88 a share, compared with \$5.73 last fiscal year.

For Netflix, Disney's decision to hold on to rights to "Star Wars" and Marvel movies will add to the pressure for it to create appealing original content of its own to replace some of the high-profile franchise films it will lose starting in 2019.

A Netflix spokesman declined to comment.

In addition to all of the movies Disney produces for theaters, typically around 10 a

year, the company will produce four or five lower-budget movies exclusively for its new digital service, Mr. Iger said at the investor conference organized by Bank of America Corp.

The company also will make four or five original series and three or four "television movies" of the type that currently run on its Disney Channel, Mr. Iger added.

The service will be launched in the U.S. in late 2019 as movies that previously would have been on Netflix become available, Mr. Iger said, though it could be

launched earlier in other countries.

Disney is just beginning work on the digital service, which will be offered directly to consumers over the internet, and has yet to announce how it will be priced. Mr. Iger said the company will share details on how much it will spend on the service later.

As a part of the strategy, however, Disney last month said it would spend \$1.58 billion to acquire majority control of streaming-technology company BAMTech.

Disney next year also will launch a direct-to-consumer

ESPN sports service. Mr. Iger announced no significant new details about it Thursday, reiterating that it will include about 10,000 annual events in sports such as baseball and hockey that currently don't run on live television and that it will act as a hub allowing fans to subscribe to other specific sports leagues or events.

Successfully launching the new digital services is one of Mr. Iger's two chief priorities in the remaining two years before his planned retirement in 2019, he said, along with lining up a successor for his own job.

FINANCE & MARKETS

Activist Details His Fixes for P&G

Nelson Peltz's fund contends consumer-goods company fails to change with times

BY SHARON TERLEP
AND DAVID BENOIT

Activist investor Nelson Peltz on Wednesday laid out a detailed case for why Procter & Gamble Co. should give him a board seat, painting a picture of a company impenetrable to outsiders and incapable of navigating the changing consumer landscape.

In a 94-page presentation, Mr. Peltz's **Trian Fund Management** LP criticized the company as having lost its position as a consumer-goods leader and settled for "mediocrity," urging a restructuring of its businesses, the hiring of outsiders and branching out into smaller, local brands to attract coveted millennial shoppers.

The blueprint is the latest salvo in Mr. Peltz's attempt to win a board seat at the maker of Tide and Pampers, the largest company to ever face a proxy fight. It is Trian's response to the company's months-long argument that Mr. Peltz brings no new ideas to the table and therefore hasn't earned a seat.

Both sides are courting investors who are set to decide at the company's Oct. 10 shareholder meeting whether to add Mr. Peltz to the board. P&G executives say the company al-



Trian Fund blames Procter & Gamble's 'insular culture' for the lack of a meaningful new brand in years.

ready is bringing in outsiders, simplifying its governing structure and cutting costs to free up cash to create and market new products.

"The problem is that they have lost and are continuing to lose market share," Mr. Peltz said in an interview last week. "Once you've had a consumer and he's left you, it's very hard to bring that consumer back."

P&G has said Mr. Peltz's ideas are either ill-informed or retreads of work that is already under way. "We're already doing something and he's jumping on and saying, 'Do more of it,'" P&G Chief Executive David Taylor said in an interview last week.

Trian, which owns a \$3.5 billion stake, says P&G should organize itself into just three business units, down from 10, by combining businesses such as beauty, grooming and health care. The units would operate autonomously and have total control over sales, marketing, manufacturing and other major functions. P&G downsized to 10 business units from 16 as part of a restructuring effort carried out before Mr. Taylor took over in late 2015. The company has no plans to further reduce that number.

In a statement Thursday, P&G said it had evaluated such a setup and determined it

would result in additional costs and complexity and lower profitability. Mr. Peltz's "playbook appears to be code for another restructuring and a precursor to a breakup of the Company—his 'cookie-cutter' plan," P&G said.

The company's structure is one of the thorniest points of debate between the two sides. While Trian criticizes P&G's "matrix" structure, P&G executives say a restructuring in the past year has created autonomous units with control over all parts of their business. They say functions still controlled by regional and corporate chiefs, such as negotiating with retailers like Wal-Mart Stores Inc.

and Target Corp., are best handled at higher levels.

In its presentation, Trian called for P&G to set a goal of having about 25 of the company's top 100 executives with significant outside experience. Trian argues that only three of P&G's top 33 executives appear to have worked outside the company.

That "insular culture," Trian argues, is one of the reasons the company hasn't launched a major brand and instead has doubled down on its biggest brands just as consumers shifted to smaller, local products. "P&G has not created a meaningful new brand since Swiffer, almost 20 years ago," according to the Trian presentation.

"To be successful at P&G it appears you have to be very savvy politically at operating in the matrix," Mr. Peltz said. "It seems to be more important than generating sales and profit."

Mr. Taylor has acknowledged that P&G has made mistakes that have resulted in slow growth and slipping market share, such as missing some big trends in China and not taking online razor startups seriously enough, a reference to its Gillette unit. The streamlined P&G, he said, isn't making the same mistakes and is able to more quickly respond to changing trends and nimble rivals.

"Do we get it right all the time? No," he said. "But what we do is we listen to the consumer and get it right the next time."

Square Plans a Move Into Banking

BY PETER RUGEAR

Square Inc. is looking to get into the banking business.

The San Francisco-based finance firm led by Jack Dorsey planned to submit an application Thursday to form a wholly owned bank based in Utah, the company said. The unit, to be called Square Financial Services Inc. would offer loans and deposit accounts to small businesses and be capitalized with \$56 million.

Square would be the third financial-technology company pursuing a banking license in recent months. In doing so, it follows in the footsteps of online lender Social Finance Inc. and mobile-banking startup Varo Money Inc. Square's application comes as federal regulators are giving their blessing to the most new banks since the financial crisis.

Square had been offering small-business loans and cash advances through its lending arm, Square Capital, since 2014 through a deal it had with Celtic Bank, another Utah-based lender. To date, the company says it has extended more than \$1.8 billion in credit to more than 141,000 firms.

"As we scale, it's becoming increasingly important that we have direct relationships with regulators," said Jacqueline Reses, who leads Square Capital and will be the chairman of the bank. The acting chief executive of Square's bank will be Lewis Goodwin, who recently joined Square from Green Dot Corp. where he helped lead the banking subsidiary of the prepaid debit-card company.

Square's consumer-facing initiatives, including its digital money-transfer service, Square Cash, and its recently launched installment-loan business, would remain separate from the bank.

Square is applying for a charter to form an industrial loan company, an entity that enjoys many of the same privileges as traditional banks and can be part of a corporation that does things other than banking. Sixteen other industrial banks are licensed to operate in Utah, including one owned by car maker BMW AG.

Ms. Reses said Square chose to apply for an industrial-loan company charter as opposed to a traditional banking license because aspects of its business, such as selling hardware payment terminals and offering food delivery through its Caviar subsidiary, are non-financial.

Bank holding companies are prohibited from engaging in such activities.

SEC Chief: No Law Needed on Inside Trading

BY DAVE MICHAELS

lets federal courts interpret the law differently. Still, that hasn't hurt the U.S. government's ability to punish wrongdoers, Mr. Clayton said.

"I think we do a pretty good job in this space as I compare it to other jurisdictions," Mr. Clayton told the NYU audience Tuesday evening. "Some places that have a code-based insider-trading regime, my sense is [that] it doesn't work any better and in fact it's probably not as effective as our regime."

Profiting from inside information isn't inherently illegal. Courts generally require that the government show that traders who have received such information knew their tipper violated a duty to keep the details confidential. The case law also requires that the tipper receive a personal benefit in exchange for sharing the information.

Mr. Clayton's comments show Congress may be unlikely to face pressure to advance legislation that could resolve some of the confusion around insider-trading law



tangible reward for sharing the information.

The Second Circuit's decision found the government clearly showed at trial that one of the doctors benefited because he met with Mr. Martoma more than 40 times and was paid \$1,000 an hour for confidential data on the drug trial.

In their 2-1 decision on the Martoma case, the Second Circuit judges parted ways with a 2014 ruling by another three-judge panel of the same circuit. Known as U.S. v. Newman, the earlier ruling said that prosecutors must prove the tipster and trader had a close personal relationship and that the tipster got a tangible reward for sharing the information.

The judges in the Martoma case found that it is sufficient to show that an insider passed material nonpublic information to someone whom the insider expected would trade on it. According to the judges, the two parties don't need to have a "meaningfully close personal relationship," as the Newman case opined.

and reduce courts' influence on such cases.

Lawmakers including Sen. Jack Reed (D., R.I.) and Sen. Bob Menendez (D., N.J.) have sponsored bills that would define insider trading, but such legislation has never passed both houses of Congress and been submitted to the president, said Donald Langevoort,

a law professor at Georgetown University.

In the most recent decision, a three-judge panel of the Second U.S. Circuit Court of Appeals in Manhattan rejected

arguments by former **SAC Capital Advisors** LLP portfolio manager Mathew Martoma that he didn't break the law when he traded on inside information provided by two doctors about the trial of an Alzheimer's drug.

The trades netted \$275 million in profits and avoided losses.

Mr. Martoma's lawyers argued his actions didn't qualify as insider trading because he didn't have a close personal relationship with the doctors and the tipsters didn't get a



Monex disputes the claims.

cious metals, according to the CFTC complaint. Monex relied on large price spreads for its products—leveraged precious-metal trades—and would make customers buy at a high price and sell at a low price, according to the complaint. Monex was the counterparty for each trade and stood to profit from the spread.

—Gabriel T. Rubin

CITIGROUP Another Banker Is Hired From UBS

Citigroup Inc. has tapped a **UBS Group** AG investment banker to head its chemicals coverage for Europe, the Middle East and Africa, the second time this week the bank announced a hire from its Swiss rival.

Sean Weissenberger succeeds Martin Bastian as head of Citigroup's chemicals investment-banking operations in Europe, the Middle East and Africa.

Earlier this week, Citigroup hired Jean-Baptiste Petard as global co-head of its new services group within its investment-banking coverage of the industrial sector. He will focus on clients in the business and payment-services sectors in the EMEA region. Mr. Petard previously oversaw UBS's investment-banking operations for business services, transportation and logistics in EMEA.

—Ben Dummett

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PRESS RELEASE

SUBJECT: Announcement of the publication of the Interim Report 2017 of Crédit Agricole Cariparma S.p.A.
It is hereby announced that - pursuant to Article 113 of the Italian Consolidated Financial Act and to Article 116-ter of the Regulation on Issuers, as well as to Luxembourg Law 11/01/2008, to the Gran Ducal Regulation 11/01/2008 and to Circular CSSF 08/337 – Crédit Agricole Cariparma S.p.A., with Headquarters in Parma (PR), Via Università, 1, in its capacity as issuer having Italy as Member State of origin whose securities are admitted for trading in another EU Member State (Luxembourg) and not in Italy, published its Interim Report 2017, in Italian language and in English language, on the website available to the public www.gruppo.credit-agricole.it.

