

# THE WALL STREET JOURNAL.

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## What's News

Business & Finance

The SEC is investigating allegations by PepsiCo's former lawyer that she was fired in retaliation for the way she handled an internal probe into potential wrongdoing in Russia. A1

◆ Schäuble is set to step down as Germany's finance minister in the wake of the country's election. A1

◆ Apple hit a production snag with components crucial to its new iPhone X's facial-recognition system. A1

◆ Property developers in China face a wave of bond repayments alongside stricter lending rules, posing a risk to the country's economy. B1

◆ Siemens and Alstom are set to merge, aiming to create a European giant to fight competitive threats from state-backed Chinese rivals. B1

◆ Ginnie Mae is reviewing lenders who push military veterans to refinance their home loans, leading the borrowers to rack up thousands of dollars in fees. B1

◆ The Dow fell 25 points to 22261 in midday trade, on track to extend a four-session losing streak. B5

◆ Twitter said it would begin testing 280 characters, doubling its current limit. B4

◆ The U.S. is the second most competitive economy in the world, trailing only Switzerland, according to a World Economic Forum index. B3

### World-Wide

◆ A Republican plan to overhaul the U.S. tax code proposes to sharply reduce tax rates on businesses and many individuals. A1

◆ U.S. officials emphasized the urgency of attempts at diplomacy to ease tensions with North Korea. A3

◆ Macron's government presented its first budget, bolstering France's leverage within the EU by shrinking the state and freeing up the economy. A4

◆ Republicans' latest push to dismantle the ACA sputtered to an end when Senate GOP leaders canceled a vote on the bill. A6

◆ Lawmakers are calling on the Trump administration to permit foreign-flagged vessels to ship aid to Puerto Rico. A7

◆ Alabama voted to nominate Moore for a U.S. Senate seat, rebuking Trump's support of Strange. A6

◆ May was "bitterly disappointed" by a U.S. decision to place punitive import duties on a new Bombardier jetliner. A4

◆ Trump plans to set the cap for refugee admissions for the coming fiscal year at 45,000, the lowest in decades. A7

◆ Ninety-three percent of Kurds voted in favor of independence from Iraq, in a referendum that has provoked backlash from the region's neighbors. A5

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# Trump Champions Deep Tax Cuts

Corporate rate would fall to 20% from 35%; taxes on wealthy would be reduced

By RICHARD RUBIN

WASHINGTON—A sweeping Republican plan to overhaul the U.S. tax code proposes to reduce tax rates sharply on businesses and many individuals, kicking off an effort by President Donald Trump and

lawmakers to build momentum for a challenging legislative push in the months ahead.

The plan calls for a 20% corporate tax rate, down from 35% today. Other businesses, which pay their taxes through the individual returns of their owners, would get a 25% top rate with unspecified rules that would prevent some wealthy business owners from paying that rate on what is considered wage income.

The individual tax rates would be set at 12%, 25% and

## Policy Matters

- ◆ GOP scraps vote on health-law repeal..... A6
- ◆ Insurers make final calls on ACA plans..... A6
- ◆ Puerto Rico rushes to patch up health care..... A7

35%, with the option of a fourth higher rate on the highest-income households, collapsing the individual tax structure from the current seven brackets to three or

four. The plan would repeal the estate tax and provide a one-time tax on U.S. companies' stockpiled foreign earnings.

The framework is designed to make the tax system simpler by repealing the alternative minimum tax and nearly doubling the standard deduction to \$12,000 for individuals and \$24,000 for married couples. The child tax credit would also be increased while personal exemptions would be repealed.

Democrats bashed the framework as full of giveaways to the wealthy, and they are unlikely to give Republicans much help in passing a tax bill, forcing the GOP to work within its narrow majorities.

"As the sun rises in the east, so will you have a partisan Republican plan that cuts taxes disproportionately for the well-to-do, the very rich, the top of our economic system," said Sen. Ron Wyden of Oregon, the top Democrat on

Please see TAXES page A6

## Thousands Evacuate After Fire at Ukraine Ammunition Depot



IN FLAMES: Authorities evacuated 30,000 people from Kalynivka, a town 120 miles southwest of Kiev, after a military depot caught fire.

## Production Glitch Hits Apple's iPhone X

By YOKO KUBOTA

BEIJING—Apple Inc. hit a production snag with components crucial to its new iPhone X's facial-recognition system, people familiar with the situation said, adding to concerns about extended shortages when sales begin early in November.

The components, known as Romeo and Juliet among Apple engineers and suppliers, work together to allow users of the latest iPhone to unlock their devices by scanning their faces, the people said. It has taken more time to assemble the Romeo modules than the Juliet modules, they said, creating an imbalance in supply.

That has created a bottleneck in the creation of the iPhone X. Please see IPHONE page A2

## German Finance Minister To Leave in Wake of Vote

By MARCUS WALKER AND STEFAN LANGE

BERLIN—Wolfgang Schäuble, one of the most powerful policy makers in the euro currency zone, is set to step down as Germany's finance minister in the wake of the country's election, ending an era in which the veteran conservative shaped Europe's response to its debt crisis.

Chancellor Angela Merkel's conservative party said it will nominate him as president of the Bundestag, Germany's lower house of parliament, a role that is the equivalent of parliamentary speaker in other countries. Mr. Schäuble has indicated his willingness to accept the nomination, according to a statement from the Christian Democratic Union and its Bavarian sister party

## Angst Powers Right-Wing Resurgence

Alternative for Germany voters express broad dissatisfaction with the government and immigration, and less with pocketbook issues. A4

- |                           |                       |                    |
|---------------------------|-----------------------|--------------------|
| ● Alternative for Germany | ● Christian Democrats | ● Social Democrats |
| ● Free Democrats          | ● Greens              | ● Left             |

### Percentage of voters who are dissatisfied with how democracy is functioning

11% ● 80% ●

### Percentage of voters who prefer national borders over a country open to the world

7% ● 85% ●

### Percentage of voters who aren't satisfied with their personal economic situation

8% ● 26% ●

Source: ARD/Infrasat dimap

THE WALL STREET JOURNAL.

the Christian Social Union.

The election delivered a blow to the conservative alliance, handing it its worse re-

sult since 1949 and weakening its bargaining position in talks about forming a new government.

Please see GOVERN page A4

By Andrew Ackerman, Joe Palazzolo and Jennifer Maloney

Maura Smith, who was PepsiCo's general counsel from May 2011 to June 2012, oversaw outside lawyers hired by the company to dig into business practices at Wimm-Bill-Dann, a big Russian maker of dairy products and juices that PepsiCo spent about \$5 billion to acquire in 2011, the documents show.

The Securities and Exchange Commission is looking at allegations that Ms. Smith was ousted because her work on the probe rankled others at PepsiCo, people familiar with the matter said. The inquiry is at an early stage and is focused on the circumstances of Ms. Smith's dismissal, the people said, and may not lead to any enforcement action.

"PepsiCo did not engage in any retaliatory conduct and any allegations to the contrary are untrue," the company said in a statement. "The company is cooperating with the SEC investigation." PepsiCo said Ms. Smith's departure wasn't related to "any dispute or disagreement" over the internal investigation.

PepsiCo said it looked into allegations of misconduct at the Russian company believed to have taken place before it bought the firm. "As soon as PepsiCo became aware of the conduct, it fully investigated and remediated the issues,

Please see PEPSI page A2

## THE CENTER OF AMERICA'S RETAIL CARNAGE

Elmira, N.Y., is more exposed to 2017's brick-and-mortar crash than almost anywhere

By VALERIE BAUERLEIN

To understand the ripple effects of the collapse in traditional retail, look no further than Elmira, N.Y.

The city, perhaps best known as the hometown of American fashion icon Tommy Hilfiger, is more exposed to the national retail carnage than almost anywhere else in the U.S.

Elmira and the surrounding Chemung County, whose economy depends on a sputtering mall, have lost hundreds of retail jobs over the past five years, earning a ranking as one of worst markets in the U.S. when mea-

sured by percentage of retail jobs lost, according to the Bureau of Labor and Statistics. Sales-tax collection has plunged as stores have closed, forcing deep cuts to police and other services.

"It was your Mayberry. You leave your door open and not worry about anything," says Joe Pisceski, 56, who quit his native Elmira after a layoff and moved to Myrtle Beach, S.C., for a job managing sales at a party balloon company. "It's not that way now."

For decades, Elmira was a quintessential manufacturing boomtown. Factory workers

Please see RETAIL page A8

Please see WEED page A8

Luxuriate in The Richness Of Weeds  
\* \* \*

Vermont farmers grow milkweed for use in clothing

By JENNIFER LEVITZ

Each fall, as foliage turns and Vermont teems with tourists, the state's farmers take pride in showing off their fetching fields of hay and corn. In the slanting sun, the crops call to mind the heyday of impressionist painters.

Take a closer look, and you may see something they're a little less proud off—fields of milkweed, sometimes strategically tucked out of view.

Thanks to Canadian clothing companies, some farmers in this bucolic state are setting aside acreage—and their aesthetic biases—to cultivate a homely weed they have long

Please see WEED page A8

## Oracle #1 SaaS Enterprise Applications Revenue

#1  
Oracle Cloud 14.5%

#2  
Salesforce Cloud 12.4%

1,000+ Employees Segment, 2015

ORACLE®

oracle.com/applications

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

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## WORLD NEWS

# U.S. Jet Duties 'Disappoint' U.K.'s May

Prime minister says decision puts jobs at Bombardier's Northern Ireland plant at risk

BY JENNY GROSS

LONDON—British Prime Minister Theresa May said she was "bitterly disappointed" by a U.S. decision to place punitive import duties on a new jetliner made by Canada's **Bombardier** Inc., putting thousands of jobs at a Northern Ireland factory at risk. Her defense secretary said the ruling could jeopardize **Boeing** Co. contracts with the U.K.

The preliminary ruling by U.S. trade officials to side with Boeing in a trade spat with its Canadian competitor Bombardier has political ramifications for the British leader, whose minority government relies on support from a small Northern Irish party, the Democratic Unionists, to pass key legislation.

"The government will continue to work with the company to protect vital jobs for Northern Ireland," Mrs. May said in a tweet published by her office's verified Twitter



Prime Minister Theresa May, seen Tuesday, needs a Northern Ireland party's support to pass legislation.

TOM NICHOLSON/LONDON NEWS PICTURES/ZUMA PRESS

account on Wednesday. Bombardier's Northern Ireland factory, which employs 4,200 people, produces 10% of the region's total manufacturing exports.

Aside from creating a headache for Mrs. May as she seeks to pass legislation on her country's withdrawal from the European Union, the decision could also foreshadow complications as the U.K. and the

U.S. prepare to expand trade ties once Britain has left.

The dispute underscores the potential for disagreements in industries like aviation, financial services and agriculture based on President Donald Trump's pledge to protect American jobs.

Arlene Foster, head of the Northern Irish Democratic Unionists, said the U.K., Canada and the U.S. must con-

tinue to work together to find a solution. "Bombardier jobs vital for Belfast," a message from her Twitter account said. She said her party would use its influence in government to protect the jobs.

U.K. Defense Secretary Michael Fallon, speaking in Belfast, Northern Ireland, said Boeing's challenge could put at risk the company's defense contracts with the U.K.

"This is not the behavior we expect from Boeing and it could indeed jeopardize our future relationship with them," Mr. Fallon said. "Boeing has significant defense contracts with us and still expects to win further contracts. Boeing wants and we want a long-term partnership but that has to be two way."

A spokesman for Boeing U.K. said, "We have heard and understand the concerns from the prime minister and the government about Bombardier workers in Northern Ireland.

"Boeing is committed to the U.K. and values the partnership, which stretches back almost 80 years."

A bilateral trade agreement, which U.S. and U.K. officials have said could be implemented soon after Brexit in early 2019, would allow the U.K. to show that leaving the EU has given it more leeway to expand trade with non-EU countries. The U.S., meanwhile, could use any agreement to say that bilateral deals, as opposed to multinational ones, help create jobs for Americans.

Hugo Swire, a Conservative lawmaker, said the trade spat "does not bode well for any

U.K.-U.S. trade deal." Labour leader Jeremy Corbyn said the U.K. should stand up to the U.S. in the dispute. "If the special relationship means anything, it must mean that we can say to Washington: that way is the wrong way," Mr. Corbyn said at the party's annual conference on Wednesday.

The Northern Ireland factory makes parts for Bombardier's new CSeries jetliner. The U.S. government said it planned to impose a 220% tariff to the cost of the jet after Boeing complained last year that Bombardier was selling it too cheaply and had unfairly benefited from Canadian government support.

Bombardier, based in Montreal, said it strongly disagreed with the trade ruling in favor of Boeing, based in Chicago. "The magnitude of the proposed duty is absurd and divorced from the reality about the financing of a multibillion-dollar aircraft program," Bombardier said. The Canadian government said Boeing's claim is motivated by its desire to stifle competition to its own Boeing 737 passenger jets.

—Doug Cameron and Jacquie McNish contributed to this article.

## PEPSI

*Continued from Page One*  
none of which were material to PepsiCo's financial statements," PepsiCo said.

When PepsiCo announced Ms. Smith's departure in 2012, the company said she was resigning to pursue other opportunities. Her separation agreement, signed four months after her exit, entitled her to nearly \$6 million in cash payments, regulatory filings show. The agreement prevents the company and Ms. Smith from disparaging one another.

Some people familiar with Ms. Smith's tenure at PepsiCo described it as stormy and marked by conflicts with other executives. They said that Ms. Smith's employment had been in question for months leading up to her exit.



GETTY IMAGES FOR GOTHAM MAGAZINE

Maura Smith in 2015.

Others familiar with Ms. Smith's time at the firm said she was an experienced general counsel who quickly endeared herself to PepsiCo Chief Executive Indra Nooyi. But executives turned on her as the Russia investigation wore on, they said. Before joining the Purchase, N.Y., company, Ms. Smith served as general counsel for eight years at International Paper Co. and for five years at Owens Corning.

PepsiCo has assembled a team of high-profile lawyers to represent the company in the SEC investigation. The team includes Mary Jo White, who stepped down as the chairman of the SEC in January and is now a partner at Debevoise & Plimpton LLP. It also includes partners at Wilmer Cutler Pickering Hale and Dorr LLP, known as WilmerHale.

Ms. Smith, 61 years old and now in private practice, was subpoenaed this year by the SEC and met with government lawyers as part of an agency investigation of whether employment contracts at major U.S. firms discouraged employees from reporting wrongdoing, according to a memo prepared by WilmerHale and the people familiar with the matter.

The memo, which was dated Aug. 31, and other documents were mistakenly sent by a WilmerHale attorney to a Wall Street Journal reporter as part of communication to other attorneys working on the matter. The memo said the SEC "now appears to be focused on allegations by Ms. Smith that she was retaliated against in violation of the SEC's whistleblower rules."

## On the Run in the West Bank



PURSUIT: An Israeli soldier chases a Palestinian protester during clashes at a demonstration near the West Bank town of Tubas.

## IPHONE

*Continued from Page One*  
for the iPhone X's mass production, according to one person, which could crimp supplies beyond typical initial shortfalls when the phone is released Nov. 3.

Apple based in Cupertino, Calif., declined to comment.

The production problems are the latest glitch as Apple and its suppliers rush to load the flashy new features into the flagship model that carries high stakes for Apple.

New iPhone 8 and iPhone 8 Plus models went on sale last week, but the new high-end iPhone X won't be available until Nov. 3 following production troubles this summer involving its screens, which are using organic light-emitting diode, or OLED, technology, as The Wall Street Journal recently detailed.

There was also a hiccup during Apple's launch event Sept. 12, when the iPhone X failed to fully unlock the first time the company's top software executive used it before the audience. Apple later said the Face ID technology had been inadvertently disabled beforehand.

The handset, which commemorates the 10th anniversary of the iPhone, is Apple's most advanced yet and has several features that weren't on previous phones, adding to the level of difficulty in manufacturing them.

Apple's plan to launch the iPhone in more than 55 countries and territories Nov. 3 suggests it is confident it can meet demand, Sanford C. Bernstein & Co. analyst Toni Sacconaghi said in a recent note.

But "if iPhone X availability issues persist beyond Nov. 15 and into the holiday season, we could see some frustrated iPhone users consider switching to other offerings," possibly weakening sales estimates, Mr. Sacconaghi said.

The Romeo and Juliet modules at the center of the latest delay are two critical parts of Apple's facial-recognition system, which is based on 3-D sensor technology.

The Romeo module features a dot projector that uses a laser to beam 30,000 infrared dots across the user's face, essentially mapping its unique characteristics. The Juliet module includes the infrared camera that reads that pattern.

One person said the trouble with Romeo involved complications in assembling the various components into the module. Both people said that meant there weren't enough Romeos to go with the number

of Julietts on hand, although one of them said the Romeo assembly process is now moving smoothly.