Parma, the 8th of September 2017

COMUNICATO STAMPA

OGGETTO: Comunicazione della pubblicazione della Relazione Semestrale 2017 di Crédit Agricole Cariparma S.p.A.
La presente per comunicare - ai sensi dell'art.113 del TUF e dell'art. 116-ter del Regolamento emittenti, nonché della Luxembourg Law 11/01/2008, della Gran Ducal Regulation 11/01/2008 e della Circular CSSF 08/337 - che Crédit Agricole Cariparma S.p.A., con sede in Parma (PR), Via Università, 1, in qualità di emittente avente l'Italia come Stato membro di origine i cui valori mobiliari sono ammessi alla negoziazione in un altro Stato Membro dell'UE (Lussemburgo) e non in Italia, ha reso pubblica la Relazione Semestrale 2017 in lingua italiana ed in lingua inglese, attraverso il sito accessibile al pubblico www.gruppo.credit-agricole.it.

Parma, 8 Settembre 2017

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MARKETS DIGEST

Nikkei 225 Index

19396.52 ▲ 38.55, or 0.20%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

STOXX 600 Index

374.95 ▲ 1.00, or 0.27%

High, low, open and close for each trading day of the past three months.



S&P 500 Index

2465.10 ▼ 0.44, or 0.02%

High, low, open and close for each trading day of the past three months.



Data as of 4 p.m. New York time

Last 23.86, Year ago 24.71

Trailing P/E ratio 23.86, P/E estimate 18.85

Dividend yield 2.00, All-time high 2480.91, 08/07/17

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

International Stock Indexes

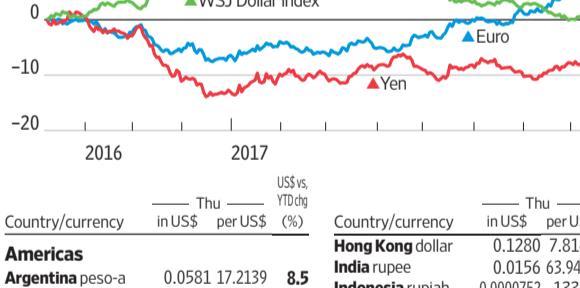
Data as of 4 p.m. New York time

| Region/Country | Index | Close | Net Chg | % chg | 52-Week Range | Low | Close | High | YTD % chg |
|---------------------|-------------------------------|-----------|---------|--|---------------|-----------|-------|------|-----------|
| World | The Global Dow | 2852.39 | 10.22 | 0.36 | 2386.93 | 2881.15 | 12.8 | | |
| | MSCI EAFE | 1949.85 | 15.30 | 0.79 | 1614.17 | 1955.39 | 13.6 | | |
| | MSCI EM USD | 1091.40 | 8.22 | 0.76 | 838.96 | 1091.36 | 37.4 | | |
| Americas | DJ Americas | 595.00 | 0.01 | 0.002 | 503.44 | 599.20 | 10.1 | | |
| Brazil | Sao Paulo Bovespa | 73412.41 | ... | Closed | 56459.11 | 73607.91 | 21.9 | | |
| Canada | S&P/TSX Comp | 15024.52 | -35.31 | -0.23 | 14319.11 | 15943.09 | -1.7 | | |
| Mexico | IPC All-Share | 50243.37 | -272.23 | -0.54 | 43998.98 | 51772.37 | 10.1 | | |
| Chile | Santiago IPSA | 3882.18 | 22.76 | 0.59 | 3120.87 | 3945.90 | 20.4 | | |
| U.S. | DJIA | 21784.78 | -22.86 | -0.10 | 17883.56 | 22179.11 | 10.2 | | |
| | Nasdaq Composite | 6397.87 | 4.55 | 0.07 | 5034.41 | 6460.84 | 18.9 | | |
| | S&P 500 | 2465.10 | -0.44 | -0.02 | 2083.79 | 2490.87 | 10.1 | | |
| | CBOE Volatility | 11.64 | 0.01 | 0.09 | 8.84 | 23.01 | -17.1 | | |
| EMEA | Stoxx Europe 600 | 374.95 | 1.00 | 0.27 | 328.80 | 396.45 | 3.7 | | |
| | Stoxx Europe 50 | 3053.27 | 10.04 | 0.33 | 2720.66 | 3279.71 | 1.4 | | |
| Austria | ATX | 3237.22 | 18.26 | 0.57 | 2311.88 | 3285.00 | 23.6 | | |
| Belgium | Bel-20 | 3921.94 | 31.39 | 0.81 | 3384.68 | 4055.96 | 8.8 | | |
| France | CAC 40 | 5114.62 | 13.21 | 0.26 | 4310.88 | 5442.10 | 5.2 | | |
| Germany | DAX | 12296.63 | 82.09 | 0.67 | 10174.92 | 12951.54 | 7.1 | | |
| Greece | ATG | 811.04 | -0.66 | -0.08 | 548.72 | 859.78 | 26.0 | | |
| Hungary | BUX | 37783.51 | -95.35 | -0.25 | 27466.59 | 38147.22 | 18.1 | | |
| Israel | Tel Aviv | 1388.09 | -5.22 | -0.37 | 1346.71 | 1490.23 | -5.6 | | |
| Italy | FTSE MIB | 21722.51 | -92.05 | -0.42 | 15923.11 | 22065.42 | 12.9 | | |
| Netherlands | AEX | 518.83 | 2.36 | 0.46 | 436.28 | 537.84 | 7.4 | | |
| Poland | WIG | 64381.87 | -386.38 | -0.60 | 46321.24 | 65611.21 | 24.4 | | |
| Russia | RTS Index | 1110.73 | 4.03 | 0.36 | 953.12 | 1196.99 | -3.6 | | |
| Spain | IBEX 35 | 10124.90 | -6.10 | -0.06 | 8512.40 | 11184.40 | 8.3 | | |
| Sweden | SX All Share | 557.10 | 4.34 | 0.78 | 489.12 | 598.42 | 4.2 | | |
| Switzerland | Swiss Market | 8906.66 | 47.19 | 0.53 | 7585.56 | 9198.45 | 8.4 | | |
| South Africa | Johannesburg All Share | 55878.19 | 397.99 | 0.72 | 48935.90 | 56896.89 | 10.3 | | |
| Turkey | BIST 100 | 109742.95 | 131.16 | 0.12 | 71792.96 | 110530.75 | 40.4 | | |
| U.K. | FTSE 100 | 7396.98 | 42.85 | 0.58 | 6654.48 | 7598.99 | 3.6 | | |
| Asia-Pacific | S&P/ASX 200 | 5689.90 | 0.20 | 0.004 | 5156.60 | 5956.50 | 0.4 | | |
| China | Shanghai Composite | 3365.50 | -19.89 | -0.59 | 2980.43 | 3385.39 | 8.4 | | |
| Hong Kong | Hang Seng | 27522.92 | -90.84 | -0.33 | 21574.76 | 28046.11 | 25.1 | | |
| India | S&P BSE Sensex | 31662.74 | 0.77 | 0.002 | 25765.14 | 32575.17 | 18.9 | | |
| Japan | Nikkei Stock Avg | 19396.52 | 38.55 | 0.20 | 16251.54 | 20230.41 | 1.5 | | |
| Singapore | Straits Times | 3228.06 | -4.41 | -0.14 | 2787.27 | 3354.71 | 12.1 | | |
| South Korea | Kospi | 2346.19 | 26.37 | 1.14 | 1958.38 | 2451.53 | 15.8 | | |
| Taiwan | Weighted | 10538.51 | -9.35 | -0.09 | 8902.30 | 10617.84 | 13.9 | | |

Source: SIX Financial Information; WSJ Market Data Group

Currencies

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



London close on Sept. 7

US\$ vs. Country/currency

Thru YTD chg (%)

Country/currency

Thru YTD chg (%)

| Country/currency | Thru | YTD chg (%) | Country/currency | Thru | YTD chg (%) | |
|---------------------|----------|-------------|-------------------|---------------------|-------------|--------|
| Americas | | | Europe | | | |
| Argentina peso-a | 0.0581 | 17.2139 | Bulgaria lev | 0.6139 | 1.6290 | |
| Brazil real | 0.3226 | 3.0994 | Croatia kuna | 0.1617 | 6.1866 | |
| Canada dollar | 0.8236 | 2.1243 | Euro zone euro | 1.2011 | 0.8326 | |
| Chile peso | 0.001626 | 61.00 | -3.82 | Czech Rep. koruna-b | 0.0459 | 21.779 |
| Peru so | 0.3092 | 3.2341 | Denmark krone | 0.1614 | 6.1962 | |
| Uruguay peso-e | 0.0347 | 28.810 | Hungary forint | 0.003931 | 254.40 | |
| Venezuela bolivar | 0.099223 | 10.08 | Iceland krona | 0.009426 | 106.09 | |
| Asia-Pacific | | | Norway krona | 0.1290 | 7.7535 | |
| Australia dollar | 0.8034 | 1.2447 | Poland zloty | 0.2824 | 3.5406 | |
| China yuan | 0.1542 | 6.4866 | Russia ruble-d | 0.01755 | 56.991 | |
| | | | Sweden krona | 0.1258 | 7.9487 | |
| | | | Switzerland franc | 0.1293 | 3.4106 | |
| | | | Ukraine hryvnia | 0.0384 | 26.0400 | |
| | | | Yen | 0.0008869 | 112.752 | |
| | | | | | | |

FINANCE & MARKETS

Little-Known Insurers Backstop Florida

Alongside state entity, small—and untested—carriers provide bulk of hurricane coverage

By LESLIE SCISM

Hurricane Irma will test a Florida insurance market where a wave of large insurers aggressively reduced their footprint, replaced by smaller firms and a state body.

Florida's insurance market nearly collapsed in 2006 after some of the costliest storms in U.S. history—besides Katrina, there were Charley, Frances, Ivan, Jeanne, Rita and Wilma in 2004 and 2005. In their wake, many big national home insurers shed policies in the state, frustrated by regulators and lawmakers who rebelled against the large rate rises they said were essential.

What followed has been a winding path. At first, state leaders used their **Citizens Property Insurance Corp.** entity to plug the gap, and it became the largest insurer in the state with nearly 1.5 million policies in 2011. From there, some 50 small to midsize home insurers have played a



A man reinforces a house in Miami ahead of the anticipated arrival of Hurricane Irma.

Fund, has about \$17 billion, the spokesman said.

John Rollins, an executive with Cabrillo Coastal General Insurance Agency LLC in Gainesville, Fla., who was Citizens' chief risk officer until early this year, said Citizens and the Catastrophe Fund "have been replenished significantly through a combination of meteorological luck and prudent planning." Citizens still has about 443,000 policyholders in Florida.

Smaller firms increasingly are the ones adding customers, including **Universal Insurance Holdings Inc.** and **Heritage Insurance Holdings Inc.** Shares of **Universal** fell 15% Tuesday and **Heritage** dropped 17%, as fears of an Irma strike on Florida spread.

Both fell again Thursday after a partial recovery Wednesday.