The Romeo module is assembled by LG Innotek and Sharp Corp., one of the people said. Both companies declined to comment.

Manufacturing troubles are par for the course when new models of iPhones are being built, one of the people said.

"But problems will be resolved eventually," the person said.

Besides the facial-recognition system, difficulties involving the OLED screen have also made the iPhone X road to production bumpy.

Apple initially hoped to equip the iPhone X with the



Apple executive Philip Schiller introduced the iPhone X on Sept. 12.

Touch ID function, which allows users to open the phone by scanning their fingerprint. But incorporating the scanner into the new OLED display proved problematic, and Apple eventually scrapped the scanner on the new phones. The episode contributed to iPhone X sales being pushed back until November, people familiar with the matter said.

With all the new technologies, the iPhone X will cost from \$999 to \$1,149, compared with the starting price of \$699 for the iPhone 8 and \$799 for the iPhone 8 Plus.

—Tripp Mickle in San Francisco and Yang Jie in Beijing contributed to this article.

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# WORLD NEWS

## U.S. Officials Aim to Ease Korea Strains

Tillerson to seek China's help to stem threat from Pyongyang as Trump, Kim trade barbs

U.S. officials emphasized the urgency of attempts at diplomacy to ease tensions with North Korea on Tuesday, while the U.S. stepped up sanctions amid an escalating war of words between Washington and Pyongyang.

By Felicia Schwartz  
and Ian Talley in  
Washington and Chun  
Han Wong in Beijing

Secretary of State Rex Tillerson will travel to Beijing on Thursday as the U.S. continues to press China to pressure North Korea over its nuclear program.

State Department spokeswoman Heather Nauert said Mr. Tillerson is laying the groundwork for President Donald Trump's trip to China this year, and said this visit indicates the importance of Beijing to U.S. policy goals.

"The fact that Secretary Tillerson has been here for nine months now and is now making his second trip to China—that's significant," Ms. Nauert said. Mr. Tillerson was last in China in March.

Mr. Tillerson and Defense Secretary Jim Mattis on Tuesday both focused on U.S. diplomatic efforts after North Korea's foreign minister on Monday said a weekend Twitter message from Mr. Trump—saying "North Korea won't be around for much longer"—amounted to a declaration of war.

"We're going to continue to pursue our diplomatic efforts

and hope that that's the way we'll solve this," Mr. Tillerson said on Tuesday at the State Department ahead of a meeting with a top Vatican official.

Mr. Mattis said in New Delhi earlier Tuesday that the effort to avert conflict on the Korean Peninsula remains a diplomatic one, even as the heated rhetoric from both sides threatens to diminish the chances of a peaceful outcome.

"We maintain the capability to deter North Korea's most dangerous threats but also to back up our diplomats in a manner that keeps this as long as possible in the diplomatic realm," Mr. Mattis said. "That is our goal, to solve this diplomatically, and I believe President Trump has been very clear on this issue."

Mr. Mattis, in town for talks with his Indian counterpart and Prime Minister Narendra Modi, didn't respond specifically to a question about how the rhetoric might be increasing the chances for miscalculation on either side and whether there was a risk of miscalculation.

Mr. Trump, declaring North Korea an "outlaw regime," thanked Chinese President Xi Jinping for moving against Pyongyang, including by breaking banking ties.

"It is time for all responsible nations to join forces to isolate the North Korean menace," Mr. Trump said at a Tuesday press conference at the White House.

He was referring to a move this month by Beijing's central bank to bar transactions with North Korea. China accounts for more than 90% of Pyongyang's trade, and much of those transactions are conducted through the Chinese banking system.

However, China also resumed



Secretary of State Rex Tillerson will travel to China on Thursday, his second visit while in office.

### Ross Presses China On Market Access

HONG KONG—U.S. Commerce Secretary Wilbur Ross said he pressed China during his visit to Beijing this week to level a "lopsided" playing field for American companies there.

Mr. Ross was in Beijing to pave the way for a meeting between U.S. President Donald Trump and Chinese President Xi Jinping, expected in November, when Mr. Ross will also lead a trade delegation to China.

He told a media briefing in Hong Kong on Wednesday that he is optimistic about talks between the leaders of the world's two biggest economies, though neither side had sig-

naled any concessions on the thorny issues dividing them.

Topping the U.S. agenda, Mr. Ross said, is market access for American companies. The U.S. will push China to lower protectionist barriers and improve protection of intellectual property, he said, especially as China is gunning to become a more powerful technology player.

"We do need major change, and I hope that we made it clear because the relationship is too lopsided at the moment," Mr. Ross said.

In Beijing meetings with senior officials, including Premier Li Keqiang, Mr. Ross stressed the need to rebalance bilateral trade, protect intellectual property, lower tariffs and guarantee free and reciprocal investment, according to a Commerce

Department statement, which said the U.S. would act to defend its workers and businesses if cooperative efforts don't bear fruit.

The U.S. is also looking for smaller, more concrete gains to announce at Mr. Trump's visit in November, and Chinese companies gave a different account of Mr. Ross's trip.

Beijing-based tech company Cheetah Mobile Inc. said it was invited to a meal with Mr. Ross this week to discuss deeper investment in the U.S.

The U.S. government has also asked American companies to submit China deals they can announce in November as part of the trade mission, industry executives who had received the request said.

—Natasha Khan

the purchase of coal imports in August after a nearly half-year hiatus, accepting about 1.64 million tons of North Korean coal valued at some \$138.1 mil-

lion that month, when the United Nations Security Council expanded sanctions to a complete halt on coal shipments and banned Pyongyang from ex-

porting iron, lead and seafood.

The shipments came just before a Sept. 5 deadline for countries meeting a total U.N. ban on Pyongyang's coal trade,

and China has said it would comply with the sanctions.

Administration officials didn't comment on the coal purchases, but have acknowledged previously that China has difficulties with North Korea, with whom it shares a lengthy border and longstanding ties.

Meanwhile, the U.S. Treasury Department named eight North Korean banks and 26 individuals linked to the nation's financial networks to its sanctions list. The action is part of a larger administration effort to constrict capital flows into North Korea that U.S. officials and defectors say are used by the government to fund its banned nuclear-weapons and missile programs.

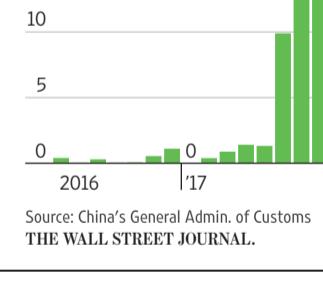
U.S.-based North Korea analysts say the key to the effectiveness of sanctions will be whether host countries will shut down targeted banks and expel the individuals operating them.

—Gordon Lubold  
in New Delhi and Paul Sonne in Washington contributed to this article.

### Food Parcel

China's exports of corn to North Korea have risen dramatically in recent months.

25 thousand metric tons



Source: China's General Admin. of Customs

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## China's Food Exports to North Korea Surge

By LUCY CRAYMER

China's Customs data.

United Nations sanctions on North Korea have expanded significantly in recent weeks and now include banning Pyongyang from exporting iron, lead and seafood. However, there are no restrictions on food imports to the country.

As North Korea's chief trading partner, China accounts for the bulk of imports to the country. Still, China's decision to increase the amount of food it sends across the border, even as other sanctions come into play, highlights the resilience in ties between the two

countries, analysts say.

"It demonstrates that unless the Chinese are really pressured, they're not going to really crack down on trade with North Korea," said Grant Newsham, a senior research fellow at the Japan Forum for Strategic Studies in Tokyo.

"Until they really see some downside risk to themselves, trade is just going to keep going" across the border, he said.

China plays a central role in international efforts to dissuade North Korea from its aggressive pursuit of its nuclear and ballistic-missile am-

bitions. However, Beijing has resisted Washington's calls to support measures it fears could cause its neighbor's collapse—an event that could send a flood of refugees into northern China and upset the regional balance of power.

China's export data also showed an uptick in exports of coal to North Korea in August, ahead of a U.N. ban on Pyongyang's coal trade that took effect on Sept. 5.

Fresh food tends to be scarce in North Korea from May through September because of seasonal conditions, according to a report pub-

lished by the U.N. in July.

The Food and Agriculture Organization of the U.N., however, said Wednesday that conditions had improved since it had warned of a possible famine in July, as North Korea had received significant rainfall in August.

Meanwhile, the jump in corn exports to North Korea comes as China has been trying to sell down its overflowing corn stockpiles.

Market players think much of the corn is no longer fit for consumption. Some of it is four years old and might be fit only to be made into ethanol.

## Warmbiers Say Pyongyang Tortured Son

By PAUL SONNE

WASHINGTON—The parents of American college student Otto Warmbier, who died after being released from a North Korean prison with severe brain damage, accused Pyongyang of torturing their son—accusations President Donald Trump appeared to confirm in a Twitter message.

In their first interviews since his death, Fred and Cindy Warmbier told Fox News and CNN on Tuesday they believed their son's injuries were the result of torture by North Korean authorities. They said they didn't have any information confirming torture, other than the evidence of his injuries.

The couple said they had been moved to speak out after seeing North Korea present itself as a victim in the confrontation with the U.S. over Kim Jong Un's missile and nuclear-weapons program.

"They're claiming the world is picking on them," Mr. Warmbier told CNN. "We're here to tell you, as witnesses to the terror of their regime, North Korea is not a victim. We felt it was time to tell the truth about the condition that Otto was in."

The Ohio businessman described how he and his family walked up the steps of the plane that brought 22-year-old



interview in a tweet Tuesday morning. "Otto was tortured beyond belief by North Korea," Mr. Trump wrote.

Mr. Trump's tweet marked what appeared to be the first official confirmation that the U.S. government believes Otto Warmbier suffered such abuse while in North Korean custody.

The State Department, however, declined to confirm or deny whether that was the official position of the U.S. government. "I am not going to comment on his condition or what his condition was when he came home," State Department spokeswoman Heather Nauert said.

North Korea has denied torturing Otto Warmbier in official statements to the state news agency. A call Tuesday to the North Korean mission to the United Nations went unanswered.

The family declined an autopsy for Otto because they felt he had been through enough. Mrs. Warmbier said the coroner examined her son visually, noticed the large scar covering the entire top of his foot and surmised that the cut had been an open wound for months.

North Korean authorities accused the University of Virginia student of trying to steal a poster before sentencing him to 15 years' hard labor and imprisonment in early 2016. His parents say he was innocent.

## Former Thai Leader Is Sentenced to Jail

By JAMES HOOKWAY

BANGKOK—A Thai court sentenced former Prime Minister Yingluck Shinawatra to five years in prison, a month after she fled the country ahead of what was shaping up as a heavily politicized verdict.

The case, which involves Ms. Yingluck's role in overseeing a multibillion-dollar rice subsidy, was closely linked to the Thai army's decision three years ago to overthrow her government in one of the country's periodic coups and install its own commander-in-chief, Prime Minister Prayuth Chan-ocha. His government subsequently accused Ms. Yingluck of ignoring the subsidy's mounting losses, which reached more than \$15 billion.

She faced up to 10 years in prison if convicted of negligence, and the case was widely viewed in the country as a further attempt to stamp out the populist appeal of her elder brother Thaksin Shinawatra, who was ousted in a 2006 coup and handpicked his youngest sister as his proxy.

People familiar with the junta's thinking said the prospect of a lengthy prison term was designed in part to avoid any mass protests by encouraging her to leave, just as Mr. Thaksin did after a corruption

prosecution following his removal from power. He now resides mostly in Dubai, from where he continues to protest his innocence.

Ms. Yingluck, though, at first decided to fight the charges. She denied any wrongdoing, describing the subsidy as a political policy to help boost rural incomes and stimulate broader economic growth in Thailand's rice-farming heartlands.

And, for a while, the policy worked. Around 40% of Thailand's workforce depends on agriculture, and incomes shot higher in the vote-rich rural areas that provided much of the Shinawatra family's voter support. The program worked by buying rice from farmers at up to double the market rate, and the government planned to pay for it by withholding the grain from the global market, driving up prices.

The strategy began to unravel, however, when India resumed exporting rice after an absence from the market and Vietnam expanded production.

Thailand fell from its place as the world's top exporter, and the government was left with large stockpiles that it had to sell at a loss—providing the Shinawatras' opponents with some political ammunition to use against them.

## WORLD NEWS

# Angst Fuels AfD Vote in Party's Heartland

Anti-immigrant group fared especially well in German states of Bavaria and Saxony

Peter Schulze is fed up with crumbling infrastructure and high energy prices. Regina Scharf is convinced German democracy has become "noth-

By Anton Troianovski  
in Schwandorf,  
Germany, and Zeke  
Turner in Dresden,  
Germany

ing but a farce." And Alexandra Heil fears groups of young men with "a skin color that doesn't match ours" on Bavarian streets.

They are three of the almost 5.9 million Germans who left their country's political establishment reeling on Sunday by propelling the anti-immigrant Alternative for Germany into parliament with 13% of the popular vote. A party that wants to dial down remembrance of the Holocaust and describes Germany's Muslim minority as a "great danger" went from an upstart movement to the third-largest grouping in the national legislature.

The German establishment—particularly Chancellor Angela Merkel's center-right camp—is now scrambling to interpret and respond to the result. Ms. Merkel's conservative allies want to move their party rightward, while she insists that solving people's specific problems will win voters back.



A woman wearing a headscarf walking past an election campaign poster reading 'Stop Islamization, vote AfD' in Marxloh, Germany.

lock on the conservative vote.

In eastern Bavaria, CSU candidate Karl Holmeier saw the AfD jump to 17% in his constituency from 3% in the previous federal election, in 2013. Mr. Holmeier said he was convinced his party's poor showing in the area had to do "only with people's fears around the refugee issue."

Polls before and during Sunday's vote, and interviews in Bavaria and Saxony, confirmed that immigration was likely the biggest motivating issue for AfD voters—but showed their complaints run deeper. Pollster Infratest Dimap, for example, found that 60% of AfD voters described refugee policy as very important to their voting decision. But it also found that 80% of them were dissatisfied "with the functioning of democracy."

Ms. Scharf, a 60-year-old office worker in Bavaria, said she previously voted for a tiny party that focuses on animal rights. Now she backs the AfD because she says other parties broke the law by letting in refugees—something the government denies—and the party is the only true opposition.

Ms. Heil, a 43-year-old on disability benefits, was of two minds about voting for the AfD because "they are somewhat Hitler-like," she said, "and I don't want that, either." But after watching politicians' stunned reactions as the results came in, she said she was satisfied with her vote.

"They're all wetting their pants a bit," she said. "I just wanted something to change."

Interviews this week suggested that the Alternative for Germany, or AfD, poses a broad challenge that mainstream politicians won't easily meet. Among many AfD voters, resistance to immigration has called forth other resentments, from feelings of economic disadvantage to frustration with postwar Germany's *sotto voce* approach to national identity.

The AfD achieved its best result, 27%, in Saxony, part of the former communist East Germany, where it beat all other parties. The state of four million people harbors relatively few refugees but is home to many people who feel left behind by capitalism.

"It's diffuse concerns, not specific concerns," said Hans Vorländer, an expert on German right-wing movements at

the Technical University in Dresden, Saxony's capital. "But the migration question became the magnifying glass that focused everything and made these problems visible."

Mr. Schulze, 69, a pensioner and AfD voter in Bautzen, a hilltop Saxon town that was home to a secret prison under communist rule, said that the best thing he ever did was temporarily leave East Ger-

many to work in the west. "The freedom was much better than being walled in," he said. "Now I want to emigrate into a better Germany again, except it doesn't exist."

The party also did unexpectedly well in the southern state of Bavaria, one of Germany's most prosperous regions, where the Christian Social Union, the sister party of Ms. Merkel's CDU, has long had a

## Macron Unveils Budget Meant to Boost Clout in EU

BY WILLIAM HOROBIN

PARIS—French President Emmanuel Macron's government presented its first budget, the centerpiece of his plan to bolster France's leverage within the European Union by shrinking the state and freeing up the slow-growing economy.

The 2018 budget foresees reducing the deficit by slash-

ing spending in areas long protected by the state, including housing, and government-sponsored jobs programs.

In an effort to encourage risk taking and growth, Mr. Macron's government said it would cut wealth and capital taxes and shift the burden of other taxes away from workers and businesses to retirees and property owners.

Investors and European poli-

cians say will lead the country

out of EU procedures for monitoring deficits over 3% of economic output.

France's budget equation has become an increasingly difficult issue in recent months.

Mr. Macron faced a backlash over the summer when the government announced immediate cuts to bring France's budget within the EU

limit. The tensions boiled over into a public spat with the head of France's armed forces—who later resigned—and Mr. Macron's approval ratings sank.

The 2018 budget plans has drawn fire from Mr. Macron's rivals on the left and the right, and even from pensioners who are organizing demonstrations in Paris on Thursday.