A total of 56 of the carriers had a surplus—assets minus liabilities—of \$3.9 billion as of March, up from \$1.8 billion for 48 companies in 2010, according to Demotech.

State rules require these firms to buy reinsurance as a backstop arrangement under which other insurers are on the hook to pay some claims. The state then runs a "catastrophe

stress test to simulate the impact of catastrophic storms and the companies' ability to respond," said Karen Kees, a spokeswoman for Florida's Office of Insurance Regulation.

These reinsurance deals have aided the ascension of smaller carriers. Since the financial crisis and a period of ultralow interest rates, yield-hungry pension plans, sovereign-wealth funds and other big investors have pumped tens of billions of dollars into the reinsurance market to diversify and earn more than on bonds. That led to a sharp decline in the price for property-catastrophe reinsurance, with these smaller Floridian firms now able to load up on more reinsurance at lower prices.

"There will be losses, there will be a lot of heartache" if Irma does strike Florida, said Pares Patel, a founder and chief executive of home insurer **HCI Group Inc.** in Tampa, Fla. But "it is happening in as good an environment as anyone can reasonably expect" for the state's insurance market.

—Nicole Friedman contributed to this article.

◆ Heard on the Street: Irma's risk to insurers..... B8

growing role. Florida's top-20 market-share list for homeowners' insurance is now rife with names of carriers most people have never heard of.

This transformation occurred during a 12-year hurricane dry spell, lasting long enough for state officials to shore up the foundations of Citizens. But it is also long enough that the new system

has never had a real-life test of its resilience.

"The truth of the matter is a Category 4 or 5 hurricane in a heavily populated area is a major stress test of everything [because] the destruction is almost unimaginable," said Joseph Petrelli, president of Demotech Inc., a ratings firm with a specialty in Florida's market.

Inside Florida, much of the

focus in recent years has been on building up a capital cushion at Citizens. Benefiting from the absence of hurricanes and gradually increasing premium rates, Citizens now has \$9.9 billion in "claims paying ability," which is money readily available to pay claims, a spokesman said.

A sister organization, the Florida Hurricane Catastrophe

Diesel Prices Rise, and Europe Is Feeling the Pinch

By CHRISTOPHER ALESSI

In the wake of Hurricane Harvey a tarnished fuel is getting a boost: diesel.

The price of diesel futures has risen roughly 10% since Harvey tore into the Gulf Coast and shut down refineries and ports through which this fuel usually flows out of the U.S. This has contributed to a shortfall in Europe, a region with large demand for the fuel to power passenger cars.

On Thursday, diesel for October delivery rose 1.5%, to \$1.7861 a gallon, on the New York Mercantile Exchange, its

highest settlement since July 2015.

Diesel's image took a knock two years ago when Germany's Volkswagen AG admitted it had rigged millions of diesel cars to cheat environmental regulators, which ultimately revealed diesel engines as far bigger polluters than originally thought. That triggered a political backlash, but because cars in Europe are largely diesel, demand has remained high.

Europe's domestic production came up short by about 900,000 barrels daily from January to June of this year, according to JBC Energy

GmbH. The U.S. had been supplying about 250,000 barrels of that shortfall. The gap is expected to widen in coming weeks by about 200,000 barrels a day year over year, according to James McCullagh, an oil-products analyst at Energy Aspects Ltd. "Before Harvey, Europe was looking to the U.S. [Gulf Coast] for extra barrels to help cover its import requirements this autumn," Mr. McCullagh said.

Russia, a traditional supplier of diesel to Europe, is unlikely to be able to step in. Its refineries are in the midst of heavy seasonal construction and maintenance work, ob-

servers say. Initial data show that refined products from the Middle East and Asia to Europe are rising, said Lisa Ward, co-founder of Tanker-Trackers.com, a website that records oil tanker movements.

But just as Europe hungers for diesel imports, cargoes of this fuel have been heading out of European ports to Latin America over the past week, according to Energy Aspects. Latin America usually feeds its diesel demand with imports from the U.S., so European refiners may be making up the Harvey-induced shortfall at a hefty profit, analysts say.

High Winds

European gasoil, a benchmark for diesel fuel, has been rising since Hurricane Harvey's landfall.

\$540 a metric ton



Source: Thompson Reuters; as of Sept. 7, 12:20 GMT

THE WALL STREET JOURNAL

Trump, His Children, and 500+ Potential Conflicts of Interest

President-elect Donald Trump's complex holdings place him in an unprecedented position

By Joel Eastwood, Coulter Jones and Julia Wolfe

Published Sat, Sep 16, 2017 at 6:00 a.m. ET



Do Sanctions Really Work?

U.S. passes new sanctions against Russia, North Korea and Iran, but history shows a mixed record of success

By Jon Talley and Brice McGuff

Published Aug. 8, 2017 at 11:00 a.m. ET

Washington is moving ahead with new sanctions against Russia for interference in the 2016 U.S. election. North Korea and Iran also face more sanctions over their nuclear and ballistic-missile programs, while Venezuela is under fire for human-rights abuses. But are economic sanctions effective?

It's often difficult to disentangle the economic effects of sanctions from broader market forces. Financial and trade sanctions can amplify economic headwinds or damp tailwinds, but even extensive trade embargos sometimes fail to change behavior. Here is a sampling of notable sanctions. Some forced policy changes. Some didn't.

Russia

March 2014

The U.S. starts sanctioning Russian firms and nationals in retaliation for the country's invasion of Crimea and support for pro-Russian rebels fighting against Ukrainian government forces in the former Soviet nation. The economy enters into a two-year contraction,

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MARKETS

Airlines Are on the Ropes

Hurricanes hammer the industry as fare war raises doubts on outlook for pricing

By AMRITH RAMKUMAR

The fallout from Hurricane Harvey and a bruising fare war are punishing airline stocks, a sign of weakness in the transportation sector that some investors watch as an indicator on the economy.

After pushing up shares of the four largest U.S. airlines at least 12% to their 2017 highs, investors are now fretting that price competition between airlines will hamper their ability to boost revenue for the remainder of the year.

Thursday afternoon in New York, shares of Delta Air Lines Inc., United Continental Holdings Inc., American Airlines Group Inc. and Southwest Airlines Co. were all down at least 15% from their highs this year.

Earlier this week, Delta lowered its projections for unit revenue—a measure of how much airlines earn for every mile they fly a passenger—citing a slower recovery in domestic last-minute ticket prices and higher fuel costs. United on Wednesday said it expects unit revenue to decline more than anticipated in the third quarter.

The guidance from the two companies dragged shares down further, with Delta, United and American all down at least 0.9% this week.

In recent years, competition from ultralow-cost carriers have forced down prices across the industry. Weather-related disruptions are adding to the industry's headaches as it enters what is traditionally a weaker time of year. Harvey knocked out about 25% of oil-refining capacity at one point, pushing fuel prices higher.

It also led United to cancel 7,400 flights from its second-



CHRIS URSO/TAMPA BAY TIMES/ASSOCIATED PRESS

People waited in Tampa on Wednesday as Hurricane Irma, the latest storm-related threat to the industry, approached Florida.

Turbulent Times

Airline stocks have lagged behind the broader U.S. market...



...and some analysts wonder if a widening gap between transport stocks and the Dow Jones Industrial Average presages a wider sell-off.



Note: Latest figures as of Wednesday.
Source: FactSet

THE WALL STREET JOURNAL.

largest hub, Houston's George Bush Intercontinental Airport. The company expects operations to return to normal by Friday, but Andrew Levy, United's chief financial officer, said demand for flights in Houston will suffer for a while.

Now, Hurricane Irma could alter travel as it moves through the Caribbean.

"It definitely feels like

we're getting closer to max pain levels," said Savanthi Syth, an analyst at Raymond James Financial Inc.

This week's volatility in airline shares was the latest example of the group weighing on the Dow Jones Transportation Average, which shed 0.9% on Tuesday to end a six-session winning streak and is down 4% since mid-July. Some

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Composer
Randy Newman
geeks out over
his favorite
gadgets
W8



OFF DUTY



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easier-to-pilot
private jets
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THE WALL STREET JOURNAL.

Friday - Sunday, September 8 - 10, 2017 | **W1**

Livin' On a Prairie

Harking back to simpler times in America, designers are reworking pioneer motifs—handmade quilts, fringed suede and bandana prints—for women who dwell far away from where the buffalo roam free



QUILT TRIP This quilted topcoat is a statement piece, so pare down the rest of your look (sleek hair, simple accessories) to avoid artsy-craftsiness. A classic American beauty tip: A strong red lip.

Coat, \$5,495, and Top, \$1,095, *Calvin Klein*
205W39NYC, 212-292-9000.

Fashion Editor: Rebecca Malinsky
Photographed at the Bernard Family Hall of North American Mammals at the American Museum of Natural History.

BY NANCY MACDONELL

IN 1936, New York department store Lord & Taylor made news when it offered its female customers a clothing collection inspired by iconic American looks such as cowboy garb and New England fisherman knits. It was an unusual move: Back then, Parisian

taste overwhelmingly shaped fashion, even if the clothes were made in the U.S.A.

Eight decades later, Americana is as orthodox a style reference as bohemian chic or naval uniforms. Even so, many of the fall 2017 collections lean more conspicuously and notably American than those in recent seasons. Designers from both sides of the Atlantic tapped into the "Little House on the Prairie" look. Was it an innocently nostal-

gic nod to American style, or a pointed commentary on today's politics?

Some designers ostensibly went for pure fashion on the runway: Belgian-born Raf Simons, making his highly anticipated debut as the chief creative officer of Calvin Klein, worked with a plethora of American tropes, from red-white-and-blue marching band ensembles to quilted top coats

Please turn to page W2

OFF DUTY

A PAEAN TO PIONEER STYLE

Continued from page W1

with no hint of a reactionary subtext. London-based Sarah Burton of Alexander McQueen, a British brand that shows in Paris, used a bandana-like print that looked like it originated in a dude ranch bunkhouse. Prada's line included suede fringed jackets. Isabel Marant played with patchwork quilt prints. Stuart Vevers, an Englishman who's been the executive creative director at Coach 1941 for four years, embraced buffalo checks and prairie skirts.

Others who opted for Americana this season were openly political. That was the case with Patric DiCaprio, David Moses, Bryn Taubensee and Claire Sully, the quartet behind the upstart, four-year-old New York label Vaquera, who sent a dress made from what looked like a deconstructed American flag down the runway. It was cut with a long train that dragged behind the model as she walked. "There's a lot of anger and frustration," said Ms. Sully. "We wanted to make an overt statement, to say, 'Let's talk about America.'"

Most of the latest iterations of Americana are quite distinct from the oeuvre of Ralph Lauren, who built a global empire out of his mastery of apple-pie imagery. The difference is their intent, said Bridget Foley, the executive editor of Women's Wear Daily, who worked on *Ralph Lauren: 50 Years of Fashion*, a book about Mr. Lauren's career, as documented by WWD. These current designers' takes are more fleeting, less personal. "With Ralph, I think it's a manifestation of a belief system," said Ms. Foley. "It's not a seasonal message. It's a core value, an overall point of view. It's who he is as a person and a designer."

Another difference: Mr. Lauren's vision is akin to painter Norman Rockwell's in its cheery idealism, a stark contrast to this season's Americana, which feels ironic and more complex, recalling director Terrence Malick's dust-bowl love story, "Days of Heaven" and American painter Grant Wood's haunting, self-aware depiction of rural life in his iconic 1930s "American Gothic" portrait. The collections were, for the most part, designed just after last fall's contentious election, and can be read as a yearning for what seem like less complicated times.

"People are reaching for the familiar," said Patricia Mears, the deputy director of the Museum at FIT in New York. "You see this in periods of uncertainty." In fashion, that means turning to silhouettes and ideas that evoke an idealized past. This isn't limited to Americana—at Gucci, for example, creative director Alessandro Michele mines the glories of the Renaissance, when Italian city states were at the height of their power.

A subtler point: When considering the origins of Westernwear, it's important to note that, far from



COWGIRL, INTERRUPTED Keep it subtle. Contrast stitching on trousers evokes classic Levi's; pointed pocket flaps and an adorned collar just hint at rodeo shirting. Top, \$1,670, Pullover, \$1,090, and Pants, \$1,160, Louis Vuitton, 866-884-8866. Photographed at the American Museum of Natural History.



FRINGIER THINGS An ornate Western jacket can easily outshine the rest of your outfit. Keep your layers simple but add bold stilettos to balance out the tumult on top.

Above: Jacket, \$13,460, Shoes, \$990, Prada, 212-334-8888; Levi's Made & Crafted Jeans, \$198, levi.com.

being the clothing of exclusively white male pioneers, it reflects a truly American mix of influences.

"Buffalo Bill was one of the first to take elements from Native American dress and combine it with Western workwear for entertainment," said Ms. Mears. "In the '20s, Eastern European tailors, like Rodeo Ben [Bernard Lichtenstein], combined tailoring, Western work-



wear, and Eastern European floral motifs. And they had many Latino workers. So Americana is this mishmash of different cultures."

An immigrant of sorts himself, Mr. Simons arrived at Calvin Klein,

having worked on his own line after serving as creative director for 3½ years at Christian Dior, the venerable French fashion house that celebrates its 70th anniversary this year. In constructing his inau-

HAIL TO THE HANDKERCHIEF

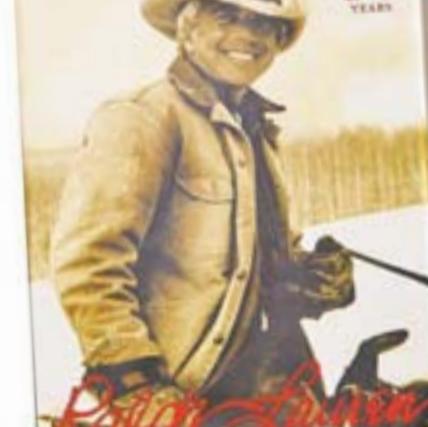
To elevate and prettify the bandana-print look, seek it out in silk shirt-dress form.

Left: Dress, \$4,450, and Belt, \$765, Alexander McQueen, 212-645-1797.

gural Calvin Klein collection around recognizably American archetypes, he seemed to be signaling his new allegiance, an admiration for his adopted country.

"I learned about American style through film, so my references have that Hollywood glow," said Coach 1941's Mr. Vevers, a Brit. "Days of Heaven" fed his nostalgia for the American prairie, but he had other influences, such as the clothes kids wore "Back in the Days," the name of a 2001 book about the '80s hip hop scene in New York City that affected the way he styled his Americana pieces. "We [paired] shearling coats with raw edges with a T-shirt," he said, giving them a "more modern sort of luxury."

In general, said Mr. Vevers, American style represents the "shift" in how people learned to dress over the years: "When you think of classic American style, you think of ease." So the explanation for the deluge of Americana references may well be more prosaic. For better or worse, the look of people on streets all over the world—dictated by comfort, determinedly casual, rule-averse—has a Made in America label on it.



HIGH IN THE SADDLE

As the new creative force at Calvin Klein, Raf Simons may be beguiling the fashion crowd with his riffs on Americana, but Ralph Lauren got there first. 2017 marks the 50th anniversary of the Ralph Lauren brand, which more than any other fashion company has come to embody iconic American style. Those nostalgic for the designer's early days can flip through the coffee-table tome, *Ralph Lauren* (left), reissued this year by Rizzoli, which glossily catalogs his persistent fascination with fringe, chaps, prairie skirts and other elements of our sartorial heritage. Here, a few highlights from his career.



Bang for the Buck

Romanticizing roughness: The allure of classic fringed buckskin jackets like the kind sharpshooter Annie Oakley wore was not lost on the designer.



Betting the Ranch

In 1978, Mr. Lauren introduced Western-inspired ensembles at his runway show at the Plaza Hotel, piling on the extras like chaps and a Stetson hat to make his point.



A Little Haute on the Prairie

Often flounced, and done in countless fabrics—from white eyelet and gingham to denim and suede—the prairie skirt (here, in 1982) is one of the label's go-to pieces.



Native Instincts

In 1988, the brand's "home-spun" looks took a particularly luxurious turn, tapping into the heritage of Navajo motifs and saddle-stitched suede pants.



Blanket Statement

Mr. Lauren defines his Americana as a study in contrasts: "It's like a melting pot of all the color and earthiness, and utility and optimism that is America itself."

Ricky and Ralph

Even his wife, Ricky (here, in 1989), is an All-American dream. "I've always loved the girl in the convertible with her hair blowing in the wind," he writes. "That's the girl I married."



OFF DUTY

Oslo's Kitchens Catch Up

Attention epicurean tourists: The Nordic culinary wave that made foodies giddy is finally making headway in Norway's capital

BY J.S. MARCUS

THE NEW NORDIC food trend continues to make inroads from Midtown Manhattan to northeastern New South Wales. But these days it seems to be stirring the pot most vigorously right at home—in Norway. This is a mild surprise: While other Scandinavian countries have led the charge, until recently, sky-high prices and middling food quality in many of Norway's restaurants could lead tourists to think of eating there as a necessary evil.

I've occasionally visited the country over the decades, chalking up memories of glorious fjords, marvelous museums, \$5 gas-station apples, \$40 meatloaf slices and fishcakes fit for a hockey match. But after hearing rumors of a Norwegian culinary revolution and mindful of the krone's recent weakening, I returned to Oslo twice this past year, with an open mind and an open mouth.

The New Nordic movement is closely associated with Denmark, where chef René Redzepi, of Copenhagen's Noma restaurant, began to see the vast and often forbidding Nordic region as a veritable hothouse of culinary ideas and overlooked ingredients. Norway, with its short, intense growing season and range in climates and terrains, was al-

I tried an alchemical petit four made from fermented Norwegian buckwheat that tasted a lot like chocolate.

ready itself awash in excellent and unusual produce—including seafood and butter bound for Noma's own kitchens. But it finally took an expat Danish chef named Esben Holmboe Bang to airlift New Nordic mojo to Oslo.

In 2010, Mr. Bang opened Maaemo, the restaurant that has set the standard for upscale eating in the entire country. In 2012, it made its debut in Michelin's Nordic guide with two stars, and last year he got his third star—the first Norway-based chef to win that honor. (Noma, now preparing for a relaunch on a new urban farm, never got beyond two.)

Maaemo's fixed menu with wine pairings tops out at over \$550 these days—down from well over \$700 a few years ago thanks to exchange rates, but still prohibitive. Instead of a full meal, I stopped by Mr. Bang's office for a taste or two. I tried an alchemical petit four made from fermented Norwegian buckwheat,



HANS PETER HVAL/BRUTUS (BRUTUS DINING ROOM, MUSSELS); TUUKA KOSKI (BANG, SCALLOP); KONTRAST (SVENSSON, KONTRAST DINING ROOM); BASS OSLO (BEEF)

NORWAY WITH A BANG Clockwise from top left: Maaemo's Esben Holmboe Bang, the first Norway-based chef to earn three Michelin stars; Brutus, a new Oslo wine bar co-launched by a former sommelier from Noma; a grilled scallop at Maaemo; mussels and flowers in seaweed mayo at Brutus.

coaxed, through roasting, into tasting a lot like chocolate.

This fall, Mr. Bang, a towering 35-year-old, is testing out cowberries, an Inuit favorite. "They're extremely tannic," he said, "but the high amount of pectin is interesting."

Maaemo has turned fine dining into a prestige pastime in Oslo, spawning eateries that combine Norwegian ingredients, culinary innovation and moderate prices—a mix that would have been unimaginable five years ago.

Kontrast, opened in late 2013, is the brainchild of Swedish transplant Mikael Svensson. He likes to go intensely local, sourcing in and around Oslo's own fjord, and

he was rewarded last year with his first Michelin star. Early September is the tail end of Norway's raspberry season, and Kontrast is serving its nearby berries now with a homemade, pale-green sorbet made of yogurt and tangy wood sorrel. The yogurt itself is also homemade,

stressed Mr. Svensson, 34.

In contrast to Kontrast, where fixed-menu dinners cost about \$180, Bass Oslo, in hipster neighborhood Grünerløkka, offers lower prices and a mix-and-match menu of small-plate possibilities. Gung-ho on natural wines, Bass added a pan-European funk to Nordic flavors. I had mackerel paired with flash-

pickled cucumbers. The bartender slipped me an unfiltered Austrian Gewürztraminer to give the dish a lychee-like jolt.

Sentralen, a new restaurant and event complex, is also all-in on small plates. In what could be called a Franco-Nordic taco, Centralen has found a new way to use lompe, Norway's take on soft flatbread, by topping it with duck confit, pickled red cabbage, a brown-butter sauce and fresh dill. Earthy and light, it was too delicious for me to fret over whether the ducks were as Norwegian as the lompe.

Another young transplant, Swedish baker Pontus Blomberg, is leading a sour-

dough-centered rebellion at Handwerk, a new chain of bakeries that uses Norwegian grains and forgoes yeast. His sourdough versions of *boller*, a Norwegian riff on Scandinavian sweet buns, taste light and tangy, like citrusy brioche.

Norwegian dairy products get high marks throughout Scandinavia, but even the most partisan local foodies were flabbergasted last fall when Kraftkar—a cow's-milk blue cheese from west Norway—came away with the top prize at the 2016 World Cheese Awards. I stopped by Fromagerie, the city's leading cheese shop, to chat with owner Gunn Hege Nilsen, who gets her precious Kraftkar

shipment once every other week. "It sells out the day it arrives," she said.

Fromagerie is also a place to find artisanal *brunost*, or brown cheese, a Norwegian staple made from caramelized whey. One of Norway's signature products, brunost, with its leather color and sour-toffy taste, is a turnoff for many foreigners. Ms. Nilsen sources hers in a Norwegian fjord, where old-fashioned techniques, like using a preponderance of whey from goat's milk, mean a spicier taste than the industrial, supermarket versions.