## GOVERN

Continued from Page One

ment. The pro-business Free Democratic Party is expected to demand the finance ministry—the second-most-important job in the German cabinet after Ms. Merkel's—as part of its price for serving in a coalition government.

Mr. Schäuble, a 75-year-old veteran conservative lawmaker, has been German finance minister since 2009. In that time, he played a leading role in negotiations about financial bailouts of crisis-hit European countries such as Greece, Ireland and Portugal.

candidate. His deputy Wolfgang Kubicki is also seen as a potential contender.

The FDP wants to cut taxes at home and tighten eurozone rules on fiscal discipline. Around Europe, the party is seen as taking a hard, fiscally orthodox line that could make agreement about deeper integration in the eurozone more difficult.

The FDP has been critical of European Union authorities' recent tolerance of budget deficits in other euro members. Before the elections Mr. Lindner said Greece's debts need restructuring, which would be possible only if the country left the euro, reopening a debate in Germany about "Grexit." The FDP also sharply criticized French President Emmanuel Macron's proposals for a common eurozone budget.

Since Sunday, however, Mr. Lindner has softened his tone, saying the FDP supported Ms. Merkel's policy of keeping Greece in the euro with bailout loans provided that the International Monetary Fund is involved in the rescue and certifies that Greece's debt is sustainable. He also said the FDP opposes permanent fiscal transfers between euro members, but could support efforts within the EU's existing financial framework to boost investment in the euro area.

Mr. Schäuble was known to want to stay on as finance minister, partly to influence the overhaul of the eurozone that Mr. Macron is urging, according to people familiar with his thinking.

The CDU and CSU came in first in the election but won only 33% of the vote. They are now exploring a possible three-way coalition with the FDP and the left-leaning Greens.

Christian Democrat lawmakers have urged Mr. Schäuble to accept the role of Bundestag speaker to uphold parliamentary order, which mainstream parties fear could be threatened by the entry into the Bundestag of the populist Alternative for Germany party, or AfD, which won 12.6% of Sunday's vote. The AfD has denied other parties' accusations of rowdy behavior and racist rhetoric.

—Bertrand Benoit contributed to this article.

## Saudi Women Granted Right to Drive

BY MARGHERITA STANCATI AND SUMMER SAID

RIYADH—Saudi Arabia lifted the world's only ban on women driving, removing a restriction in the deeply conservative kingdom that had become a symbol of women's oppression.

In a royal decree on Tuesday, King Salman said women will be allowed to obtain driving licenses starting in June, after a government committee studies how to allow women onto the roads driving their own vehicles.

The decision, immediately condemned by many Saudi conservatives on social media, comes at a time of profound change championed by the Saudi monarch and his son, Prince Mohammed bin Salman, who are leading efforts to relax strict social rules as they move to open up and modernize the country's oil-dependent economy.

It also comes as the monarchy clamps down on perceived opposition: Saudi authorities have arrested dozens of people this month, from clerics to academics, in what the authorities described as a nascent antigovernment plot ahead of the king's widely expected abdication in his son's favor, the timing of which remains unclear.

"We refer to the negative consequences of not allowing women to drive, and the posi-

tive aspects of allowing them to do so, taking into consideration the necessary Shari'ah regulations and compliance with them," King Salman said in the decree, referring to Islamic law.

The announcement caps a decadeslong campaign led by Saudi women to abolish a rule that drew widespread condemnation from both friends and foes of the kingdom, tarnishing its reputation internationally.

"We are very excited. We are over the moon," said Hatoon al Fassi, a Saudi histo-

rian and one of the leaders of the campaign to let women drive. "Our struggle, the years of work have at last yielded a result, our right has been realized. It's a historical moment. King Salman made a historical decision."

In Washington, Saudi Arabia's ambassador to the U.S. and a son of the king, Prince Khaled bin Salman, said Tuesday's announcement is "not just a social change, it's part of the economic reform," designed to facilitate the en-



Tuesday's move caps a decadeslong campaign led by Saudi women to abolish the driving ban.

trance into the workforce of more women whose wages previously were undercut by having to pay men to drive them to jobs.

Paying for drivers is becoming increasingly unsustainable as more and more women obtain employment, including in low-paying jobs.

U.S. State Department spokeswoman Heather Nauert cheered the decision and described it as a "step in the right direction for that country."

health problems that began in December and have recurred as recently as August, the Cuban Embassy in Washington said late Tuesday.

Mr. Rodriguez told Mr. Tillerson the Cuban investigation has included information provided by American investigators, and he reiterated Cuba's denial of any involvement in the attacks. He told Mr. Tillerson the Cuban government has never permitted and wouldn't permit third parties to carry out such activities on Cuban soil, the embassy said.

—Felicia Schwartz

### WORLD BANK

#### Education Falls Short For Many Students

Hundreds of millions of students around the world are spending years in school while learning virtually nothing, and many countries are neglecting to even measure their progress, the World Bank warned in its flagship annual economic development report.

These children are reaching "young adulthood without even the most basic life skills," wrote

the report's authors, Deon Filmer and Halsey Rogers, both economists at the World Bank.

Many countries remain far behind the curve at recognizing and measuring the extent to which students are acquiring any knowledge, the study said.

"Even if they attend school, many leave without the skills for calculating the correct change from a transaction, reading a doctor's instructions, or interpreting a campaign promise—let alone building a fulfilling career," according to the report.

—Josh Zunbrun

### CUBA

#### Tillerson Discusses Mysterious Attacks

Secretary of State Rex Tillerson met with his Cuban counterpart Tuesday amid an investigation into mysterious attacks that have affected the health of at least 21 American diplomats and strained ties between the two governments.

Foreign Minister Bruno Rodriguez Parrilla told Mr. Tillerson that Cuban officials haven't identified the cause or origin of

## WORLD NEWS

# In Vote, Iraq Kurds Back Independence

By ISABEL COLES  
AND ALI A. NABHAN

BAGHDAD—An overwhelming 93% of Kurds voted in favor of independence from Iraq, the Kurdish electoral commission said Wednesday, in a referendum that has provoked backlash from the landlocked region's neighbors and the central government in Baghdad.

Western nations, including the U.S., had urged the semi-autonomous Kurdish region to cancel or postpone the vote, predicting it would unleash further chaos in the Middle East.

Although the result doesn't automatically translate into statehood, Kurdish leaders hope it will advance that dream by giving them a mandate to negotiate an amicable separation from the central government in Baghdad over the coming years.

But Iraqi Prime Minister Haider al-Abadi has said there will be no talks between his government and Kurdish leaders after the referendum, and that he won't recognize its

outcome.

Iraq's parliament on Wednesday authorized Mr. Abadi to take a range of countermeasures against the Kurds, such as deploying forces to disputed territories where the referendum was held and regaining control of oil wells in the Kurdish-controlled northern city of Kirkuk.

Mr. Abadi, who has vowed to keep the country whole without using force, said at the parliament session that the Kurds had been duly warned of the "dangerous consequences" of their vote.

Iraq's Kurds are now bracing themselves for the fallout as Baghdad, Iran and Turkey threaten to close borders and airspace as punishment.

Kurdish leader Masoud Barzani sought to reassure the region's neighbors on Tuesday, saying threats would not help solve the problems between Baghdad and the regional capital, Erbil.

—Nour Malas contributed to this article.

# ISIS Militants Attack Iraqi Forces in Ramadi

By GHASSAN ADNAN  
AND ISABEL COLES

BAGHDAD—Islamic State militants attacked the western Iraqi city of Ramadi on three fronts Wednesday, clashing with security forces even as Iraq's army routs the terror group from its few remaining strongholds in the country.

The attack comes as Iraqi forces wage dual offensives to recapture western Anbar province, of which Ramadi is the capital, and the Hawija pocket in the country's north—the last two major areas held by Islamic State.

Security officials in Ramadi said the insurgents had tricked Iraqi forces by pretending to

be tribal fighters, enabling them to infiltrate parts of the city, some 55 miles west of Baghdad.

Civilians fled parts of western Ramadi after militants overtook several buildings and clashed with security forces.

At least 13 Islamic State fighters, including suicide bombers, were killed in clashes with security forces in the Majar area south of the city, said local official Ali Da-

wood.

U.S.-backed Iraqi forces in July routed the militants from the northern city of Mosul, the largest city under their control, and last month retook the insurgent bastion of Tal Afar, near the border with Syria.

# Canada Puts Up Own Wall to U.S.

Government informs immigrants fearing deportation that there is no haven to the north

Canada has an urgent message for immigrants in the U.S. fearing deportation: Don't count on us for refuge.

This month in Los Angeles, a top lawmaker with Canada's governing party met with members of the local His-

By Sara Schaefer  
Muñoz in Toronto and  
Alicia A. Caldwell  
in Los Angeles

panic immigrant community to stress that people who fear losing their protected status in the U.S. shouldn't expect automatic reception in Canada—and could be deported to their country of origin if they make the trip north.

"It's really important before making any decisions that they understand [Canadian] laws," Pablo Rodriguez, a Liberal member of Parliament from Quebec, told the group.

That message marks a shift for Canada, which has emphasized its friendliness toward immigrants as the Trump administration has moved to tighten U.S. borders.

When the U.S. launched its ban on travelers from some Muslim-majority countries in January, Canadian Prime Minister Justin Trudeau posted a message on his Twitter account: "To those fleeing persecution, terror & war, Canadians will welcome you, regardless of your faith. Diversity is our strength."

Since mid-July, however, Canada has faced an unprecedented influx from the U.S. of some 7,000 asylum seekers, in large part Haitians who feared deportation once their U.S. temporary protection expires.

Many of them were among the estimated 58,000 in the U.S. under a humanitarian program that allowed them to stay as the Caribbean island rebuilt after a devastating



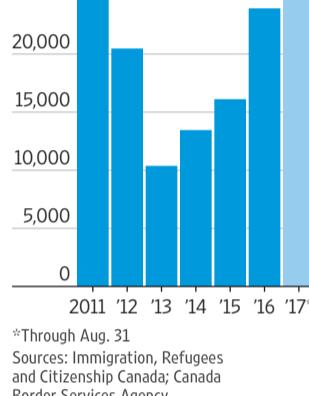
Asylum seekers approached Royal Canadian Mounted Police officers in Champlain, N.Y., in August.

RYAN REMIORZ/ASSOCIATED PRESS

## Northward Bound

More asylum claimants have been processed in Canada in the first eight months of this year than in any of the last six entire years.

30,000



\*Through Aug. 31  
Sources: Immigration, Refugees and Citizenship Canada; Canada Border Services Agency

THE WALL STREET JOURNAL.

ings, especially as the Trump administration now aims to end the so-called Dreamers program that shields undocumented immigrants who entered the U.S. as children from deportation, Canadian officials are reaching out in the U.S. They are also posting messages on Canadian immigration websites, such as, "Claiming Asylum: No Automatic Stay in Canada."

"There is no pass for those who cross irregularly," Emmanuel Dubourg, a Haitian-Canadian member of Parliament, emphasized during visits to Miami's Haitian community in August.

Mr. Trudeau was asked at a recent news conference if his January tweet had been too welcoming.

"We welcome refugees in this country, but there is process to determine whether someone is a refugee," he said, adding that those fleeing to Canada face rigorous screening.

On Tuesday, the White House announced it would reduce the maximum number of refugee admissions for the coming fiscal year to 45,000, the lowest cap in decades. Canadian officials declined to comment on the move.

Peter Paul Rubens, "Portrait of Clara Serena Rubens", c. 1616.  
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# U.S. NEWS

## Senate GOP Scraps ACA Repeal Vote

BY KRISTINA PETERSON  
AND STEPHANIE ARMOUR

WASHINGTON—Republi-  
cans' latest push to dismantle  
the Affordable Care Act sput-  
tered to an end when Senate  
GOP leaders canceled a vote on a  
bill that had failed to gain suffi-  
cient traction within their party.

Senate Majority Leader Mitch McConnell's decision Tuesday not to bring the legislation up for a vote on the floor marked the latest chapter, perhaps a final one, of a tumultuous saga stretching back to January, during which health-care legislation founded, underwent revisions, passed the House, gained momentum and then collapsed in the Senate twice.

Although Republicans vowed they weren't done trying to overhaul former President Barack Obama's 2010 health-care law, GOP leaders signaled they would no longer let the health-care debate bog down their next goal: rewriting the tax code.

"We haven't given up on changing the American health-care system," Mr. McConnell (R., Ky.) told reporters. But for the moment, he said, "we plan to move forward on our next priority, which is reforming the American tax code in significant ways for the first time in 30 years."

GOP leaders now face the challenge of explaining to Republican voters their failure to repeal the ACA after seven years of promising to do so. They also face increased pressure to deliver on the tax-code rewrite, now seen as Republi-

cans' last shot at bagging a major legislative victory before the 2018 elections.

Conservative groups reacted with fury on Tuesday. "With total control of the executive and legislative branches, the Republican Senate majority cannot even pass a bill that only repeals a portion of Obamacare," said Jenny Beth Martin, co-founder of the Tea Party Patriots. "The American people have a simple message for promise-breaking politicians: If you can't keep your word, we will find someone else who will."

The repeated GOP repeal ef-  
forts and the uncertainty about the future of health policy have had a big effect on the ACA. Premiums on the most popular plan on the ACA exchanges will increase by an average 15% next year, in large part because of the uncertainty over the health law's future and cost-sharing subsidies to insurers, according to a report this month from the Congressional Budget Office.

The bill's failure could also strain tensions between Mr. McConnell and President Donald Trump, who expressed his frustrations to White House guests this week over congressional Republicans' inability to pass health-care legislation.

"We were very disappointed by a couple of senators," Mr. Trump said on Tuesday.

The latest GOP measure, from Sens. Lindsey Graham of South Carolina and Bill Cassidy of Louisiana, would have knocked down central pillars of the ACA and given significantly



From left, Sens. Lindsey Graham of South Carolina, John Barrasso of Wyoming and Mitch McConnell of Kentucky on Tuesday

more control over health care to the states. It also would have made significant funding cuts to the Medicaid program.

Democrats cheered the bill's demise. "From one end of America to the other, the Cassidy-Graham bill would have been a health-care disaster," said Senate Minority Leader Chuck Schumer (D., N.Y.). "Our colleagues had no choice in the face of opposition from one end of the land to the other to withdraw their bill."

Backers of the bill had revised the proposal as of Sunday in an attempt to secure votes, adding more funding to some states and giving them more expansive authority. But the changes fell short of landing enough votes, with Sen. Susan Collins (R., Maine) saying on Monday that both versions of the bill would weaken protections for people with pre-existing health conditions.

### Lawmaker Probes States' Use of Medicaid Funding

A Republican senator who co-sponsored failed legislation to repeal most of the Affordable Care Act is looking at whether some states may have been getting federal money under the law's Medicaid expansion that they aren't entitled to.

The probe by Sen. Ron Johnson of Wisconsin suggests that some Republicans, fresh off their congressional effort to repeal the health law and its expansion, will now zero in on other potential ways to rein in the program and its costs. Mr. Johnson was set to send letters Wednesday to the federal Centers for Medicare and Med-

icaid Services and the governors of eight states that expanded Medicaid, requesting information that in some cases goes back to 2013.

The requests are aimed partly at determining whether states have gotten federal money they shouldn't have received by wrongly signing up people as expansion enrollees. Democrats have said that states have set up eligibility verification systems for expansion enrollments and use electronic data to verify income before enrollment. They have also said robust enrollment reflects pent up demand for coverage rather than any widespread abuse of the program.

Health and Human Services Office of Inspector General has said in the past that Medicaid programs, including expansion, face integrity challenges, such

as avoiding improper payments.

The enhanced federal funding for expansion "gives states a financial incentive to categorize people as newly eligible to obtain federal money," the letter from Mr. Johnson says. He is also looking into whether CMS has appropriately overseen state programs to verify eligibility, as well as inquiring about payment rates for insurance companies.

Republicans have asserted that Medicaid, a state-federal program that provides health coverage to the low-income and the disabled, is vulnerable to waste and fraud.

Thirty-two states and Washington, D.C. adopted the expansion, allowing more lower-income people to gain Medicaid coverage who previously weren't eligible.

—Stephanie Armour

## Insurers Make Final Calls on Health-Care Plans

BY ANNA WILDE MATHEWS

Health insurers made their final decisions Wednesday on where to offer Affordable Care Act plans next year, and so far there are few signs of a major last-minute exodus from the health law's exchanges, despite companies' nervousness about their future.

Some major insurers that had signaled that they might pull back, including Molina Healthcare Inc., Highmark Health and Independence Blue Cross, said they now will stick to the states and regions where they had filed to offer ACA coverage; Molina had previously said it would leave

the exchanges in Utah and Wisconsin, but now says it will remain in seven other states where it sells ACA plans.

So far, all areas appear to have marketplace plans available next year, but some declined to answer questions about their final decisions.

There is still a risk that other insurers might make 11th-hour exits, a possibility that is leaving some state officials on edge.