The city's booming market hall, called Mathallen Oslo, presents a dark Nordic grandeur even on a summer day. I bought up some fine Norwegian produce—like floral strawberries and fruity carrots—and headed back to my Airbnb rental.

On Ms. Nilsen's advice, I paired fresh strawberries—a summer, not spring, treat in Norway—with *fenalår*, a rich ham made from leg of lamb; together, they had a fresh intensity, more bracing and interesting than prosciutto and melon.

I wound down my Oslo tour on a rainy summer night at Brutus, a new wine bar in Tøyen, a gentrifying neighborhood in the eastern part of town. Launched last November by a group including John Sonnichsen, a Dane who put in three years as a sommelier at Noma, Brutus excels at small plates and unfiltered wines. Norwegians were complaining all summer about the rain, but it's paid off, said Mr. Sonnichsen, 31. "The wet summer means it's an extremely good year for mushrooms." At Brutus this week, they are grilling duck legs outside and serving them with handpicked chantarelles.



FROM FJORD TO FEAST Clockwise from left: Kontrast, which opened in 2013, sources many of its ingredients in and around Oslo's own fjord; Kontrast chef Mikael Svensson, who earned his first Michelin star last year; raw-beef sirloin with bleak roe and tapioca chips at Bass Oslo.

OFF DUTY

MEGA MEAL

Two-Tone Is Never Too Much

New Mexico's red and green chile sauces are so good, why not opt for both at once?

BY ALLEGRA BEN-AMOTZ

THE INSIDE of Mary and Tito's Restaurant on Albuquerque's 4th Street doesn't look like much: vinyl tablecloths, walls plastered with family photos. But the kitchen produces some of New Mexico's best chile—not the meaty stew, spelled chili, served across the border in Texas, but the pepper-based sauce that holds pride of place in New Mexican cuisine.

On a recent trip, my husband and I stumbled into Mary and Tito's for breakfast. We ordered stacked enchiladas filled with cheese and onions, topped with a fried egg and smothered with both red and green chiles, side by side—"Christmas-style." We ate in silence at first, savoring the contrast between the smooth, fruity red chile and the sharper, vegetal green.

Like a Mexican mole sauce in its deep and layered complexity, the red sauce presented new flavors with each bite. I asked our waiter, Travis Knight—the son of the restaurant's owner—for the secret ingredient. "People always think they taste all kinds of stuff in our chile," he said. "It's basically just chile peppers, garlic and time."

"Thyme?" I blurted, incredulous.

He smiled. "No. T-I-M-E." New Mexican food reflects an array of influences: indigenous produce first cultivated by the region's original Pueblo Indian inhabitants; ingredients borrowed from the Spanish explorers who arrived in the 1500s; and contributions from Anglo settlers who came at the end of the Mexican-American War, in 1848. A few decades later, Dr. Fabián García, a horticulturalist at New Mexico State University, began selective breeding experiments that produced the state's first unique strain of chile pepper, the New Mexico No. 9.

Since then, chile-the-sauce has become such a staple that in 1996, New Mexico adopted the country's first and only official state question: "Red or green?" Every New Mexican has a preference.

Old timers favor red chile,



Christmas-Style Stacked Enchiladas

The key to this recipe is using real New Mexican chiles—both dried red and roasted green ones (fresh, frozen or jarred). Supermarkets around the country hold chile-roasting events for the green chiles shipped out of Hatch, N.M., at this time of year, and you can order them jarred at zaglianchileco.com. A good source for the dried red chiles is santafeschoolofcooking.com. Real corn tortillas, made from nixtamal, make a big difference too. Buy them at Mexican markets or at hotbreadkitchen.org.

ACTIVE TIME: 25 minutes TOTAL TIME: 2 hours SERVES: 2

For the red chile:

16 large dried New Mexico red chile pods
3 cloves garlic, minced
1 tablespoon vegetable oil or lard
1 tablespoon flour

Salt

For the green chile:
2 cups roasted, peeled and diced New Mexico green chile peppers (fresh, frozen and defrosted, or jarred and drained)

½ cup water

2 cloves garlic, minced
Salt
For the enchiladas:
Vegetable oil
6 corn tortillas
1 cup grated Wisconsin

cheddar cheese

½ small white onion, diced
2 eggs (optional)

1. Make red chile: Remove and discard stems and seeds from red chiles. Rinse pods in a colander under cool water, then place in a medium saucepan with enough water to fully cover. Bring to a boil, then reduce heat to medium-low and simmer uncovered until fully softened, 10–20 minutes. Strain and let peppers cool slightly.
2. Add cooled chiles to blender along with 2 cups water. Avoid filling blender more than halfway; blend in batches if necessary. Blend until completely smooth, about 60 seconds. Blend in garlic and salt to taste. Transfer puree to medium saucepan.
3. Heat oil in a small skillet over medium heat. Add flour and cook, stirring con-

stantly, to make a golden-brown roux, taking care not to burn it. Remove from heat. Drizzle roux into chile puree and mix to combine. Simmer chile 30 minutes, stirring occasionally. Do not boil. Season with salt.

4. Make green chile: Bring chiles, garlic, salt and 1 tablespoon water to a simmer over medium heat in a medium saucepan. Reduce heat to low and simmer gently, stirring occasionally, until chiles fall apart and form a chunky sauce-like consistency, about 30 minutes. If pan looks dry during cooking, stir in water, a spoonful at a time. Season with salt.
5. Make enchiladas: Heat 1 inch oil in a small skillet over medium-high heat until

oil bubbles immediately when the edge of a tortilla touches it. Fry tortillas, one at a time, just until they soften and edges begin to crisp, about 10 seconds per side. Drain on paper towels, then keep warm in a tortilla warmer or under a kitchen towel.

6. Mix cheese and onions in a bowl. Lay a tortilla on a plate, spoon a quarter of cheese-onion mixture over tortilla, top with another tortilla, and repeat, finishing with a third tortilla. On a second plate, make a second tortilla-cheese stack. (Cheese should melt slightly.) Spoon ½ cup red chile and ½ cup green chile over each stack, red on one side, green on the other. Top each stack with a fried egg, if you like.

said New Mexico Magazine culinary editor and cookbook author Cheryl Jamison. "In the days before reliable refrigeration, dried red was the way people ate chiles for most of the year," she said. Mary and Tito's red chile uses the Sandia Hot, a medium-hot, mildly sweet pepper the restaurant has sourced from the same

family farm in Salem, N.M., for over 30 years. Sun-drying (as opposed to the machine-drying method used by larger producers) lets the authentic flavor shine through.

Green chile might be described as the trendy choice. The pods owe their unique flavor in part to the terroir of the Hatch Valley, where the

best ones are grown, and in part to the method of preservation: fire-roasting in steel drums at the peppers' early-autumn peak. In recent years, Hatch green chiles have

caught on across the country—supermarkets from California to Pennsylvania hold chile-roasting events in their parking lots when the Hatch

harvest comes in.

Native to northern New Mexico, the stacked enchiladas I ordered at Mary and Tito's resemble something closer to lasagna than their more common, rolled counterparts. Layers of melted cheddar temper the heat of the chiles; the soft yolk of the fried egg topping each stack

CHEESE WISELY

DARLINGS OF THE DAIRY

Meet the cheeses all the mongers are mad for this season—plus the early word on what's next

EVERY YEAR America's cheesemakers—from small-scale operators milking a mere 40 goats to representatives of major dairy conglomerates—gather for the American Cheese Society's annual conference, which includes the most comprehensive cheese competition in the U.S. This year's event, held in July in Denver, was the largest to date: 2,024 cheeses from 281 companies in more than 400 award categories. That's a considerable leap from the first competition in 1985, when 30 cheesemakers entered 89 cheeses in seven categories.

The most coveted award, "Best of Show," goes to first-, second- and third-place winners. A win rewards the relentless labor involved in producing cheese, from shoveling manure and harvesting hay for the dairy herds to painstakingly monitoring cheeses' aging. A victory can also help woo funding from state dairy and agriculture programs. Winning cheeses will sell out, and their makers will have more options in deciding who will retail and ultimately tell the story of a cheese to consumers.

Significantly, all three of this year's "Best of Show" winners (see right) came from farmstead producers—meaning the cheese comes from the same farm as the milk. These makers work intimately with their animals and environment, and with their milk as it changes seasonally. You can taste the places the cheeses come from. And fortunately for consumers, once a producer wins, you're far more likely to find their cheeses at a cheesemonger or a restaurant near you. —Tia Keenan



1. This year's first-place "Best of Show" award went to Tarentaise Reserve from Spring Brook Farm in Vermont. This raw milk, Alpine-style cheese, aged 11 months, has a dense, ripe paste. It captures the flavors of a Vermont summer: grass, stone fruit, roast meat, sunshine. The farm is part of the nonprofit Farms For City Kids Foundation, which brings

children from New York and Boston for weeklong visits to help with the farm's various activities, including cheese-making. The Tarentaise Reserve is, as its name says, a reserve cheese, made in limited quantities. Their regular Tarentaise, which is a bit younger, exhibits similar characteristics and is just as delicious. \$15 for a ½ pound, saxelbycheese.com

2. Second place went to the Farm at Doe Run in Pennsylvania for their St. Malachi. A hybrid Gouda/Alpine-style cow's milk cheese, aged 11 months in the farm's stone-quarry cave, it's a nutty brown-butter bomb with a firm, crumbly paste, made by a team that's leading the evolution of the state's artisan cheese industry. \$13.49 for a ½ pound, saxelbyartisan.com

3. From the Cellars at Jasper Hill, Harbison—a woodsy puck of pudding-soft pasteurized cow's milk cheese girdled in spruce bark—placed third. At the vanguard in its home state of Vermont and nationally, Jasper Hill has even sold American cheeses in Europe. The product is that good and they're that tenacious. \$22 for a 10-ounce wheel, saxelbycheese.com

4. The unofficial buzz was all about Briar Rose Creamery in Oregon, which took home several prizes. Lorelei, Briar Rose's meaty beer-washed square of silky goat cheese, may not have won a Best of Show this year, but it's always exciting to taste the next big thing. Limited availability throughout the U.S. If you see it, buy it!



She's a fan.



OFF DUTY

Carpet Diem

Seize on this update of an old-fashioned practice: upholstering with rugs, minus the Victorian fustiness

BY COURTNEY BARNES

UPHOLSTERED WITH overlapping Persian rugs, the reception desk that greets visitors to the Beekman, a newish Manhattan boutique hotel, exudes cozy glamour. Conceived by London's Martin Brudnizki Design Studio, the unique contemporary piece also nods to the Victorian era, when the hotel's landmark structure was built and carpets weren't used only underfoot. Back then, rugs were sometimes conscripted to clad furniture, and the monumental reception counter is a particularly ambitious example of this old technique made new. There are, however, sofas, ottomans and chests anyone can buy: simple, modern frames that wear a coat of carpet.

The ottomans inject color and texture into an otherwise neutral space.