Wednesday's deadline to sign federal agreements to offer ACA plans marks the end of a months-long drama in many states. Insurers have repeatedly announced they will

depart exchanges, and at various times as many as 145 counties, in states including Nevada, Ohio and Missouri, have appeared at risk of lacking a marketplace insurer for next year, according to the Kaiser Family Foundation.

State officials scrambled to find replacements. The number of insurers in many regions is expected to be thin—roughly 50% of counties appeared likely to have just one exchange insurer next year, and 29% were projected to have two, according to a tally by the Robert Wood Johnson Foundation, though those totals could change with final decisions announced

Wednesday.

To woo and keep insurers,

state officials spent months

negotiating, and in many cases

they are approving substantial

rate increases for next year

that include extra boosts to

insure from uncertainty about how the law will

be administered. For instance,

Mississippi's one exchange in-

surer was set to get a rate in-

crease of 47.4% on average, ac-

cording to the state's

insurance commissioner. In

Kentucky, Anthem Inc.'s rates

will go up 41.2% and nonprofit

CareSource's will rise 56%.

The biggest issue for insur-

ers is federal payments that

reimburse companies for re-

ducing the health-care costs of

low-income ACA enrollees,

which the Trump administra-

tion has threatened to halt.

The loss of those pay-

ments was expected to add

about 20% on average to the

cost of middle-tier ACA silver

plans, according to an analysis

by the Congressional Budget

Office. Insurers have also

sought increases tied to the

concern that the health law's

coverage mandate, which is

supposed to prod healthy peo-

ple to enroll in coverage, will

be weakly enforced or seen as

toothless by consumers.

Officials in Pennsylvania

and New Jersey, where Inde-

pendence Blue Cross offers

ACA plans, "have been very, very helpful and understanding around rate setting," said Daniel J. Hilferty, the insurer's chief executive. "We feel very good about the partnership we have with those two states."

Still, insurers say that the rate increases, along with other factors like the perception of a weakened coverage mandate, carry a serious risk: There could be a drop in the number of enrollees, particularly the healthy ones insurers need to avoid a continuing cycle of rate increases. People whose incomes are too high to get federal premium subsidies may drop coverage or opt for cheaper, skinnier options.

## Alabama Win Tests Trump's GOP Clout

BY JANET HOOK

Alabama Republicans voted decisively to nominate Roy Moore, a former state Supreme Court judge, for a U.S. Senate seat, delivering a rebuke to President Donald Trump and the GOP establishment that supported his rival.

Mr. Moore defeated Sen. Luther Strange in a runoff primary election Tuesday for the seat that was held by Jeff Sessions before he became attorney general. In his victory rally, Mr. Moore underscored the evangelical conservative spirit of his campaign, while invoking a Trumpian slogan.

"It is time to redirect our lives to God and to the constitution," he told his supporters. "It is time to go and make America great."

Speaking to his supporters after conceding the race, Mr. Strange said the president—who campaigned for him at a rally and in a cascade of Twitter messages—wasn't responsible for his defeat. "It's not his fault," he said.

The vote came after a bitter primary campaign that pitted Mr. Trump against many in his own political base, including former White House strategist Steve Bannon, who supported Mr. Moore.

Mr. Trump's inability to deliver victory to Mr. Strange suggests he won't be able to reliably harness the antiestablishment political movement that he unleashed within the

GOP and rode to the White House in the 2016 campaign.

Many Republicans believed that Mr. Moore, an anti-incumbent outsider, was more in line with the spirit of the Trump 2016 campaign than Mr. Strange, who has close ties to the party hierarchy in Washington. The Moore win elevates a firebrand who, if he prevails in the general election, could make it more difficult for Mr. Trump to advance his agenda and for Senate Majority Leader Mitch McConnell to manage his slim Senate majority.

A Moore victory in the general election would add a strong antiestablishment, insurgent figure into the ranks of GOP figures in Washington, one whose messages and appeal in some ways echo those of the president.

Mr. Moore, however, has

taken some stands at odds with Mr. Trump, including his opposition to the latest GOP bill to repeal and replace the Affordable Care Act, which he believed didn't go far enough. And Mr. Moore campaigned hard against Mr. McConnell, portraying the Kentucky senator as an exemplar of an out-of-touch Washington elite.

"Mitch McConnell needs to be replaced," Mr. Moore said at his election-eve rally in Fairhope, Ala.

Mr. Moore's victory could encourage other outsider candidates to challenge incumbent Republicans in the 2018 midterm election, and Mr. Bannon has made plain he wants to help them.

Mr. Bannon, speaking at the Moore victory rally Tuesday night, said this was just the beginning of a drive to challenge establishment Republicans like

Mr. Strange and Sen. Bob Corker of Tennessee, who just announced he wouldn't seek reelection. "You're going to see in state after state after state...people who follow the model of Judge Moore," Mr. Bannon said.

Mr. Moore now faces a Dec. 12 general election against Democrat Doug Jones, a former U.S. attorney best known for his prosecution of Ku Klux Klan members involved in a 1963 church bombing that killed four African-American girls.

Former Vice President Joe Biden is scheduled to campaign with him on Oct. 3.

Mr. Jones, in a statement Tuesday night, tried to frame the choice now in terms of the candidates' characters, alluding to controversies that have swirled around both Messrs. Moore and Strange.

"After years of embarrassing headlines about top public officials in this state, this race is about the people of Alabama and about choosing a candidate with character and integrity they can be proud of," Mr. Jones said. "I will never embarrass the people of Alabama."

Mr. McConnell and the National Republican Senatorial Committee, which worked hard to elect Mr. Strange, immediately put out statements promising support for Mr. Moore. Mr. Trump tweeted his congratulations to Mr. Moore and said, "Luther Strange started way back & ran a good race. Roy, WIN in Dec!"

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## TAXES

Continued from Page One  
the Finance Committee.

The framework, still light on some critical details, left it difficult for taxpayers to calculate exactly how they would fare, though administration officials said that some families making under \$100,000 and taking the standard deduction could save \$1,000 a year.

The plan calls for limits on corporations' ability to deduct interest and for repeal of the state and local tax deduction for individuals.

Plenty of work remains as Republicans try to turn their ideas into law over the next few months. The detailed work will happen in the tax-writing committees in Congress, where Republicans have narrow margins. Interest groups that would lose cherished tax breaks are already fighting back.

The plan doesn't say how big a tax cut overall the administration favors. Some GOP senators have agreed on a plan that would allow for a \$1.5 trillion tax cut over the next decade, and the administration supports that, a senior administration official said.

Mr. Trump, a Republican who had long favored a 15% corporate tax rate, has two bright red lines as the debate goes forward, a senior administration official said Wednesday. The president wants to stick to the 20% corporate rate and wants to make sure the plan includes a middle-class tax cut.

The framework allows for

an additional top tax rate on individuals above 35%, "to ensure that the reformed tax code is at least as progressive as the existing tax code and does not shift the tax burden from high-income to lower- and middle-income taxpayers."

In the past, some Republicans had resisted such specific distributional targets for tax policy, arguing that tax cuts on high-income households and investors were the best way to encourage investment and economic growth. Mr. Trump's focus on middle-class tax cuts pushes the party the other way.

Other parts of the Republican plan would deliver benefits to high-income households, including the business tax rate cuts and repeal of the estate tax.

The administration officials said the estate tax, which now applies to 0.2% of people who die each year, will be excluded from its calculations of the distribution of the tax burden.

To meet distributional goals, Republicans might also have to limit the scope of the 25% tax rate on "pass-through" businesses, such as partnerships and limited-liability companies, which pay taxes based on their owners' individual returns rather than corporate taxes.

If high-income households can apply that 25% rate, rather than higher personal-tax rates, the distributional goals of the plan could be much harder to achieve. One idea is a 70-30 rule, under which 70% of pass-through income would be taxed as wages.



Roy Moore greeted supporters in an election-night celebration after winning the GOP nomination for an Alabama U.S. Senate seat.

## U.S. NEWS

# Yellen Firm on Rates; Inflation a 'Mystery'

BY DAVID HARRISON

CLEVELAND—Federal Reserve Chairwoman Janet Yellen defended the central bank's projection for a gradual path of rate increases over the next few years despite the past few months of unexpectedly low inflation.

She said, however, the Fed could slow the pace of rate increases if low inflation persists and officials conclude it reflects long-term changes in the economy rather than transitory factors.

Ms. Yellen and her colleagues have been grappling with subdued inflation despite a growing economy and

vigorous labor market. That has presented officials with a dilemma: The weak inflation readings could be a sign that interest rates should remain lower than anticipated, yet keeping interest rates low for too long could cause inflation to grow too rapidly and inflate new financial bubbles.

Inflation, under the Fed's preferred measure, has undershot the central bank's 2% target for much of the past five years. Although Ms. Yellen said she expects inflation to gradually move up to the target, she acknowledged the uncertainty surrounding that prediction. The Fed has raised rates four times since 2015

and has penciled in one more rate increase this year.

"How should policy be formulated in the face of such

*The Fed chief's speech boosted market expectations of a rate increase in December.*

significant uncertainties? In my view, it strengthens the case for a gradual pace of adjustments," Ms. Yellen told a National Association for Business Economics conference in

Cleveland on Tuesday. "It would be imprudent to keep monetary policy on hold until inflation is back to 2%."

Ms. Yellen's speech boosted market expectations of a rate increase at the Fed's December meeting. Investors pegged a 77.9% chance of a rate move Tuesday afternoon, up from 72.8% a day ago, according to CME Group data.

How to respond to weak price growth has been a burning topic among Fed officials. Some, such as New York Fed President William Dudley, argue that the strong economy will soon push up inflation, suggesting a need to continue raising interest rates.

"I expect inflation will rise and stabilize around [the Fed's] 2% objective over the medium term," he said Monday.

Others, such as Charles Evans of the Chicago Fed, see no indication that inflation is about to turn higher.

Speaking in Michigan on Monday, Mr. Evans said he believed weaker inflation reflected structural changes in the economy rather than a temporary phenomenon.

"I think we need to see clear signs of building wage and price pressures before taking the next step in removing accommodation," he said.

In her talk, Ms. Yellen

sought to strike a middle-of-the-road approach.

Moving too quickly could slow growth unnecessarily, she said, but added that "we should be wary of raising rates too gradually." Moving too slowly could create "an inflationary problem down the road that might be difficult to overcome without triggering a recession," she said.

Still, the Fed's understanding of inflation is "imperfect," she said, calling the shortfall this year "a mystery." "We recognize that something more persistent may be responsible for the current undershooting."

## Refugee Cap Is Set to Drop

BY LAURA MECKLER

AND FELICIA SCHWARTZ

WASHINGTON—President Donald Trump plans to set the cap for refugee admissions for the coming fiscal year at 45,000, the lowest in decades, according to people familiar with the discussions.

The number won't be officially settled until after senior administration officials consulted with members of Congress, as required by law, on Wednesday. A decision is due by Saturday, before the next fiscal year begins.

The State Department had initially pushed for a cap of at least 50,000 but revised its recommendation to the president to 45,000. The Department of Homeland Security recommended a figure closer to 40,000.

Mr. Trump has already lowered the cap once, to 50,000. A year ago, former President Barack Obama said the U.S. would accept as many as 110,000 refugees in 2017.

At a speech last week at the United Nations General As-

sembly, Mr. Trump argued it is far more efficient to help refugees where they live. "For the cost of resettling one refugee in the United States, we can assist more than 10 in their home region," he said.

Since 1980, the president has had sole authority to set annual refugee admission caps, and until this year, the cap had never been set below 67,000.

This year's process has been a contentious one, with White House domestic policy adviser Stephen Miller inserting himself into a discussion that is typically dominated by foreign-policy concerns. Early in the process, he recommended a cap as low as 15,000, people familiar with the process said.

The International Rescue Committee says the current number of refugees, 22.5 million, is the highest ever, most of them women and children.

Some refugee advocates were relieved that Mr. Miller's dramatically lower figure doesn't appear to have won the day, but they were dismayed by the decision nonetheless.

"I call it an example of evi-



**Yosan Tesfay of Eritrea was met in February by Cathy Burdge of the International Rescue Committee.**

dence-free policy-making because all evidence indicates that refugees result in significant benefits for American society and meet our foreign-policy interests, not to mention our values," said Eric Schwartz, president of Refu-

gees International who oversaw such issues at the State Department under Mr. Obama.

DHS argued that admitting fewer refugees would allow the agency to direct more resources toward vetting applications for asylum. Refugees remain out-

side the U.S. while their applications are considered; asylum applicants are filed by people who are already here.

But there are differences. Among them, once asylum applications are processed, a share of them will be rejected,

putting some of those people on a track toward removal from the country. So vetting asylum applications helps reduce the number of immigrants in the U.S.

—Shane Harris

contributed to this article.

## Maria Ravages Hospitals

Puerto Rico's health-care system is grappling with widespread power losses, crippled hospitals and dwindling medical supplies nearly a week after Hurricane Maria devastated the U.S. territory, according to doctors and relief workers.

By Betsy McKay,  
Melanie Evans,  
Daniela Hernandez  
and José de Córdoba

Securing more fuel for generators and clean water for patient care are "two important priorities" for the island's hospitals and clinics, said Kenneth Sturrock, the federal health coordinator for the U.S. Department of Health and Human Services who was on the ground in Puerto Rico on Tuesday.

The National Disaster Medical System has sent 330 health-care workers from the U.S. mainland to assist Puerto Rico, he said, and U.S. lawmakers are pushing for quick approval of hurricane aid.

Already struggling through a protracted economic crisis that led this year to the largest-ever U.S. municipal bankruptcy, the U.S. territory is now dealing with a humanitarian emergency after Maria, the strongest storm to hit the island in nearly a century.

The hurricane knocked out power and communications to

most of the island and its 3.4 million residents. A mere 11 of 69 hospitals have power or fuel, the Federal Emergency Management Agency reported Tuesday. Some may not have power permanently restored for months.

The few hospitals that are up and running are dealing with a deluge of patients who were injured or need care for ongoing conditions. Many hospitals have canceled elective surgeries. Health officials are also worried that massive flooding unleashed by the hurricane could lead to a proliferation of mosquitoes—and outbreaks of disease.

One of the few hospitals to have power is Centro Medico, a large public hospital and clinic complex in San Juan, the territory's capital, where on Tuesday a military tanker truck could be seen unloading more diesel fuel to the complex.

Fernando Roura, an emergency-room doctor at the Centro Medico hospital, on Tues-

day said power was "intermittent—it comes and goes."

Medical personnel are using

what electricity they have to light the hospital, as well as to power fans and essential equipment, like ventilators, cardiac monitors and vital-sign monitors, Dr. Roura said

in an interview over WhatsApp.

He said a CT scanner at the complex wasn't working properly, meaning staff can't properly evaluate patients with head trauma and other bodily injuries. "We're going back to 1970s, 1980s-style medicine," he said.

The most common problems that the emergency room has treated are burns and poisoning because of people dealing with the many electric generators pressed into service and their fumes, said Ruthmaris Nieves, administrator of the organization that runs Centro Medico.

Centro Medico is receiving

many patients from rural areas and hospitals that lack power, transported by helicopter and ambulance, doctors said. Dialysis and chemotherapy patients are being moved to hospitals with diesel generators, Nabal Bracero, a reproductive endocrinologist in San Juan, said in a text message Tuesday.

In the first few days after the hurricane, babies were delivered by emergency responders in local clinics, because roads to hospitals were blocked.

Now, Dr. Bracero said, more hospitals are restoring services, but fuel supplies to keep them operating are meager and uncertain, as supplies are also needed to restore telecommunication networks and roads.

Despite increasingly strained diplomatic relations between Washington and Moscow, Russia's top space official has formally agreed to participate in U.S.-led efforts to devise a replacement for the international space station.

Wednesday's joint announcement, during a space conference in Australia, stopped short of funding commitments by either side and didn't include any specific engineering details. But after months of uncertainty and public vacillation by Kremlin leaders about cooperating on such a project, the move represents an important step forward for what is intended to be an outpost near the moon to serve as a jumping-off point for manned exploration of the solar system in the next decade.

With the National Aeronautics and Space Administration leading the way, and other national partners on the current space station leaning toward participation, the concept of a Deep Space Gateway is gaining momentum.

Igor Komarov, director general of Roscosmos, told the conference in Adelaide that the project would refine technologies needed to pursue the long-term exploration of Mars.

NASA is still studying design options and budget questions are still unresolved. A number U.S. aerospace contractors including Boeing Co. and Lockheed Martin Corp. have been asked to develop proposed construction and risk-reduction plans. The earliest sections of the proposed modular gateway won't be launched for several more years.

But Robert Lightfoot, the acting NASA administrator, said in a statement that the agency was "pleased to see growing international interest in moving" in this direction.