The inclination of Westerners to lift rugs off the floor dates to at least the 15th century. Coveted examples imported from the Middle East were too precious for even the wealthiest Europeans to walk on, so the textiles swathed furniture or hung on the wall. The sumptuous rugs that drape tables in Vermeer's still lifes—and do the same thing amid steamy lovemaking in "Tulip Fever," a new film set in 17th-century Holland—aren't merely contrived props. But it was well-heeled Victorians who began upholstering their softly rounded chairs and sofas with Oriental rugs, often skirting the seats with long fringe.

Today's versions offer a less fussy alternative. Ottomans created by Calabasas, Calif.-based Amber Lewis, for example, juxtapose old

Turkish wool rugs with contemporary brass-covered bases; when designing interiors, she can install them among mid-century-modern or traditional furniture, typically pairing the stools with plain jute floor covering. The ottomans inject color, texture and warmth into an otherwise neutral space.

Artisans in Istanbul repurpose rugs on simple steel ottoman bases for ABC Carpet & Home's collection, Sent Sofia. And London's Guinevere Antiques specializes in covering new, cube-like chests of drawers with antique cotton dhurries.

"Clients often have old rugs or other heavier textiles sitting in storage," said Frances Merrill of Los Angeles firm Reath Design, who cited cost-effectiveness and sustainability as incentives for recycling carpets on custom upholstered pieces. "I like the faded colors you can get with a vintage rug," she added.

Krista Nye Nicholas and Tami Ramsay of Cloth & Kind Interiors sought vibrancy when they recently covered an ottoman in a vintage hot-pink-and-orange frazada for a contemporary farmhouse near Athens, Ga. The thickly woven wool fibers retained their color, and the eye-popping stripes, traditional in Bolivia, read as modern. "The beauty of vintage rugs is that they've already been well worn," Ms. Nicholas noted, "which makes them ideal for spaces used by children and pets, as well as more sophisticated rooms."

London designers Penny Morrison and Carolina Irving, passionate textile collectors, offer an eponymous line of new benches, large ottomans and chairs covered with antique Turkish striped flat-weaves. They do not alter fine rugs, preferring fragments. "We use pieces that are incomplete or not rare," said Ms. Morrison. Loathe to spoil a precious textile? Emulate Ms. Morrison (and Vermeer) and save the most precious rugs for walls and tables.

BENCH WARMER

A vintage Turkish wool rug tops a contemporary base. Chautauqua Ottoman, \$3,295, *Shoppe by Amber Interiors*, 747-226-3898



TESSA NEUSTADT (INTERIOR)

CLEAN SWEEP // MODERN, STREAMLINED TAKES ON A VENERATED TECHNIQUE



Kilim-Covered Mid-Century Florence Knoll Sofa from Berkshire Home & Antiques, \$9,800, 1stdibs.com



Bespoke Dhurrie-Covered Bedside Tables, about \$6,500 a pair, guinevere.co.uk



Floral Silk Carpet Ottoman \$1,998, anthropologie.com

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PARIS MILAN ROME FRANKFURT LONDON STUARTWEITZMAN.COM



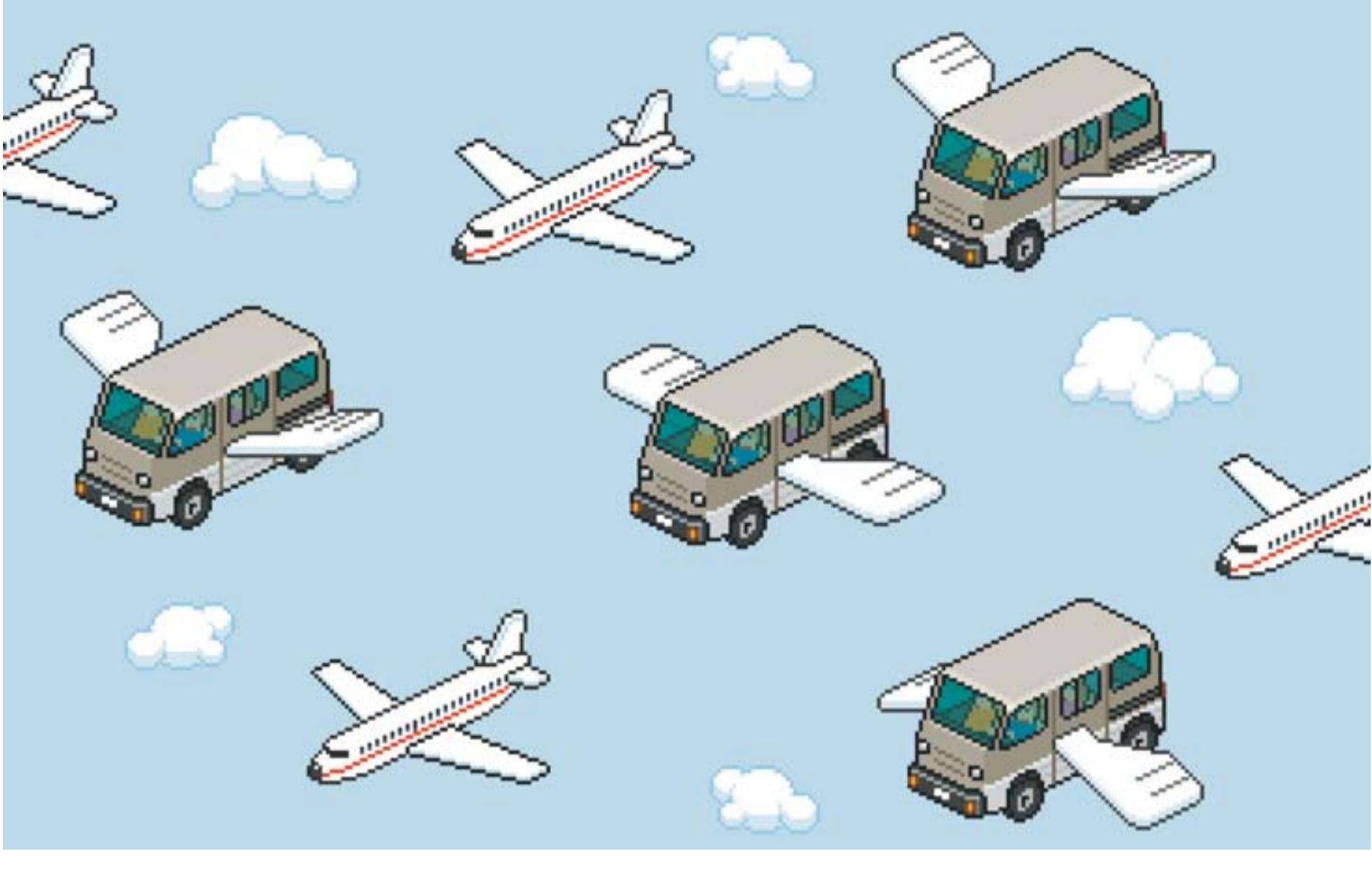
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OFF DUTY



Fly the Family-Friendly Skies

Forget the minivan. A new class of smaller, easier-to-pilot aircraft (that seat up to six) can make a getaway soar

BY JONATHAN WELSH

BUSINESS FLIERS eager to preserve their sanity despite a Beyoncé-like schedule have long justified the exorbitant expense of traveling by private jet. But shouldn't the same cost-benefit analysis apply to your most precious asset: vacation time?

Aircraft makers are betting that at least a handful of nerve-frayed

customers will think so. The market is admittedly rarefied—customers need at least a couple million to spend and the perseverance to train for a specialized but attainable pilot's license. Still, manufacturers are investing in a relatively new category of small but fast planes, often called VLJs (very light jets), aimed at highfliers who want to quickly ferry their families to holiday destinations that would tediously take hours to reach by other means.

Cirrus Aircraft began delivering

its SF50 Vision Jet, which seats five to seven people and flies at 345 miles an hour, late last year. A few months earlier, Honda Motor Co., better known for cars and motorcycles, rolled out the HA-420, a petite six-seater with a scorching top speed close to 500 mph—not to mention big-jet features like a bathroom generously sized for an adult contortionist.

Other companies, including small-plane pioneer Cessna, have gotten on board, too, shifting their

focus to the family-transport market. Unlike larger business jets generally meant to be flown by a pair of professional pilots, models like the Cessna Citation C2 and OneAviation's Eclipse 550 have relatively simple controls and automated systems that Mom or Dad can handle solo. (Some customers hire a pro to do the flying while they do Sudoku in the cabin.)

You can save a lot of time flying a VLJ. While a summer drive to the Hamptons from Manhattan can take

several hours in heavy traffic, a VLJ, soaring 20,000 feet above the crawling Fords and Chevys, can make the trip in 40 minutes. Los Angeles to Lake Tahoe? Drive eight-plus hours—or fly there in one. Lake Michigan's Beaver Island takes at least a day to reach by car from Chicago, Detroit, Milwaukee and Minneapolis. Compare that to roughly 60 minutes aloft—with no need to synchronize your travel to the ferry schedule.

In many cases, taking a VLJ that goes 400 mph is even more efficient than boarding a 600 mph commercial craft; small aircraft can land at regional airports major airlines don't serve, putting you closer to your final destination and enabling you to skip security checks.

Of course, there are prerequisites. Beyond the price of the aircraft, which start at \$2 million, you'll need the proper training. Start with a private pilot's license in a basic, easy-to-fly propeller-driven airplane, like a Cessna 172, then move on to a faster, more powerful airplane with complex features like retractable landing gear. To fly a VLJ (or any other jet), you'll need an instrument rating as well. Finally, specialized training for the specific type of VLJ that you buy is required.

While all that schooling may sound dreary, rest assured that, even if you're a complete neophyte, you can be flying a jet in six months if your schedule and budget allow it.

Here are some of the personal jets seeking to replace the minivan on your next big family trip.

HIGH AND FLY // FOUR STATE-OF-THE-ART SMALL AIRCRAFT TO COMMANDER FOR YOUR NEXT WEEKEND JAUNT



Cirrus SF50 Vision

The design of the Cirrus Vision clearly breaks with tradition. While most private jets typically have two engines, the Vision sports a single jet engine attached piggyback-style atop the fuselage. In the early days, plane engines were unreliable, so having two was safer than one. Today, jets rarely fail, but traditionalists (including the FAA) still prefer two-engine designs—it took some convincing to get federal approval for the Vision. If flying with a single engine gives you pause, rest assured that the Vision comes equipped with a parachute huge enough to slowly lower the entire aircraft in the event of an emergency. \$2 million, cirrusaircraft.com

Cessna Citation M2

Slipping into the cockpit of a Citation M2, it's hard not to feel like a bona fide airline pilot; the plane's broad dashboard and beefy control yokes scream "jumbo jet." However, this is still a small, entry-level airplane for Cessna, which has been developing its Citation business jets for more than 40 years. The M2 has an advanced iPad-style instrument panel and offers multiple automated systems to help solo fliers keep tabs on the machine without a co-pilot's help. This is especially key in the M2, which can travel at 460 mph and has a range of 1,500 miles—the longest of the production aircraft in this group. \$4.5 million, cessna.txtav.com

Honda HA-420

Instead of mounting the twin jets to the sides of the fuselage as most private jet-makers do, Honda decided to attach its HA-420's to pylons on top of the wings. The unique design helps the plane fly faster and run quieter, while leaving room for a bathroom in the cabin, according to Honda. The company also applied decades of car-building experience and techniques to make the aircraft's production as efficient as possible. One clear benefit: Even competitors acknowledge the aircraft's high-end fit and finish—not to mention the category-leading top speed of 486 mph. \$4.5 million, hondajet.com

Stratos 71

A proof-of-concept model of the Stratos 714 was introduced at July's big aviation trade show, AirVenture, to much buzz. The final version of this single-engine, six-seat aircraft is slated to have a top speed of 460 mph and a 1,700-mile range. The prototype hasn't quite reached those specs, said a spokesperson, but should as test flights continue. Built with owner-operators in mind, the Stratos 714 was specifically designed to be easy to handle, with "docile flight qualities." The company is seeking additional funding from investors as it embarks on its next round of tests. Price TBD, stratosaircraft.com

MY TECH ESSENTIALS

RANDY NEWMAN

The singer and songwriter, whose album 'Dark Matter' was recently released, on his favorite baseball podcast and the charisma of Steve Jobs

When I want to entertain myself, music isn't what I turn to; it isn't what I listen to to relax. It's always seemed like work to me. Now I listen to podcasts. I like "Baseball Tonight With Buster Olney." There are bad baseball shows that are guys yelling, but this show is pretty good.