—Andy Pasztor

### INFRASTRUCTURE

#### Trump Less Keen on Public-Private Pacts

President Donald Trump told a bipartisan group of lawmak-

### U.S. WATCH

NASA

#### Russia to Cooperate With U.S.-Led Project

Despite increasingly strained diplomatic relations between Washington and Moscow, Russia's top space official has formally agreed to participate in U.S.-led efforts to devise a replacement for the international space station.

he may want to interview current and former officials, including communications director Hope Hicks, former Chief of Staff Reince Priebus, former press secretary Sean Spicer and White House counsel Don McGahn. The special counsel may also seek to interview one of Mr. McGahn's deputies as well as Josh Raffel, a spokesman for Jared Kushner.

Mr. Mueller is examining whether associates of President Donald Trump colluded with Moscow. Russia has denied meddling in the election, and the Trump campaign has said there was no collusion.

Meanwhile, Roger Stone, a longtime friend and adviser to the GOP president, told members of the House Intelligence Committee on Tuesday that he had no involvement in Russia's alleged election interference.

—Rebecca Ballhaus and Peter Nicholas

ECONOMY

#### Durable-Goods Orders Rose 1.7% in August

Demand for long-lasting U.S. factory goods rebounded in August, pointing to a continued upswing in business investment.

Orders for durable goods—products such as refrigerators and airplanes that are designed to last at least three years—increased a seasonally adjusted 1.7% in August from the prior month, the Commerce Department said Wednesday. Economists surveyed by The Wall Street Journal had expected a milder 0.9% rise for overall orders.

—Ben Leubsdorf

### SPECIAL COUNSEL

#### Russia Probe Turns To White House Aides

Special Counsel Robert Mueller is set to begin his interviews of current and former White House officials this week as part of his probe into alleged Russian interference in the 2016 U.S. election, a White House official said Tuesday.

Mr. Mueller told the White House earlier this month that

he may want to interview current and former officials, including communications director Hope Hicks, former Chief of Staff Reince Priebus, former press secretary Sean Spicer and White House counsel Don McGahn. The special counsel may also seek to interview one of Mr. McGahn's deputies as well as Josh Raffel, a spokesman for Jared Kushner.

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—Ben Leubsdorf



A patient sat Monday outside a San Juan hospital, one of only 11 out of 69 with power or fuel.

## IN DEPTH



Above, Iszard's department store on Main Street store seen in 1977 and the shuttered location seen in May 2017. Below, a former AT&T Store at the Arnot Mall has been converted to a lounge.

## RETAIL

Continued from Page One

here made typewriters for Remington Rand, television picture tubes for Westinghouse Electric Corp. and Sikorsky helicopters for the U.S. military. Well-paid blue-collar jobs kept the metro area humming and helped turn the city into a regional shopping destination for 10 counties in southern New York and northern Pennsylvania.

As manufacturing faded, the Arnot Mall expanded, acting as a bulwark against some of those losses and providing entry-level jobs for teens and a way for stay-at-home mothers to re-enter the workforce.

At its peak in 2011, when drilling for natural gas was booming just across the Pennsylvania line, the mall was the heart of a shopping mecca with 3 million square feet of retail space, including a Macy's anchoring one end of the complex and a "Miracle Mile" of shopping centers spreading out along the interstate. Local officials put a moratorium on new stores at one point because of concerns that there was too much traffic.

**This year has been a reckoning for retail amid changing consumer tastes.**

Today the ailing property is a sprawling relic. Many of the mall's storefronts are empty, some papered over with artwork from local students to hide gated vacant space.

Macy's locked its doors for good last year. Bankrupt Aéropostale, which caters to teens, shut its store soon thereafter. So did Friendly's, a food court fixture since 1980.

Cash registers are still ringing at Sears, but may not be forever. Sears Holdings Corp. has closed 180 stores so far this year and recently told investors it expects to close 150 more by the end of the third quarter. The Arnot Mall location is safe for now.

"It's not going to get better," says Rick Falck, chairman of the Arnot family-run business that owns the mall and surrounding retail space. "Does that surprise you? How much time do you like to spend going to the mall to buy bluejeans?"

Mr. Falck is a descendant of the Arnot family whose name is emblazoned on Elmira hospitals, a local art museum and the mall. When he was a teenager, Mr. Falck worked con-

struction on the fern-and-fountain-lined shopping center, earning \$1.25 an hour to help build his family's grandest of businesses.

When the mall opened in 1967, the now-extinct Iszard's department store sold mink fur hats for \$39, cashews at the Rea & Derick drugstore candy counter cost 99 cents a pound, and shoppers lined up for a chance to meet Miss New York.

Mr. Falck, now 68, used to survey the mall and surrounding landscape that he helped shape with pride. Now it's with a weary sense of duty.

"If we sold the facility to someone, they would probably demolish it. We feel we can manage and maintain it," he says. But he warns that losing another anchor tenant could change that outlook. "If we lose Bon-Ton or we lose Penney's the property could go under."

This has been a ground-shaking year for retail, a reckoning caused by changing consumer tastes, cutthroat pricing and the rapid growth of online retailing. Shoppers are shying away from malls, in part, because they have so many alternatives at their fingertips.

Traditional retailers are in crisis. More than 20 brands have filed for bankruptcy in 2017, including RadioShack and Payless ShoeSource Inc. Other big-box chains like Staples Inc., have agreed to go private in an attempt to maneuver the new landscape.

More stores are on track to close in 2017 than during the 2008 recession, according to an analysis by Credit Suisse.

Two weeks ago Bon-Ton Stores Inc. held a ribbon-cutting at the Arnot Mall to celebrate its move to the 120,000-square-foot space formerly held by Macy's from a smaller spot on the other side of the shopping center. Bon-Ton, a regional chain with 260 stores, is facing a steep decline in sales and traffic and recently hired a restructuring expert to get a handle on its \$900 million in debt. But the Elmira market has been robust for Bon-Ton because shoppers here are looking for bargains.

Toys "R" Us Inc., which has a stand-alone store adjacent to the mall, filed for chapter 11 bankruptcy protection this month.

The mall is banking on becoming a place to play and hang out as well as shop. Last winter, a swath of empty storefronts opened as a golf-coaching facility. When the AT&T store closed, the mall's management converted the space into a lounge with couches and flat-screen TVs. Another former empty shop houses Fresh Start Corner, which offers free coffee and is

run by a church that holds Sunday services at the mall's movie theater.

Three other empty stores were combined to make Great Escape Adventures, which has darkened rooms where people work together to solve a mystery, a shop that sells board games and an open space with tables where people gather to play games free.

"If all you want is your stuff, then online is the way to go," says Jesse Gardner, a Corning Inc. employee who regularly plays fantasy games at Great Escape. "It's the community stuff that's going to work."

The Arnot family is considering adding apartments, a grocery store, doctors' offices or a university annex to the

chasing, road maintenance and buildings and grounds to the county and is considering rolling up other services within Chemung County, which has 11 towns and five villages in addition to Elmira.

"That's the kind of thing you have to do if sales tax disappears," says Dan Royle, a former Elmira city council member who is on an advisory committee considering merging law-enforcement agencies.

Mr. Royle has worked at the Arnot Mall for 27 years and is a manager at the Burlington Coat Factory. He says by the early 1980s the mall was the center of the community, where people gathered for Fourth of July fireworks in the parking lot and even the occa-

Slice Intelligence, which analyzes email receipts.

"If you drive through the neighborhood, you see boxes on everybody's step," says Marcia Tinker, who was a longtime manager at the local Macy's before it closed. She recently opened a booth at an antiques store but is struggling to compete with eBay.

Amazon this year began collecting tax in all 45 states that tax sales. But many of the site's sales come through Amazon Marketplace, where third-party sellers don't always collect.

Small businesses that use online retail platforms often say it's too much to expect them to go through the unwieldy procedure of calculat-

tailers are selling it for \$200 and Amazon's selling it for \$50?" Then, he says, the mall must do what makes sense financially.

Over the past decade, retail employment in the Elmira area has shrunk 12.5%, compared with 3.2% growth nationally, according to data from the Bureau of Labor and Statistics. Some mall workers have been moving to other low-wage jobs at a nearby candy factory and a bill-collection call center.

Last week the mall hosted a job fair with 60 employers who were hiring, many from out of town, including truck-driving companies and the Tioga Downs casino, 40 miles away.

Lisa Wagner, 20, aspired to a steady mall job after graduating from a local high school in 2015 but found that getting hired in many stores required at least four years of experience.

She cobbled together the hours she could with part-time work at a convenience store and a temporary job last fall at a haunted house. After 15 months she finally landed a full-time position this month delivering pizzas for a locally owned restaurant.

"I just want a job where I can stay the long run and be happy with it," she says.

These days the big economic development in Elmira is FedEx Corp.'s new \$18 million distribution center, designed to handle increased demand from online shopping. Chemung County is also vying for a state economic-development incentive package to lure an \$8 million call center for Wayfair Inc., an online-only furniture retailer whose brands include Joss & Main.

Wayfair says it intends to open the facility but "key aspects are currently in negotiation," according to a spokesman, who declined additional comment.

The community's future remains closely linked to the fate of the mall. Mr. Falck, who oversees the Arnot family's real estate, says he's optimistic the mall will survive, in part because it is the only major shopping center in a 60-mile radius.

Its location next to the interstate, within sight of the Elmira-Corning Regional Airport and a mile from the new FedEx center, also leaves the mall's leaders suggesting that it could be transformed into an online retailer's distribution center.

Such a twist might be the best chance of saving Elmira from traditional retail's collapse.

"We can't make inappropriate or desperate investments to save something that shouldn't be saved," Mr. Falck says. "Everything's got a lifetime."



MIKE BRADLEY FOR THE WALL STREET JOURNAL

complex. The trouble is that most of these services aren't subject to sales taxes.

Local governments built their budgets based on the good times. Chemung County relies on sales tax for roughly a quarter of its \$160 million budget, and Elmira, 19% of its fiscal needs. That's compared with an average of 8.7% for local governments in New York state, and 5.2% nationwide, according to the nonpartisan Tax Policy Center in Washington, D.C.

"You get it, you want more of it, you keep spending it," says Mayor Dan Mandell, a Republican retired corrections officer who was elected in 2015 on a promise to clean up the city's finances. "You don't have to be an accountant to know that it's a recipe for disaster."

In two years, Elmira's sales-tax receipts have fallen by 20% to \$5.8 million. The city of 28,000 has 71 police officers, compared with 78 a year ago. Elmira has turned over pur-

sional high-school prom.

For a time, Elmira rode the wave of oil and gas drilling. The U.S. energy boom started in 2009 and helped the country claw its way out of a recession. The Arnot Mall was thronged with workers and their families from just over the border in the shale gas fields of northern Pennsylvania. In 2010, Chemung County led New York state with 13.2% in sales tax growth, according to Tom Santulli, the elected county executive.

When the price of natural gas collapsed in 2012 and transient workers left the area for good, it signaled the beginning of the slow demise of the area's retail sector.

Online sales in Elmira and surrounding towns are rising faster than many areas, up 25% in the second quarter from the same period a year earlier, compared with 19% statewide and 24% nationwide, according to research firm

ing and distributing sales taxes to dozens of different states, which in turn parcel out money to local jurisdictions. So tax receipts from online shopping aren't yet enough to compensate for the decline of brick-and-mortar stores.

Mr. Mandell, Elmira's mayor, cited the decline in sales-tax revenue as a reason the city went from a \$2.4 million surplus in early 2013 to a \$1.6 million deficit in late 2015.

"Here we sit thinking, 'How do we get the retail back?' The tax revenue back?" Mr. Mandell says. "I don't know the answers, I truly don't."

Even Peter Dugo, president of the company that owns the mall, occasionally shops online for items he can't find under its roof or he wants a lower price. He recently purchased air filters and car parts for the mall's vehicle fleet from Amazon.

"The mall's always our first choice," he says. "But if the re-

## WEED

Continued from Page One

considered a menace.

With its warts, a messy sap that can sicken livestock and a tendency to grow in tall, mangy clumps that crowd out other plants, milkweed doesn't enjoy a history of immortalization in oil paint.

Milkweed does eventually sprout fragrant flowers. But by season's end, notes one gardening website, it looks like it got "hit with the ugly stick."

Let the plant grow on purpose, Vermont farmer Andre Quintin says, and "it looks like you don't know what the hell you're doing."

That is, until harvest rolls around these days.

Some makers of winter clothing are touting the white wispy floss in milkweed pods as a plant-based insulating material. Some forecasters say milkweed could yield \$800 an acre this year, which Vermont farmers say is better than they get for most commodities.

Heather Darby, a University of Vermont agronomist who is pushing farmers to plant milkweed as protection against volatile milk and grain prices, gives a presentation to prospective growers on "the five stages of dealing with milkweed."

Her approach is modeled on a well-known psychological program for dealing with grief. "The biggest barrier the farmers have is trying to overcome how they feel about the plant itself," she says. As a crop, "it looks like hell."

Growers who let milkweed run rampant have long been considered poor farmers. Fretting about what passersby will think, Mr. Quintin, 46, tucks his milkweed crop on his "back 40," he says, "so no one can see it from the road."

Among milkweed skeptics is Ken Van Hazinga, 65, who grows grain and hay in Shoreham, Vt., and says he couldn't warm to farming it himself. He is trying not to judge peers who do. "There is no accounting for taste," he says. "Some people might like this plant."

Common milkweed, concen-

trated east of the Rockies and in southern Canada, has a burgeoning market thanks to a handful of Canadian companies and a farmers' co-op that have seized on the idea of stuffing jackets, mittens and other products with its fibers.

A new limited-edition milkweed-packed parka from Quartz Co., based near Montreal, did

well enough last winter that the company will roll it out to 10 retailers this year, says its president, Jean-Philippe Robert.

Jaunty enough for the city and practical enough for the weekend cabin, he says, the "refined Canadian parka" sells for \$850, the same as Quartz's duck-down jacket. He says down is still popular but milkweed attracts customers intrigued by a "plant-based" insulator. "We were shocked by the interest we got."

It's rare for farmers to intentionally grow what are otherwise considered weeds for commercial uses, says Lee Van Wychen, science policy director for the Weed Science Society of America.

Perhaps the "weed" in milkweed is no longer deserved, says John Hayden, a 60-year-old Jeffersonville, Vt., fruit farmer who is growing milkweed and says the plant needs an image makeover. After all, a weed is essentially a wild plant growing where it's not wanted. He isn't sure his willfully grown milkweed qualifies. "We should change the

name to 'milkflower.'

Milkweed's sartorial use harks at least to World War II, when overseas supplies of kapok, an insulating fiber, were cut off. As a wartime substitute, the U.S. rallied civilians to pick milkweed pods for life jackets, says Gerald Wykes, a historian at the Monroe County Museum in Michigan.

After the war, for the most part milkweed went "back to its roots" as a humble weed, he says, because the ornery plant proved challenging to tame as a crop that could be grown in rows and harvested mechanically. The handpicking that went on in the war "wasn't terribly efficient," he says, and the rising use of synthetics lessened interest in all natural fibers.

Recently, says Ms. Darby, farmers have improved machinery that is designed to gently pick off milkweed pods without damaging the whole plant.

And milkweed has recently sprouted back into favor in some quarters because of its role not just as a green stuffing option but as the key source of food for caterpillars of the em-



AMANDA GERVAS

Vermont farmer Roger Rainville has 60 acres of milkweed.

battled monarch butterfly.

There are now more than 2,000 acres of milkweed planted in Vermont and Quebec, although in Vermont, where efforts are newer, "most of the fields are kind of hidden right now," Ms. Darby says.

"To be planting your biggest enemy," she says, "you don't really want people to know you're doing that."

A milkweed nightmare jolted Vermont farmer Roger Rainville, 63, from sleep one night. Mr. Rainville, who has 60 acres of milkweed, raises cattle and grows hay along the Canadian border, dreamed he had devalued his land by blanketing it with weeds and that he had ventured outside into air filled with milkweed fluff. In real life, after his dream, he broke down and mowed one of his milkweed plantings that was near the road. He couldn't stand the way it looked.

"If you drive by a farmer and see they've got milkweed growing everywhere, you think he's lost it," Mr. Rainville says. "My father is rolling over in his grave, I swear to God."

# LIFE & ARTS

## MUSIC REVIEW

# Shania Twain Tells Her Story Her Way

BY BARRY MAZOR

Nashville, Tenn.

**SHANIA TWAIN'S "NOW,"** set for release Friday, is her first new album in nearly 15 years. She has remained, right through that prolonged hiatus, the highest-selling female country artist of all time, with over 100 million albums sold world-wide. But the context has changed dramatically in her life, and in music, since the 2002 release of her album "Up!"