When I started out, movie studios didn't require composers to demo much, but now they want to hear exactly what a song is going to sound like. They don't get bad surprises in the studio, but they don't get any good ones, either. I use a music program called Digital Performer in a fairly rudimentary way. I have to get someone to do a polished version; mine sounds like it's coming out of my ass or my nose.

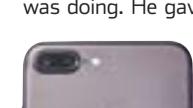
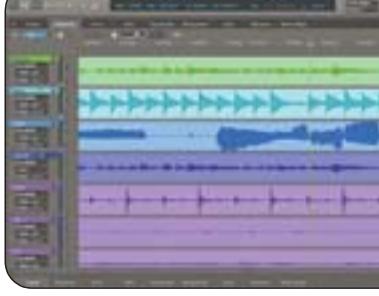


I played a 9-foot Steinway Model D Concert Grand [similar model shown] in Santa Barbara around 1998, and I said, "Jesus, this is a great piano. If it's ever for sale, let me know." They did and I bought it. It has a full bass but not a muddy one. The top end is bright, but it isn't brittle sounding. It can do a nice pianissimo and you can bang away and make a lot of noise. I write music on it. If I ever do play for fun, God help me, I'll play that one, too.

I don't use social media, which is undoubtedly a mistake on my part if I want to be successful. People have to make their money on the road [touring], as do I, and it's stupid of me not to have gotten into Facebook or Twitter. However, I've got a big family, five kids from ages 22 to 50, and I've got grandchildren. I've got, uh—what the hell is it?—Instagram! I look at pictures of them there sometimes.

I haven't been driving because for a while I was falling asleep. I think it was sleep apnea, which I've taken care of. So I've been taking Uber. I'm going to try Lyft. I talked to a guy who drove for both; he said they're the same.

I knew Steve Jobs from the times I played Apple product unveilings. To say he was charismatic is a cliché, but I'll tell ya, he was inspirational in a way. He was so enthused about what he was doing. He gave me my first iPhone. I just got a big one, the iPhone 7 Plus. I think it's too big for my hand. It's like the human brain, where they say we use one third of it. I use one 10th of what the iPhone can do. —Edited from an interview by Chris Kornelis



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THE WALL STREET JOURNAL.

I cannot endure to waste anything so precious as autumnal sunshine by staying in the house.
—Nathaniel Hawthorne

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BIG PLANS Oliver and Dianna Von Troll take a hard-hat tour of their condo in the Auberge Beach Residences and Spa in Fort Lauderdale, Fla., above. To convince them to buy, the developer allowed them to buy two units, combine them and have the building's architect draw up a new, customized floorplan for their condo. A rendering of the pool at the under-construction Auberge, below.

A High-Rise Built for Me

In a bid for wealthy suburbanites, some city developers let buyers customize almost every aspect of a luxury condo before closing: getting that 'humongous' closet.

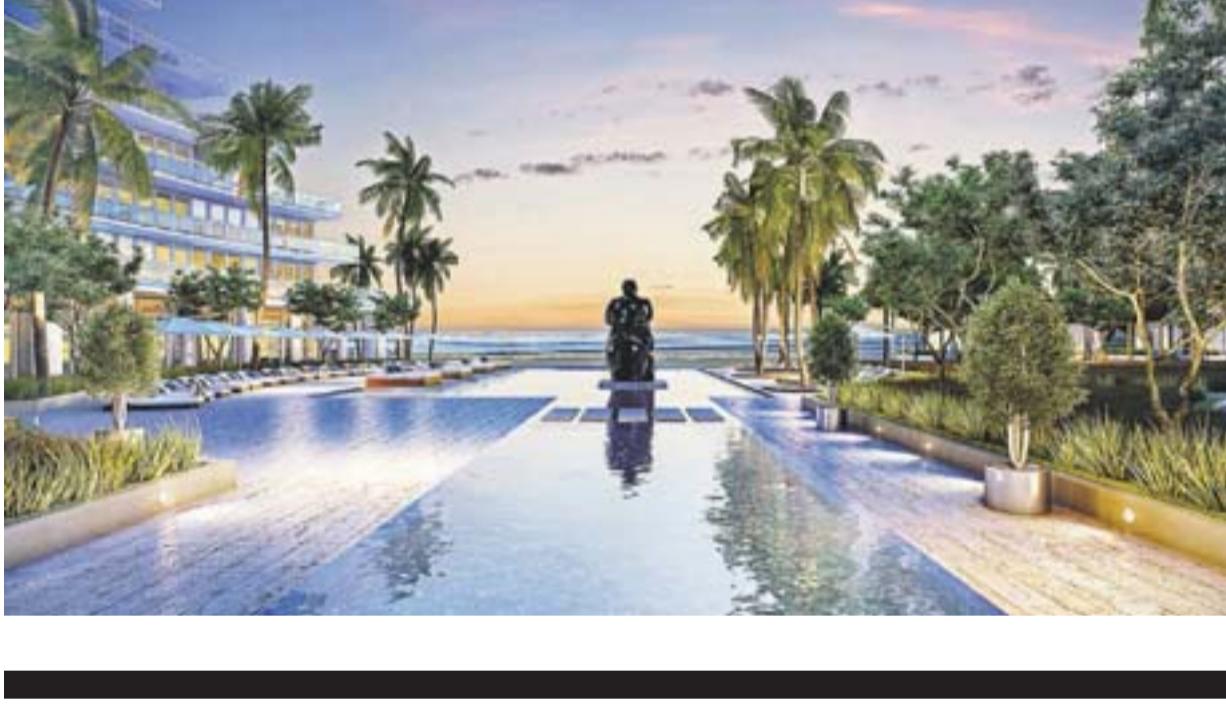
BY KATY MC LAUGHLIN

OVER THE COURSE of 2½ years, Oliver and Dianna Von Troll met with the director of sales at Auberge Beach Residences and Spa, a luxury condominium building under construction in Fort Lauderdale, Fla., more than 10 times. Yet they still wouldn't make an offer.

"Nothing really met our needs," said Mr. Von Troll, 46, a builder of high-rises who said his work in the industry has given him very specific tastes. In February, sales director Wendy Marks hit upon a solution: The Von Trolls could buy two units, combine them and have the building's architect draw up a new floor plan. Satisfied, the Von Trolls paid \$5.2 million for a 4,700-square-foot condo.

After years of marketing turnkey, designer-finished condos to high-end buyers, a handful of developers are going dramatically in the other direction, offering extreme levels of customization before the building is even completed. The switch is a bid to attract wealthy downsizers, who developers say are a target market for luxury

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ARTISTS WERE KEY TO HACKNEY'S RISE

The London borough, once the scene of urban grime, is undergoing a rebirth; a preserved shark provides a spark.

BY RUTH BLOOMFIELD

LONDON'S BOROUGH of Hackney, once a byword for deprivation and urban grime, is now a mecca for creative types, foodies and young professionals. And it was artists—young, hip, and financially challenged—who laid the foundations for this rebirth.

At just over seven square miles, Hackney is one of London's smaller boroughs, and traditionally one of its cheapest. In 2007, the peak of the housing boom, an average property cost just under £309,000, or about \$400,000, compared with the Greater London average of just over £353,000, according to research by Hamptons International.

Today the average home in the east London borough costs almost \$800,000, nearly double the average in 2007. The Greater London average stands at just over \$764,000, a 67% increase.

"Hackney really was a no-go area," said Neil Wilson, branch manager of Fraser & Co. estate agents. "There were a lot of halfway houses, a lot of crime. It was

a place that nobody really wanted to delve into. Then it just escalated."

The metamorphosis began in the late 1980s and early 1990s, when a loose collective called the Young British Artists began exhibiting together. Their work was often shocking and headline friendly—think Damien Hirst's preserved shark and Tracey Emin's disheveled bed. Many of these artists moved to Hackney's Hoxton neighborhood, a former Victorian slum, where they could find cheap workspace in former warehouses only 3 miles from central London.

In 2000, the White Cube Gallery opened on Hoxton Square showing work by Hirst, Emin and all the Young British Artists. "Hoxton—which had previously been a little bit forgotten, seen as a little bit run down and unpleasant—suddenly got this reputation as the center of contemporary art in London," said Martin Phillips, branch manager of Fyfe McDade estate agents. This reputation has helped boost

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SCHOOL'S OUT In Hoxton, a two-bedroom apartment within a former Victorian schoolhouse is listed for about \$2.59 million.

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A light-filled loft with room for dancing



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ARTISTS WERE KEY TO HACKNEY'S RISE



SCENES FROM HACKNEY

The Hackney Peace Carnival Mural in Dalston, far left, was painted in 1985. Friends of Ours coffee shop in Hoxton, above, serves pork-belly tacos, left.



LEAFY SETTING Victoria Park offers row boats and pedal boats for rent. Homes in Victoria Park Village sell for a premium.

Continued from page W9
prices in Hoxton to around \$1,300 to \$1,550 per square foot.

Mr. Phillips' clients tend to work in one of London's financial districts and want a home that has "already been polished up."

Currently on the market for \$2.59 million is a two-bedroom, 2,003-square-foot apartment within a former Victorian schoolhouse. The property, listed by Chestertons, features warehouse-style, open-plan living space.

As the Hoxton and adjacent Shoreditch neighbor-

hoods became unaffordable, young artists migrated farther east, colonizing new areas like wildfire. "The speed of it was just incredible," said Mr. Wilson.

One of those places is Dalston, originally a country village that was subsumed into the sprawl of London during the 18th and 19th centuries. Throughout the 20th century, immigrants arriving in Britain gravitated toward Dalston because of its low prices and high concentration of public housing.