Ms. Twain has struggled with dysphonia, a vocal-cord disorder that makes speech, let alone singing, difficult; and has seen the end of her marriage to rock producer Mutt Lange. He had played a large role in shaping the albums of that 1995-2002 run when her music was ubiquitous, including such cheeky, hook-heavy hits as "Man! I Feel Like a Woman!", "You're Still the One" and "That Don't Impress Me Much." Many will recall those singles as steamy, rule-breaking country videos, a testament, in part, to cable-TV video supremacy in that era. But if fans are checking out Ms. Twain's eye-catching, sometimes comic new video "Life's About to Get Good," it's likely they are doing so online—via outlets that don't necessarily provide equivalent impact.

Both her fans—many of them excited as young women by her celebrations of womanhood and her brash rebukes to overbearing men—and those who were skeptical about the synthesizer-laden dance-music sounds the Twain-Lange team brought into country will be wondering, "Now—what?"

This return album reaches listeners as Ms. Twain reports having come to terms with the vocal disorder, in part by singing in a somewhat lower register—audible, but not dramatically different. And as for the sounds of this album, and the points she makes in the songs, there's no doubt that they're exactly what she wants them to be. If it was commonly suggested during her hit run that the sounds and video images were manipulative concoctions developed by Mr. Lange, and Ms. Twain was merely his puppet, that charge is certainly well-debunked now.

As the songwriter and shot-caller here,



she is singularly responsible for the album's sounds and pointed commentary on her own experiences. That "Life's About to Get Good" video features her trashing a photo of Mr. Lange, who'd left her for her best friend—a subject taken on acerbically there and in "Poor Me," but clearly painful in the ballad "Where Do You Think You're Going," included on the four-track-longer "Deluxe" version of the album. Recovered and happily remarried, she is presented that way in "I'm Alright." Ms. Twain was writing songs reflective of her own experiences before stardom, to a degree in those hits records, too, but never more so than on "NOW."

Some of the new songs are as acoustic as fans of "stripped down" country could want; "Soldier," directed at a departing serviceman, is a moving, melodic example. ("Don't close

the door when you leave.

It's cold out; I want to see

the air when you breathe.")

The once-controversial Twain dance-music style is still in the mix, in such thumpers as "You Can't Buy Love" and "Roll Me on the River," with instrumentation, percussion and vocals cleaner and clearer than in the Lange-produced sessions because the digital-music tools—so familiar today that they should shock no one—have improved. The bulk of the album splits the difference between thump and acoustic, with roots-friendly pop often influenced by Celtic folk-rock.

The autobiographical stories can be both witty and catchy. In "Let's Kiss and Make Up," another deluxe track, she suggests, to an infectious melody, "Let's be open; we're not broken—not yet!" In "Poor Me," mocking self-pity with a country-style joke, she sings, "Still can't believe he'd leave me to love her; so pour me—another."

The degree of directness on display at times comes as something of a surprise. Temperamentally reserved, more inclined to reveal her midriff than her feelings, Ms. Twain had often used jokes, heavy beats or visual distractions to avoid direct emotional engagement with the situations she raises. But if maturity has brought added directness, often claimed as the country-music ideal, floating above the emotions also has some precedent. "Shania Twain: Rock This Country," an exhibit running at the Country Hall



Shania Twain, above, performing in New York in August. Her new album, 'NOW,' is out Friday.

of Fame and Museum through July 15, 2018, traces her career from obscurity and poverty in Northern Ontario to world stages, focusing especially on the attention-riveting outfits seen in her hit videos and live performances: the black-tie and top-hat suit from "Man! I Feel Like a Woman!" The leopard-print hoodie from "Come On Over." The black-lace and leather motorcycle outfit from "I'm Gonna Getcha Good!" On the same floor is "Loretta Lynn: Blue Kentucky Girl," revealing an unstated parallel: Ms. Lynn's celebrated feistiness toward mistreatment, even anger, has always been encased behind a wry smile, her own sort of emotional floating. At this

point, Ms. Twain's similar approach to feisty material might even be seen as traditional.

The new "NOW" album may still not prove enticing for those who find any evidence of production at all "too much," or for the thin-skinned put off by barbed comments about the male of the species, but for everyone else there is much to enjoy and admire here. Ms. Twain's nicely varying sound choices and the considered experience behind the sentiments could prove revealing to a new 21st-century audience.

Mr. Mazor, based in Nashville, reviews country and roots music for the Journal.

## EXHIBITION REVIEW

# ILLUSTRATING THE LETTER OF THE LAW

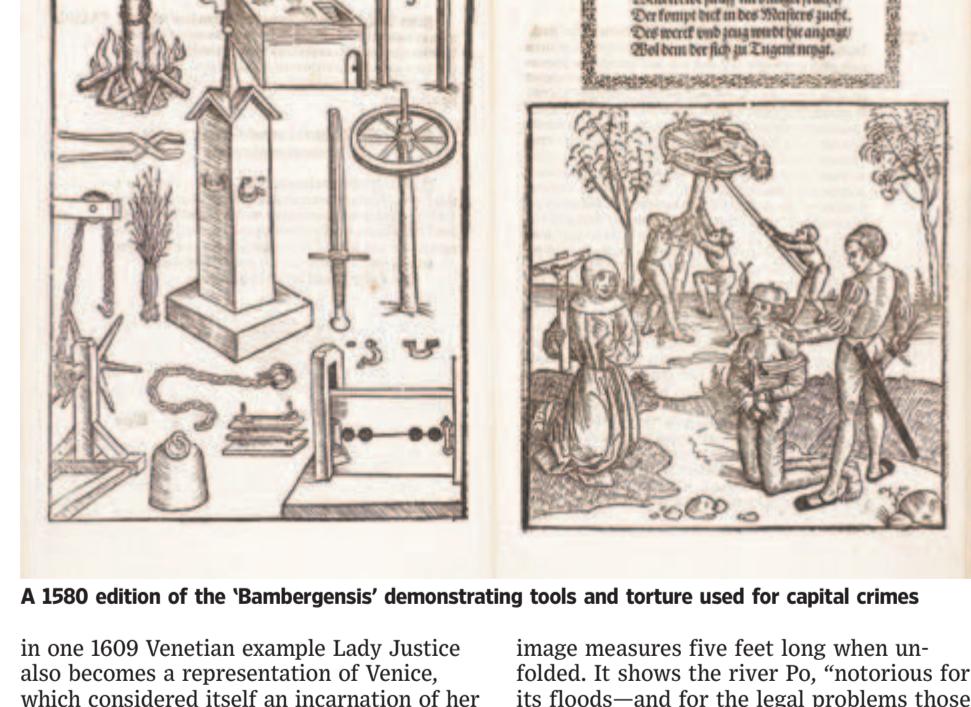
BY EDWARD ROTHSTEIN

New York

**PICTURE BOOKS ABOUT** the law are as superfluous as songs about economics. In legal codices and textbooks, illustrations can even seem frivolous. Before visiting the Grolier Club's exhibition "Law's Picture Books: The Yale Law Library Collection," you might also believe this is as it should be: Justice typically devalues the visual. Not for nothing is Lady Justice blindfolded—as we see in many texts displayed at this unusual exhibition. The law library's rare book librarian, Michael Widener, has been collecting illustrated law books for the institution, and now he and his co-curator, the legal scholar Mark S. Weiner, have offered an eye-opening survey of that specialty.

The idea goes so strongly against the grain that it takes a while to see how distorted the grain has become. Yes, of course Justice is blind. And this is a virtue, since issues of appearance should be less important in rendering justice than matters of essence. Ideally, all surface phenomena—personality, taste (and given contemporary preoccupations, race and gender)—should be treated as distractions. What is important is the rational application of legal principles. This may even be one of the subliminal reasons many courtrooms don't allow image-making beyond the abilities of a sketch artist. Pictures, after all, portray surface, and thus may lie.

The illustrations here, though, are illuminating, suggestive, even essential. They range from a 14th-century Italian diagram of kinship relations to help determine when ecclesiastical law allows marriage, to a contemporary rendition of iTunes's epic "terms and conditions" set into the mouths of comic-strip characters who vaguely resemble Steve Jobs. These are not marginalia: They comment on the legal text, clarify it or undercut it. Such images have been created for legal professionals and for children, for lay readers and for courtroom display. As frontispieces, they proclaim the ideal of justice—



A 1580 edition of the 'Bambergensis' demonstrating tools and torture used for capital crimes

in one 1609 Venetian example Lady Justice also becomes a representation of Venice, which considered itself an incarnation of her spirit. There are also images of crime rendered with suggestive clarity: A 16th-century Flemish volume by Joost de Damhoudere—"among the most richly illustrated books in the history of legal literature"—shows one image of citizens scurrying in the street as offal is poured from a chamber pot above their heads and another of men surreptitiously moving boundary markers.

Illustrations can also be invaluable. A 1580 Italian volume of "an influential treatise on alluvium and riparian rights by Battista Aimo" was apparently responsible for inspiring Mr. Widener to begin this Yale collection. We see images of water and altered land formations: As the water flows it deposits alluvium. What happens, then, to property rights? A late 18th-century Italian

image measures five feet long when unfolded. It shows the river Po, "notorious for its floods—and for the legal problems those floods create." The river is dotted with references to legal cases. The Netherlands, as might be imagined, was figuratively flooded by studies of water law involving calculations of property lines in a continuously shifting landscape.

We see here, too, a 1580 edition of the "Bambergensis," the first systematic codification of a branch of law created for the Diocese of Bamberg, which became "the model for the criminal code of the Holy Roman Empire." The page to which it is open demonstrates tools and torture used in the punishment of capital crimes. It is unlikely the laws would have the same impact were these retractions not so picturesquely portrayed. A 1775 book, "On the Abolition of Torture"—we see its opening illustration—led to the aban-

donment of torture in Austria. Was this why, in 1801, Beethoven, as his musical style celebrated the powers of Enlightenment Reason, ended up dedicating his Opus 28 piano sonata to the book's author, Joseph von Sonnenfels?

Along the way, too, we are teased by notorious cases in which illustrations depicted evidence. One image shows the knife wielded by a California Supreme Court justice, David S. Terry, during a fracas in federal court in which he was a witness supporting the claims of a San Francisco socialite; he was jailed for contempt by U.S. Supreme Court Justice Stephen J. Field. After Terry's release, he apparently threateningly approached Field, who, the exhibition tells us, shot and killed him. (Terry had earlier, in 1859, killed a U.S. senator in a duel; Field typically carried two pistols.) Illustration might also suggest a crime's sole remnants, as in the 1850 portrayal of a fractured skeleton. A Harvard Medical College professor had brutally murdered a Boston businessman and hidden his remains in a privy.

In the helpful catalog, Mr. Weiner notes that some contemporary scholars, using material in Yale's collection, are beginning to study imagery's function in the evolution of legal systems. One suggestion is that the contemporary decline in illustration reflects not greater clarity but a greater "degree of blindness" to human and cultural implications of the law. And who has not read the text of one law or another and not wished that its author had learned to diagram sentences if not the law's consequences? On the other hand, the exhibition includes a satirically illustrated tax code from 1944 occupied France; what Laocoön-like images might arise if something similar were attempted with the current U.S. tax code? We might be grateful we are spared such a rendition and left solely with that ever-expanding text.

Law's Picture Books: The Yale Law Library Collection

The Grolier Club, through Nov. 18

Mr. Rothstein is the Journal's Critic at Large.

## OPINION

### REVIEW & OUTLOOK

#### Macron's European Dream

**S**ay what you will about the substance of his European reform plan, Emmanuel Macron's timing is bold. The ink is barely dry on the ballots Germans used to make clear their discontent with the European Union over the weekend. Yet on Tuesday the French President issued a call for more, more and more Europe.

Mr. Macron's speech at the Sorbonne in Paris was his fullest statement so far of his demand for EU overhaul. His vision sounds a lot like a new country, a true United States of Europe. He used the words "sovereign" or "sovereignty" 23 times in his speech, including in its title. His EU would be responsible for many of the functions traditionally performed by a nation-state, such as defense, taxation, migration control and economic regulation.

Some European politicians have tried for decades to move Europe in this direction. European Commission President Jean-Claude Juncker trod much of the same ground in his state of the union address earlier this month. Mr. Macron's plan goes further on substance, and it carries more weight because it comes from someone actually elected to office.

This last point helps explain why the most persuasive parts of Mr. Macron's speech were his calls for greater democracy within the EU. This includes reforms to the European Parliament to make it more representative. If Europe is going to have a parliament, its members should be elected at least partly from pan-European political parties that address Europe-wide issues.

**He wants more EU integration. Voters want reform closer to home.**

The problem is everything else, especially Mr. Macron's dreams of fiscal and economic union. He wants to create an EU finance ministry, funded by corporate and other taxes, that can spend money across the bloc with minimal interference from national capitals.

Mr. Macron also wants to harmonize—eurospeak for raise—corporate taxes across the EU. He'd further establish Franco-German regulatory excess as the benchmark for the rest of the EU by melding the two countries' rules on bankruptcy and other matters as a start on EU standardization.

This is a recipe for political failure because Europeans already know these policies are economic duds. That's partly why Brits voted to leave the EU, and why Germans returned a small free-market party to their parliament this weekend and are likely to object to much of Mr. Macron's program. Mr. Macron himself was elected to liberalize the French economy. To the extent French voters cared about the EU they seemed to think his reforms would involve less Brussels heavy-handedness, not more.

Those experiences are a warning to Mr. Macron and other European integrationists that the bloc needs to aim for growth. One of Mr. Macron's stronger moments Tuesday came when he criticized Europe's political class for constantly blaming Brussels for economic problems that originate closer to home. Voters see through the ruse and are demanding better leadership in national capitals. If Mr. Macron wants to save Europe, he can best help the cause by proving that even France can reform itself and deliver new prosperity.

#### ObamaCare's Saviors

**U**.S. Senate Republicans on Tuesday abandoned their latest effort to replace ObamaCare, or, more precisely, a handful of Senators defeated the Graham-Cassidy proposal despite their campaign rhetoric. Mark them down as ObamaCare's saviors.

Top billing goes to Kentucky's Rand Paul, who rode into Congress in 2010 on repealing the Affordable Care Act but in office has become the definition of a feckless libertarian. He helped to kill the Senate's first replacement bill over the summer because it did not repeal every last footnote in the law. Then he supported "skinny repeal" that merely repealed the individual and employer mandates and medical-device tax, justifying that vote as realistic.

Graham-Cassidy would have done the same as the skinny bill plus devolve Medicaid control to the states—the most significant entitlement reform in decades—and the same Rand Paul who scolds everyone about runaway federal spending said no. Perhaps he thinks his vote for the skinny bill will protect him politically, but no one should be fooled. Mr. Paul did more than Chuck Schumer to save ObamaCare.

John McCain is another member of this dishonor roll, and he's been reminding everyone

**Rand Paul did more than Chuck Schumer to save the Affordable Care Act.**

that he kept his word that the process must be bipartisan. His commitment to Senate procedure is apparently more ironclad than his word to Arizona voters, who re-elected him against Tea Party challengers in part on his promise to repeal the law.

Lisa Murkowski of Alaska supported ObamaCare repeal until the moment a Republican would sign it. She had not by Tuesday publicly announced whether she'd vote for Graham-Cassidy, though her Alaska First demands in private all but included an unmarked cargo plane dropping off pallets of euros in Juneau.

And don't forget Maine's Susan Collins, who opposed both bills after more or less token consideration. That she thought her state couldn't manage Medicaid better than the federal government is something to remember if she runs for Governor next year.

Mr. Schumer is now vowing bipartisan cooperation—though only on his terms, which means bailing out the ObamaCare exchanges and insurers. Republicans would be wiser to turn to tax reform, and see if they can avoid blowing that one too. Maybe anger from GOP voters will force them to revisit health care next year.

The Obama Administration appealed the ruling and had the good fortune of landing the case before a D.C. Circuit Court of Appeals panel with two Obama appointees. Treasury Secretary Steve Mnuchin, who leads FSOC, refuses to drop this appeal, and the White House has been cagey about why he hasn't.

The D.C. Circuit has agreed to stay the case pending the completion of a Treasury report ordered by President Trump reviewing FSOC's Sifi designation process including the legal frailties that Judge Collyer cited in her ruling. The report, due Oct. 18, could provide the basis for revising the Sifi review process and rescinding MetLife's label.

But neither is certain or imminent since Trump Administration appointees likely won't constitute a majority of the council for several months. One of the Obama holdovers is Richard Cordray, the Consumer Financial Protection Bureau chief whom Mr. Trump refuses to fire, despite ample cause. The delay could be longer if Mr. Trump reappoints Janet Yellen as Federal Reserve Chair. Meantime, the D.C. Circuit could issue an adverse ruling that ties the Administration's hands and sets a bad precedent.

FSOC reviews a Sifi's designation each year, which ostensibly gives MetLife and others an opportunity to escape the too-big-to-fail penalty box. But the council's failure to reach a conclusion about AIG—which has shrunk its balance sheet by half since 2008—highlights the arbitrary nature of the process, which is guided more by politics than financial risk.

The broader financial system and economy would benefit from clearer rules, but politicians and regulators prefer to retain discretion that gives them more power. The Trump Administration said it would change that, but so far it's acting like Obama-as-usual.

**T**he Trump Administration has been promising to restore more legal certainty to arbitrary financial rules, but we're beginning to wonder. Financial regulators on Friday failed to decide whether to remove AIG's "systemically important" label. The political punt underscores the imperative for the U.S. Treasury Department to clarify the government's opaque review process and drop its appeal of MetLife's challenge to its too-big-to-fail status.

Dodd-Frank empowered the Financial Stability Oversight Council (FSOC), which is comprised of 10 regulatory heads, with deciding whether nonbanks are "systemically important financial institutions." The Sifi label imposes bank-style liquidity and capital requirements, among other compliance burdens, in return for an implicit taxpayer guarantee.

While the law outlined myriad criteria that FSOC could consider, Dodd-Frank left enormous discretion to regulators to write and enforce the rules. After a formal rule-making, FSOC in 2012 identified six factors it would use to assess a nonbank's vulnerability to financial distress and how its potential instability could affect the broader financial system.

Yet in its analysis of MetLife, an insurance company that isn't a bank, FSOC considered only the risks to the financial system. It failed to weigh MetLife's liquidity risk or leverage, both of which showed financial strength. The council provided no explanation for why it departed from its guidance, nor did FSOC calculate the costs of its designation.

Metlife sued, and last year federal Judge Rosemary Collyer issued a scathing rebuke of the council's "arbitrary and capricious" designation. In addition to rapping FSOC for not evaluating MetLife's vulnerability, Judge Collyer explained that the council "never projected what the losses would be, which financial institutions would have to actively manage their balance sheets, or how the market would destabilize" if MetLife failed.

FSOC "hardly adhered to any standard when it came to assessing MetLife's threat to U.S. fi-

**U.S. Treasury abdicates on MetLife's Sifi designation.**

#### The Populist Wave Reaches Germany



**POLITICS & IDEAS**  
*By William A. Galston*

Germany's economy is so fundamentally strong and its historical memories so potent that some hoped it would be immune to the populism surging through the West. Sunday's elections showed this notion to be an idle hope, while underscoring what is mainly driving the populist swing: immigration. The outcome will reshape politics in Germany and throughout Europe.

The share of the popular vote won by Germany's ruling coalition dropped to just over half from two-thirds in 2013, and the center-left Social Democrats have announced they will not participate in the next government.

Now Chancellor Angela Merkel and her center-right Christian Democratic Union/Christian Social Union bloc face a difficult choice: either form an unprecedented coalition with the Greens and the business-oriented Free Democrats, or create a minority government dependent on the tacit support of other parties.

The unreliability of the latter option is obvious. The problem with the former is reconciling the would-be coalition's broadly divergent views. The Greens, whose support held even compared with 2013, are demanding a phaseout of the internal combustion engine, to the consternation of Germany's automobile industry, which employs more than 800,000 workers.

Meanwhile the Free Democrats, who gained 5.9 points in the popular vote, are skeptical of calls for an "ever deeper" European Union. Their leader, Christian Lindner, wants to phase out the European Stability Mechanism, which rescued hard-pressed EU members during the economic crisis.

Mr. Lindner rejects French President Emmanuel Macron's call for a common eurozone budget, a stance he says is his party's red line in coalition talks. Because no CDU-led majority coalition is possible without the Free Democrats, and because no changes in the EU can occur without German support, the election will force Mr. Macron to scale back his ambitious plans to reform European institutions.

Then there's the 7.9-point gain by the Alternative for Germany, or AfD, a far-right populist party that displays disquieting overtones of the darkest period in German history. The AfD is now Germany's third-largest party, the second-largest in the former East Germany, and the leading party in the eastern state of Saxony. This is alarming. The AfD threatens the entire postwar order.

In an interview two weeks before the election, Germany's foreign minister, Sigmar Gabriel, said that if the AfD

achieved parliamentary status, "we will have real Nazis in the German Reichstag for the first time since the end of World War II." He may be right.

Jens Maier, a member of the AfD's parliamentary list, condemned the creation of "mixed races," a classic Nazi term. Björn Höcke, leader of the AfD in the eastern state of Thuringia, said Germany should stop atoning for its Nazi past. Even Alexander Gauland, the AfD's co-leader and a former member of the CDU, says that "we have the right to be proud of the achievements of the German soldiers in two world wars."

This said, the AfD's rise highlights widespread grievances that the governing coalition has largely ignored. Founded just four years ago in opposition to the EU's bailout of Greece, the

**The election shows that the phenomenon can't be explained by economic dislocation.**

AfD shifted its focus to immigration during the refugee crisis in 2015, demanding that Germany close its borders. Outbreaks of criminality and the fear of terrorist attacks by asylum seekers strengthened the party's hand, and it rode the issue to Sunday's electoral breakthrough.

Some analysts of populism's recent rise emphasize economic factors, such as deindustrialization. Others focus on identity issues, such as immigration and national sovereignty. Research conducted in the wake of the Brexit vote and Donald Trump's election lends support to the identitarian thesis, and the German vote further strengthens it.

The German unemployment rate is low, and the German economy has recovered fully from the Great Recession. Although the former East Germany still lags the rest of the country, the gap has narrowed substantially.

There are no economic developments between the 2013 and 2017 elections that can account for last Sunday's political upheaval. If Mrs. Merkel hadn't surprised the German electorate by opening her country's gates to an unprecedented number of refugees without adequately handling the ensuing difficulties, the AfD probably would have remained a fringe party. Historians will judge whether it was worth it.

One thing is clear: If parties of the center-left and center-right cannot agree on politically sustainable responses to immigration, the issue will continue to fuel extremist politics throughout the West. And shifting sentiment within Mrs. Merkel's own party may force her to change course.

#### LETTERS TO THE EDITOR

#### Maybe the Fed's Staffers Could Get a 2% Cut

William M. Isaac and Richard M. Kovacevich ("The Fed Should Stop Worrying and Learn to Love Low Inflation," op-ed, Sept. 19) are correct in suggesting the Federal Reserve should stop worrying about getting inflation up to its 2% target noting, among other things, that "inflation does not create greater economic growth."

However, there are two even stronger economic reasons the Fed should stop worrying about inflation. First, there is no compelling theoretical case for any inflation rate other than zero. The idea that the economy will do better with "moderate inflation" is based on conjecture, not strong economic theory. If inflation reduces output growth even a little, it is very difficult to argue that the best rate of inflation is something other than zero. At the July 1996 FOMC meeting, Fed Chairman Alan Greenspan stated his preferred rate of inflation was zero, "if inflation is properly measured."

Second, it isn't clear that the Federal Open Market Committee can do much about inflation. There are two theories of inflation. One is that inflation is the consequence of excess growth of the money supply. The other is that inflation is the consequence of the gap between actual and potential output. The problem is neither theory works in practice. Neither can account for the behavior of inflation over at least the past 50 years. Perhaps Messrs. Isaac and Kovacevich should have said the Fed should stop trying to do what it cannot do.

DAN THORNTON, PH.D.  
Valley Park, Mo.

Mr. Thornton is a retired vice president of the Federal Reserve Bank of St. Louis.

The Fed should certainly be vigilant against inflation. But too-low inflation also imposes costs and dangers. A lack of inflation means that real-wage cuts in a recession cannot be achieved through keeping nominal wages constant, and thus employers are more likely to fire workers. And given that no central bank can target inflation with perfect accuracy, persistently low inflation raises the chances of falling into deflation, which the authors recognize as harmful.

Even if the Fed has successfully avoided the deflation threat for now, keeping inflation at around 2% when the economy is growing is insurance against deflation in a future recession.

The authors also cite low levels of business investment over the past eight years and point to a lack of confidence in monetary policy as a factor. A more likely cause is a lack of confidence in growth. Tighter monetary policy would raise borrowing costs and exacerbate rather than relieve this problem.

WILLIAM MILES  
Wichita State University  
Wichita, Kan.

Low interest rates means that average consumers get close to zero interest on their savings accounts. One might wonder if low interest rates inhibit inflation. If interest rates were normal for the past 10 years, there would be considerably more money in savings and retirement accounts to power consumer spending. This would increase demand for products, which can require more workers and higher wages that raise inflation.

RON MINARIK  
Mystic, Conn.

A fourth possible explanation for this conundrum is the passing from the economy of the formerly largest generation in U.S. history—the baby boomers. During their peak earning years in the 1990s and early 2000s, their overwhelming wealth accumulation funded the roaring economy. Now with nearly half of them retired, that wealth, labor and expertise are being withdrawn from the economy to fund their retirements. Is it any wonder that employment, labor-force participation, interest rates and productivity are low?

ROB OBERST  
Solon, Ohio

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to [wsj.ltrs@wsj.com](mailto:wsj.ltrs@wsj.com). Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

## OPINION

# CEOs Should Swear Off Tax Loopholes

By Steven A. Kandarian

**T**here are more than 4,000 tax lobbyists in Washington waiting on marching orders from people like me: CEOs of large companies who are watching closely as U.S. Congress undertakes what could be the most comprehensive tax reform in a generation.

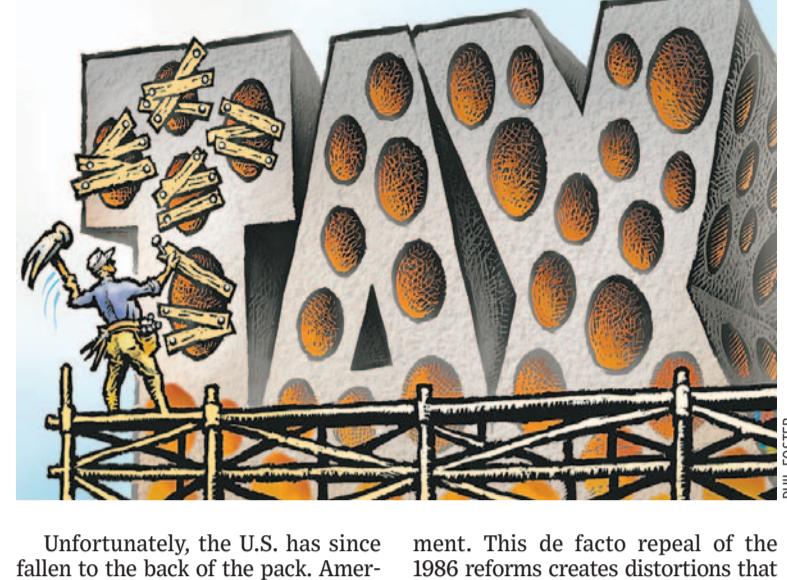
I've already told my shareholders that this opportunity shouldn't be missed. As long as tax reform doesn't fundamentally threaten my company's business model, I will support it. If every company and industry views its tax preferences as sacred, reform will be impossible.

Thirty years ago, when Congress last overhauled the tax code, many business leaders had reached the same conclusion. The broader goal of lower tax rates and faster economic growth transcended short-term corporate self-interest.

If Congress is to succeed on tax reform, businesses like mine need to put the national interest first.

The Tax Reform Act of 1986 closed loopholes, cut credits and deductions, and lowered rates. Congress worked hard to wring out preferential treatment, and the result was a simplified system and a broadened tax base.

After President Reagan signed the bill into law on Oct. 22, 1986, the top corporate rate dropped to 34% from 46%, giving America one of the most competitive tax codes among major industrialized nations at that time.



Unfortunately, the U.S. has since fallen to the back of the pack. America's top statutory corporate rate, now 35%, is the highest in the developed world. Add state and local taxes, and the average statutory rate rises to about 40%. In contrast, KPMG reports that the average corporate-tax rate in Asia is 21.4%; in Europe, it's 19.7%.

Most American corporations don't pay taxes at the full statutory rate, and their effective tax rates have fallen as lawmakers and lobbyists have chipped away at the 1986 reforms. In 1989, the first full year of the 34% statutory rate, the nation's largest companies paid an effective tax rate of 32.9%, according to a 1992 study by the General Accounting Office.

Compare that with the five years from 2007 to 2011, when corporations with more than \$10 million in assets paid an average effective rate of just 22%, according to a report last year by the U.S. Treasury Department.

This de facto repeal of the 1986 reforms creates distortions that now drive business behavior.

The argument for high corporate-tax rates is that companies ought to pay their fair share. But businesses merely pass on the value they create to real people—owners, customers or employees.

Fifty years ago the economic consensus held that almost the entire burden of the corporate tax would fall on shareholders. But that assumed a closed economy in which American companies competed for the same workers and customers. Today, capital moves relatively freely across borders and businesses must compete globally. The country with the lowest corporate-tax rate has a competitive edge.

America's current system has also induced American companies to park an estimated \$2.6 trillion abroad. Under current U.S. law, these corporate profits are taxed twice—once by the country in which they are

earned, and again by Washington when they are repatriated. The U.S. is one of the few developed nations that still adheres to this outdated notion of taxing profits world-wide.

Switching to a so-called territorial system, under which the U.S. would tax only profits earned within its borders, would encourage companies to bring that \$2.6 trillion home and put it to productive use.

To achieve meaningful tax reform, America's business leaders need to do our part, as our predecessors did 30 years ago. If Congress is to succeed, we must be willing to put the national interest ahead of our narrow self-interest.

It won't be easy. The lobbyists and special interests have been busy since 1986. The tax code is again stuffed with loopholes, credits and deductions. Every provision benefits some company or industry, my own included.

The lobbyists hired to protect such preferences always predict doom if they are stripped away. But if our businesses cannot survive without tax subsidies, we should ask ourselves how much value we are truly creating for customers and shareholders.

Done right, tax reform will drive faster economic growth, create additional jobs and foster a more-dynamic economy as capital-allocation decisions are no longer distorted by the tax code.

The instinct for self-preservation tells business leaders to defend our preferences at all costs. But enlightened self-interest shows that putting the good of the overall economy first will benefit everyone in the end.

*Mr. Kandarian is chairman, president and CEO of MetLife Inc.*

## Conservatives For Criminal Justice Reform

By Grover Norquist

Every so often I'm asked to list the conservative movement's most important recent accomplishments. One always ranks near the top: criminal justice reform.

With leadership from Republican governors and legislators and groups such as Right on Crime, conservatives have pushed to rein in runaway prison spending and adopt cost-conscious correctional policies that improve public safety. Starting 10 years ago in Texas, more than half of all states have now shifted course, changing laws to ensure that violent offenders serve hard time while those who aren't a danger are steered toward less-expensive alternatives that can help alter the paths of their lives and make communities safer.

More than 30 mostly Republican states have reduced crime and imprisonment.

Taxpayers benefit. In 2007 the Pew Charitable Trusts projected that state prisons would grow 14% over five years, costing states \$27.5 billion more. Instead, the reforms have bent the curve. The state prison population is down 5%. Between 2010 and 2015, 31 states reduced both crime and imprisonment, proving that fiscal discipline and safe streets can go hand in hand.

Many of us on the right are concerned by rumblings we're hearing in Washington and beyond. It's disturbing that reports of isolated increases in violence in a handful of cities are fueling predictions of a looming American crime wave. There's no evidence for such predictions. The U.S. violent crime rate rose 3.4% last year, but it remains about half of what it was in 1991, when crime reached its modern-day peak.

While any uptick in crime merits our attention, we must be clear-eyed in our interpretation of the numbers and while developing an effective response. Americans are safer than they've been at almost any time in the past quarter-century, and returning to the failed policies of the past would be a costly mistake.

For decades, state spending on prisons and jails was the second-fastest-growing area of state budgets, behind only Medicaid. From 1980 to 2009, state corrections spending grew more than 400%. In North Carolina in 2016, the average cost of incarcerating an inmate was \$89.30 a day, or \$32,594 a year—compared with only \$4.85 a day (\$1,770 a year) for probation or parole.

Some criminals need to be in expensive prison cells, but shouldn't we be doing a better job of determining who? For too long, courts and corrections officials were given a blank check to incarcerate at will yet were never held to answer for the poor results: high recidivism rates, driven by offenders who left prison with unresolved drug and mental-health problems and no job prospects.

We must not go backward, and the states are showing us why. In 2007, the Texas Legislature projected the state would need 17,000 new prison beds over the next five years, at a cost of \$2 billion. Conservative lawmakers and then-Gov. Rick Perry instead expanded the use of drug courts, community treatment and other alternatives. Ten years later, the reforms have allowed Texas to avoid more than \$3 billion in new spending and close four prisons with four more planned closures. Crime has dropped to levels not seen since the 1960s.

Since Texas' pioneering move, other states have followed. After South Carolina passed substantial criminal justice reforms in 2010, the state cut its prison population by 14%, closed six prisons and saved \$491 million—all while crime continued to decline.

The latest example is Louisiana, the state with the highest incarceration rate. In June its Legislature enacted a 10-bill reform package that is expected to reduce incarceration by 10% and save more than \$250 million over the next decade. Some savings will be directed to programs that reduce recidivism and help crime victims. Six of the nine bill authors were Republicans.