Its reputation wasn't good. Richie Tramontana of

Red Property Partnership, recalls when part of the Kingsland Road, which runs through Dalston, was nicknamed the "murder mile" thanks to a spate of fatal stabbings and shootings.

Kingsland Road is now better known as a burgeoning foodie mecca, lined with highly rated independent cafes and restaurants plus hip bars and pubs.

Dalston's dramatic about-face was helped along by the opening of the East London Line in 2010, which gave the area two train stations and put it on the map with buy-

ers and developers.

Mr. Tramontana said buyers tend to be middle-class, professional couples who like the area's Victorian housing stock and have seven-figure budgets. A two-bedroom, 751-square-foot cottage is currently listed with Hamptons International for \$2.5 million.

Meanwhile, property developers have also seen the potential in Dalston and are rapidly replacing the worst of its public housing (and, controversially, some historic buildings) with new apartments. These are popu-

Going Up in London

How the average home price has risen in the past decade.

| | 2007 | 2017 | % increase |
|----------------------|-------------|-------------|------------|
| Hackney | \$399,704 | \$795,242 | 99% |
| Prime Central London | \$1,065,230 | \$2,219,110 | 108% |
| Greater London | \$456,974 | \$764,310 | 67% |

Source: Hamptons International and Land Registry



the rest of Hackney because of its larger Victorian townhouses," explained Chris Manderson, sales manager of Foxtons estate agents who estimated that a four-bedroom house in the heart of "Victoria Park Village" would cost an average \$2.3 million.

The 21st century has seen a tremendous change in the fortunes of Hackney, but few believe its ascent can continue indefinitely.

"I don't think that it can keep going at the rate of knots that it has for the last few years," said Mr. Manderson, who blames Brexit-related turbulence for the slowdown.

On the other hand, U.K. buyers priced out of Prime Central London are starting to explore Hackney, and Mr. Manderson said he believes simple economics will encourage overseas buyers to follow suit. "It is still affordable, in the grand scheme of London," he said.

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CRYSTAL PALACE The exterior, above; a painted tile of an ancient Chinese scene in the garden, right.

LIVING HISTORY

A Shanghai Mansion With a Tumultuous Past

First a merchant's home, then a museum criticizing bourgeois excess, Crystal Palace is now on the market for \$24 million

BY JAMES T. AREDDY

THE 8,600-SQUARE-FOOT mansion known as Crystal Palace is a monument to Shanghai's tumultuous swings from capitalism to communism, back to somewhere in between. Built for hat merchant Ye Fukang just months before Mao Zedong took power in 1949, it's now on the market for 160 million yuan, or around \$24 million.

Mr. Ye and his six wives survived communist rule until 1966, when Mao's Red Guards tossed them out to use the house as a museum criticizing bourgeois decadence. It got a new name meant to disparage: Crystal Palace.

The mansion is centrally located in a former colonial district called the French Concession. A frieze of imperial lions high on its broad brick face survived, as did Art Deco floors inlaid with copper and chinoinerie tile lining the walled garden.

"You came through the main gate, around the grass garden and into the front room," recalls the owner's son, 82-year-old Jimmy Ye, pointing to the spot with a 15-foot ceiling where he was married. Feeling the contours of hand-rounded bricks and steel window frames, Mr. Ye added, "The Italian columns rise straight up to the Chinese-style lions. It's a mix of East and West."

There's no trace today of the hat-maker's Czechoslovakian glass sculptures, prized chandeliers or clock collection, nor his oversized canopy bed with dragon carvings.

In the first months of Mao's Cultural Revolution, the family's prized possessions were stolen or



smashed. Mr. Ye was cast as an enemy of the state for his Cornell University law diploma and merchandising background. He spent his remaining years in jail, where he died in 1975, a year earlier than Mao. Chinese authorities later reversed the verdict on Mr. Ye.

The house now has landmark status, but its four floors of boxy rooms and service wing stand derelict. Half-hearted renovations date to the early 1980s when it was barracks for People's Liberation Army officers and their families. A dozen water faucets pour into a communal wash basin that is awkwardly jammed atop cracked ceramics painted with scenes of ancient China. Steel girders prop up the main stone gate.

The Ye family eventually regained title to Crystal Palace, but the only person living there is a guard whose bamboo mattress oc-

cupies an old dining room.

Currently owned by a Hong Kong-registered corporation, the leasehold continues until 2080, according to the agency Savills, which has the listing.

Savills agent Roy Zhao estimates taxes will exceed 20 million yuan, or \$3 million, on top of the sales price. In a city where luxury properties can sell for over \$2,800 per square foot, Mr. Zhao says, "the price is not actually that high."

The home will require extensive renovations, and the buyer should expect to face painful choices like whether to keep the original tile or install in-floor heating.

"I hope whoever takes over the house can restore it to what I remember, but it will be difficult," says Mr. Ye.

—Yifan Xie contributed to this article.

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SCANNAPIECO DEVELOPMENT CORPORATION

FLEX SPACE 500 Walnut, a high-rise in Philadelphia, is designed to be highly customizable; it has 10 fewer columns than a traditional building its size to allow for greater flexibility. Above, a rendering of a full-floor unit at 500 Walnut shows one possible configuration.

A HIGH-RISE BUILT FOR ME

Continued from page W9

downtown living, but who can be reluctant to give up the custom-built suburban homes they are used to.

Some developers are anticipating such demands from day one, engineering their buildings to accommodate buyers who want to enlarge rooms, move kitchens and bathrooms, or combine units. In buildings already under construction, other developers are willing to eat some of the costs incurred when buyers redraw where the walls will go.

Wayne Mailloux, a 69-year-old

retired executive, and his wife Penny, a 69-year-old retired teacher, were ready to move out of their 10,500-square-foot home in a suburb near Scottsdale, Ariz.

Their destination was the Optima Kierland, a building slated for completion next March in the upscale North Scottsdale neighborhood. They liked the idea of being able to walk to restaurants and movies, said Mr. Mailloux. What they didn't like: The largest units in the building maxed out at 1,709 square feet.

"We've grown accustomed to space, and we like to entertain,"

said Mr. Mailloux.

The solution was for the couple to buy three three-bedroom units and two one-bedroom units and combine them into a three bedroom, 6,574-square-foot unit with three terraces. The Maillouxes hired their own interior designer to create a plan to reconfigure the space. Mr. Mailloux declined to discuss what they spent on the condo. Three bedroom units in the building have sold for an average of \$930,000, and one bedrooms for \$350,000, said Mike Akerly, regional manager at Polaris Pacific, a San Francisco-based company which is

handling marketing and sales for the Optima. Typically discounts aren't given to buyers who combine units, he said, adding that about 30% of buyers have combined two to five units.

The building also charges \$75,000 for the first combination of two units, plus \$25,000 for each additional unit to be combined. This fee covers the cost of resubmitting plans for city permits, and mechanical and engineering work to accommodate a client's design, said Mr. Akerly.

"They have allowed us to make it into our home," Mr. Mailloux said.

Selling unfinished space isn't unusual in new buildings: Many high-end condos are delivered to buyers after closing in what the industry dubs a "white box" state, which means that the unit has sub flooring and "throw away" bathrooms and kitchens only intended to satisfy municipal codes and which will likely be replaced, said Shaun Osher, chief executive of CORE real-estate brokerage in New York City.

The difference between this type of sale and what developers are doing today is that buyers are able to finish units to their specifications before closing. That way buyers don't have to carry the costs of a condo while they renovate, and they have more flexibility if the building is designed to make it easy to move kitchens, bathrooms and walls around.

Tom Scannapieco gambled that customization would be key to convincing well-heeled suburban buyers to pay unprecedented prices for Philadelphia condos.

The developer completed his first customizable high-rise in the city, 1706 Rittenhouse, in 2013. A penthouse in the building sold for a city record of \$12.5 million in 2010.

His next Philadelphia high rise, 500 Walnut, which will start seeing buyers move in next month, follows the same concept. A penthouse at 500 Walnut went into contract last year for \$17.85 million, blowing past his previous record. Prices for units in both buildings were "unprecedented for Philadelphia," said Mike McCann,

an agent at Berkshire Hathaway HomeServices, Fox & Roach Realtors, who is currently representing a three-bedroom condo at 1706 Rittenhouse for \$7 million.

To make 26-story 500 Walnut more customizable, Mr. Scannapieco said he doubled his plumbing costs so buyers had the option of moving bathrooms 30 feet from the pipes, rather than a more traditional 8 feet. The building was engineered with 10 fewer columns than a traditional building its size, Mr. Scannapieco said, so that buyers would have the option of expanding rooms. Doing so meant he had to thicken the concrete between floors, which is expensive, he said. Ceilings conceal an 8-to-9-inch cavity, Mr. Scannapieco said, designed so buyers can run wiring

and pipes through rooms, adding to the flexibility. These engineering elements added roughly 10% to the cost of the building, Mr. Scannapieco said.

Mr. Scannapieco said the costs are worth it: He is able to charge a 30% to 50% premium in the market because of the customization, high-end finishes and luxury services his buildings offer.

The goal was to attract buyers like Joan Carter and her husband John Aglaloro, entrepreneurs who have lived for 30 years in a large suburban home in Haddonfield, N.J. The couple was looking to move into Philadelphia—their first foray ever into city living—but were turned off by "cookie cutter things" they saw on the market, Ms. Carter said.

When the couple met with the sales team at 500 Walnut, the developer paid an architect to provide them with a free consultation to sketch out a redesign of the floor plan. Once they decided to buy, they hired their own architect who designed a back hallway where caterers and workmen could enter without going through the main living space, a large office and a wine cellar for roughly 700 bottles.

Ms. Carter declined to say what the couple spent on their condo, which should be finished in the first quarter of next year. Thus far, floor-through units, such as the one Ms. Carter bought, have sold for between \$6.6 million and \$9 million, said Mr. Scannapieco; the building is two-thirds sold. Almost all the buyers have spent over \$400,000 on customization, and some have spent as much as \$1.5 million, Mr. Scannapieco said. Resales, even of highly customized units at 1706 Rittenhouse, have been strong because buyers in these buildings "use top architects and top designers and don't do silly, tacky stuff," said Mr. McCann.

Mr. Von Troll said the customization plan finally convinced him to buy because it solved his main problem: While he and his wife wanted Auberge's amenities, they were loath to give up their current condo nearby, which Mr. Von Troll said had all the specific features they love.

Out of 127 buyers thus far in Auberge's two towers under construction, eight of them have combined units. Clients who combined units and asked for redrawn floor plans early on in the process paid far less in customization costs than they would today now that construction is further along, said Ms. Marks.

The Von Trolls's customized floor plan provided their must-have items, including a 1,500-square-foot master suite, which will include a "humongous closet" of roughly 400-square feet, Mr. Von Troll said. It will be oriented east to west, "so I can see the sunrise and sunset," plus a "nice big terrace" looking right out over the ocean, he said.

"We're looking for a house in the sky, basically," said Mr. Von Troll.



COMBINATION DEAL Wayne and Penny Mailloux tour their under-construction condo at the Optima Kierland in Scottsdale, Ariz. They combined five units to create their unit of more than 6,500 square feet.