Many of America's most conservative states are proving that criminal justice reform works: Georgia, South Dakota, Utah—the list goes on. Strong conservative leadership has been essential. Continued progress won't be possible without it.

*Mr. Norquist is president of Americans for Tax Reform and a Signatory to the Right on Crime Statement of Principles.*

## I Used to Sit for the National Anthem Too

As a youngster, I didn't salute the flag or stand for the national anthem. It ran against my religious teachings.

Each year, my mother would take me to the principal's office on the first day of school and explain that we were

Jehovah's Witnesses, which meant that I would remain silent while my classmates recited the Pledge of Allegiance every morning. When my father, who was divorced from my mother and not a member of the church, took me to sporting events, he stood for the national anthem while I sat. He never said anything to me about it. He respected my mother's desire to raise her children in the faith of her choice.

Growing up, I was taught that the flag was an idol and that saluting it was a form of idolatry, which was forbidden. Indeed, all forms of patriotism were discouraged. No joining the military. No running for office. No voting or taking sides in political debates. Even membership in civic groups, such as the Boy Scouts, was frowned upon.

Over the decades, Witnesses endured fierce opposition for holding such beliefs. They were tried for sedition. Their homes were vandalized and their businesses were boycotted. In the 1930s and '40s, church

members were physically attacked by angry mobs of people who prided themselves on their loyalty and patriotism. The Witnesses turned to courts for protection and were mostly successful in obtaining it, whether the issue was door-to-door proselytizing, conscientious objection to the draft or mandatory flag salutes.

The reason the principal had to accede to my mother's wishes is because the U.S. Supreme Court had ruled, in *West Virginia State Board of Education v. Barnette* (1943), that forcing children to salute the flag violated the U.S. Constitution. The court held that saluting the flag is a form of utterance and that the right to not speak is as equally protected under the First Amendment as the right to free speech.

"The case is made difficult not because the principles of its decision are obscure but because the flag involved is our own," wrote Justice Robert Jackson for the 6-3 majority. "Nevertheless, we apply the limitations of the Constitution with no fear that freedom to be intellectually and spiritually diverse or even contrary will disintegrate the social organization. To believe that patriotism will not flourish if patriotic ceremonies are voluntary and spontaneous instead of a compulsory routine is to make an unflattering estimate of the appeal of our institutions to free minds." The decision was handed down on Flag Day.

The players have said they are protesting the unjust treatment of blacks by law enforcement and cite the spate of police shootings that have come to light in recent years. Team owners and NFL officials will have to decide whether to continue indulging such behavior on com-

To my mother's chagrin, the religion didn't stick and I left the church voluntarily in my teens.

I still remember attending a college basketball game with my father and standing for the national anthem for the first time. He did a little double take as I rose beside him.

**But here's the question: Is the 'police brutality' that NFL players are protesting based in reality?**

Then he put his arm around me and pulled me closer to him. I've been a political commentator for more than 20 years now. I vote. I take sides. A large framed reproduction of Jasper Johns's "Flag" hangs above the fireplace in my living room.

But when I see, as all Americans did on Sunday, professional athletes catching flak from the president on down for taking a knee during the national anthem, it takes me back to my childhood. I can't help but feel that.

The players have said they are protesting the unjust treatment of blacks by law enforcement and cite the spate of police shootings that have come to light in recent years. Team owners and NFL officials will have to decide whether to continue indulging such behavior on com-

pany time, but the larger question is whether what is being protested has some basis in reality beyond anecdotes and viral videos on social media.

There is no national database of police shootings—some departments report more-detailed data than others—but the statistics that are available suggest that police today use deadly force significantly less often than in the past. In New York City, home to the nation's largest police force, officer-involved shootings have fallen by more than 90% since the early 1970s, and national trends have been similarly dramatic.

A U.S. Justice Department report published in 2001 noted that between 1976 and 1998, the teen and adult population grew by 47 million people, and the number of police officers increased by more than 200,000, yet the number of people killed by police "did not generally rise" over this period. Moreover, a "growing percentage of felons killed by police are white, and a declining percentage are black."

A separate Justice study released in 2011 also reported a decline in killings by police, between 1980 and 2008. And according to figures from the federal Centers for Disease Control and Prevention, the rate at which police kill blacks has fallen by 70% since the late 1960s.

An increase in press coverage of police shootings isn't the same thing as an increase in police shootings.

## U.S. Troops Need a New War Resolution From Congress

By Tammy Duckworth

**M**ost people would run away from gunfire, but America's service members run toward it. They watch their brothers and sisters die. They've been tired, hungry, frustrated, broken down and angry. They miss holidays, anniversaries, births and funerals before coming home with the physical and emotional scars of war. They laugh and cry about it all—a gallows humor only those of us who have de-

ployed can appreciate.

Despite the toll, America's men and women in uniform continue to deploy time and again, shouldering a heavy burden on behalf of their nation.

Silently and professionally, they have always—always—done their jobs defending the U.S. Constitution and its values.

Congress, on the other hand, continues to neglect the Constitution our troops defend by refusing to replace outdated Authorizations for Use of Military Force—an AUMF

passed in 2001 to go after the perpetrators of 9/11 and another passed in 2002 to begin the war in Iraq, a war I disagreed with but am proud to have fought in.

I couldn't have imagined that both AUMFs would still be in place more than 15 years later, used to justify a seemingly endless war, without recent public debate about America's objectives or what we're still asking of those we've sent into harm's way. U.S. troops downrange need to know they have the moral support—and legal backing—of their country. Congress hasn't given them that.

That's why this month I joined a bipartisan group of 36 senators supporting Kentucky Republican Rand Paul's amendment to the defense authorization bill that would gradually repeal the current AUMFs and provide Congress with an opportunity to debate a new authorization of military force against today's enemies.

As both a combat veteran and U.S. senator, I know one of Congress's most solemn responsibilities is deciding when and how we choose to send Americans into combat. The AUMF—in setting the legal framework, the parameters and constitutional basis under which we go to war—represents that responsibility. It isn't something we should shirk.

Debating an AUMF serves a moral purpose as well. With fewer Americans choosing to serve in uniform and a growing divide between civilians and our military, the public is

becoming more removed from those on the battlefield. That lets Americans distance themselves from the moral burden of sending service members off to die. By ignoring the AUMF for 16 years, each of us—not

**Current authorizations for the use of military force, passed in 2001-02, are outdated.**

just lawmakers—fails to do our part of the shared responsibilities of being an American citizen.

Though we failed to force this conversation, we came closer than ever. I hope the nation soon engages in this long-overdue debate with an honest, sober accounting of the true costs of war—in dollars and in lives—and provides our military a clear set of objectives it can take into the field.

American troops will carry out any mission they're asked to. They always have. But the courage our troops show every day isn't being matched by those sworn to represent them in Washington.

If we can't even tell the troops who risk their lives for us what we need them to do, what are we doing in Congress?

*Ms. Duckworth, a Democrat, is a U.S. senator from Illinois.*

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## LIFE & ARTS

MUSIC REVIEW | By Jim Fusilli

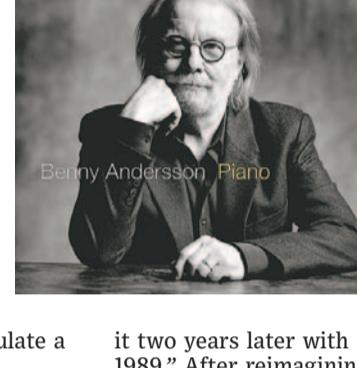
# ABBA, Melancholy and More

An ABBA alum recasts his buoyant compositions as solo renditions

**WITH "PIANO"** (Deutsche Grammophon), out Friday, Benny Andersson reclaims his compositions, recasting them as solo renditions that are most often somber, restrained, wistful and altogether lovely. Considering that six of the album's 21 tracks were written for ABBA, his still immensely popular Swedish quartet, the 70-year-old is treading on pop's sacred ground. But on "Piano," thanks to his elegant performances, the songs he wrote alone or with collaborators, most notably his ABBA band mate Björn Ulvaeus, heresies withstand charges of heresy.

Mr. Andersson's biography is understandably overwhelmed by his achievements with ABBA, which formed in 1972 and disbanded 10 years later. In addition to co-composing the group's many flawlessly constructed hits, his keyboards were vital to the arrangements of such tracks as "Dancing Queen," "Knowing Me, Knowing You," "S.O.S.," "The Winner Takes It All" and "Take a Chance on Me"—all of which appear in the stage musical and film "Mamma Mia!" "Mamma Mia: Here We Go Again," a sequel to the film, is in production and scheduled for release in July 2018. It won't suffer from a lack of catchy tunes: The ABBA catalog is bountiful enough to populate a new score.

But Mr. Andersson has had a rich and varied career outside of ABBA. With lyricist Tim Rice, he and Mr. Ulvaeus wrote the score for "Chess," which was released in 1984 as a concept album two years before the Cold War-era musical opened in London's West End. (New Wave fans may recall "One Night in Bangkok," a cross-over hit culled from "Chess.") He issued his debut solo album, "Klinga Mina Klockor," in '87 and



it two years later with "November 1989." After reimagining a series of novels by Vilhelm Moberg for the musical "Kristina från Duvemåla," he formed Benny Andersson's Orkester. Each of these projects is represented on "Piano."

Shorn of radio-friendly or theater-minded presentations, Mr. Andersson's performances reinforce his affinity for the Swedish folk music and *schlager*—a kitschy form of pop—that informed ABBA's sound. Classical music, particularly the compositions of



RON FREHM/ASSOCIATED PRESS

ABBA performing in New York in 1979, above; Benny Andersson's new album, left, features several of the group's songs in addition to his solo and theatrical compositions

fol-

lowed

Bach, has been his great passion for the past 25 years. Unlike other pop master-craftsmen of the era, his writing is all but void of the influence of African-American musicians, though in his new reading of "Thank You for the Music," he adds a touch of ragtime. "Scott Joplin," he said with admiration when we spoke by phone last week. "I could have done it entirely in his style."

On "Piano," Mr. Andersson proves a superior instrumentalist who communicates the emotional core of the compositions. Here, that core is inherently melancholy

and bittersweet, humble and contemplative. The overall effect evokes sadness but not misery.

There is hope, not only in the occasional flick of the right hand or the ticklish introduction of "The Day Before You Came," but in the transmitted beauty and sincerity.

Mr. Andersson, who was in his studio in Stockholm when we spoke, said he was surprised by the overall muted tone of "Piano" when he listened to the 21 tracks in one sitting, after having recorded two or three per session. "I'm definitely not a melancholy guy," he said, adding: "There is

something holding them all together. When everything else is gone, the core is melancholy. When I make my choices, this is what comes out."

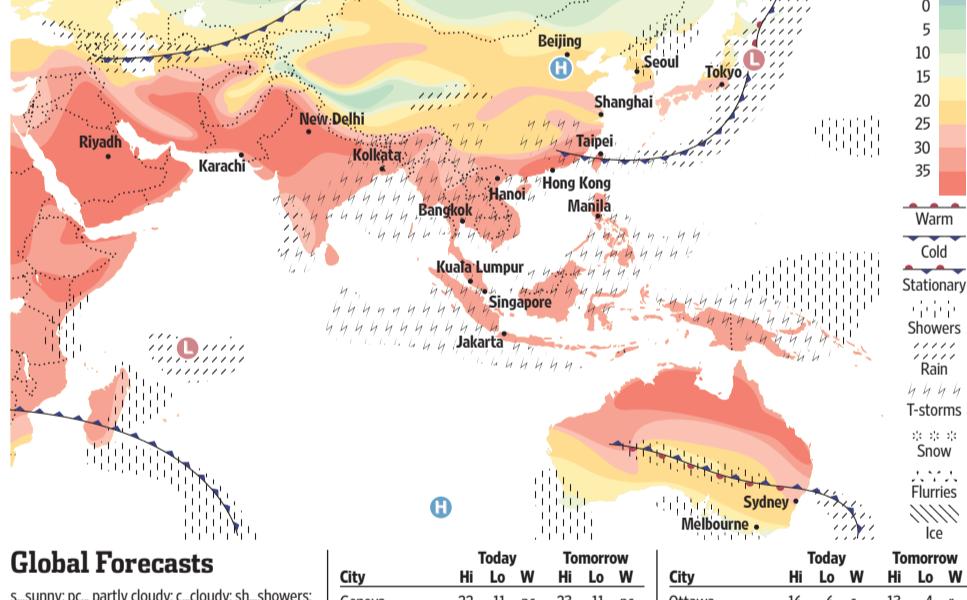
Those who know ABBA only through its chipper hits may be unaware that melancholy was among its defining characteristics. ABBA's version of "The Day Before You Came" is set amid feathered funk, but the lyrical narrative is the tale of a discontented woman "living without aim." Mr. Andersson's new rendition lays bare the composition's haunting meaning. The group's "Happy New Year" tells of a dying romance, albeit with a rousing chorus that distracts from its message. On "Piano," the song is a poignant lament. Mr. Andersson sets aside the brawny theatricality of ABBA's "I Let the Music Speak" and frames it as a fragile waltz, its jaunty interlude surrendering to the weight of sorrow.

"Piano" includes six songs from "Chess," and Mr. Andersson recasts them as well. "Anthem" is whispered. Boisterous on stage, "Mountain Duet" is almost tranquil here with no shortage of sentimentality as the pianist eases into its melodramatic shifts. His performances quietly demand a fresh visit to the musical. He said he and Messrs. Rice and Ulvaeus would meet next week to discuss its future; it's been reported that "Chess" will return to Broadway in 2018.

More than a curiosity or an appendage to the ABBA legacy, "Piano" affirms that Mr. Andersson, presented in stark relief, is a composer and instrumentalist of the first rank. Irrefutably melancholic, the album is also irrefutably beautiful. With virtuosity in service of elemental emotions, its effect lingers long after the final track fades.

Mr. Fusilli is the Journal's rock and pop music critic. Email him at [jfusilli@wsj.com](mailto:jfusilli@wsj.com) and follow him on Twitter @wsjrock.

## Weather



## Global Forecasts

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

t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

Today Hi Lo W Tomorrow Hi Lo W

City Hi Lo W Hi Lo W

Amsterdam 19 13 pc 21 12 t

Anchorage 13 8 r 11 4 c

Athens 24 18 t 22 17 t

Atlanta 32 20 s 29 19 s

Bahrain 38 23 s 38 25 s

Baltimore 25 11 s 23 11 s

Bangkok 33 25 t 32 25 t

Beijing 23 9 s 26 11 s

Berlin 18 11 pc 18 9 pc

Bogota 19 9 r 19 9 r

Boise 25 10 s 25 11 pc

Boston 24 10 pc 18 10 s

Brussels 19 12 pc 23 13 t

Buenos Aires 17 12 c 18 12 c

Cairo 30 21 s 30 22 pc

Calgary 22 5 pc 23 8 s

Caracas 31 25 pc 31 26 pc

Charlotte 32 17 s 27 16 pc

Chicago 23 13 s 22 12 s

Dallas 28 19 c 26 18 c

Denver 14 7 r 19 8 c

Detroit 21 11 s 20 9 sh

Dubai 38 29 s 38 29 s

Dublin 16 11 pc 15 7 sh

Edinburgh 17 9 pc 16 7 r

Frankfurt 20 12 pc 20 13 pc

Today Hi Lo W Tomorrow Hi Lo W

City Hi Lo W Hi Lo W

Geneva 22 11 pc 23 11 pc

Hanoi 33 25 pc 32 26 c

Havana 29 21 t 28 22 t

Hong Kong 34 29 s 32 28 t

Honolulu 31 24 pc 31 23 pc

Houston 32 23 pc 32 19 pc

Istanbul 23 17 p 21 17 c

Jakarta 33 25 c 33 25 pc

Johannesburg 21 10 pc 23 12 c

Kansas City 23 12 s 23 12 s

Las Vegas 31 19 s 32 18 s

Lima 20 15 pc 20 15 pc

London 19 12 pc 19 10 sh

Los Angeles 32 19 s 31 17 s

Madrid 29 14 s 29 14 s

Manila 31 26 t 32 26 t

Melbourne 16 8 pc 18 9 pc

Mexico City 21 15 t 22 15 t

Miami 32 25 sh 30 24 t

Milan 24 13 p 23 13 pc

Minneapolis 22 9 p 19 8 pc

Monterrey 31 21 t 29 21 t

Montreal 17 6 c 15 7 pc

Moscow 11 4 c 10 6 c

Mumbai 32 27 t 32 26 t

Nashville 27 13 s 26 14 s

New Delhi 35 24 s 35 24 s

New Orleans 33 24 s 32 23 s

New York City 25 13 p 22 14 s

Perth 25 13 p 22 14 s

Washington, D.C. 26 14 s 24 15 s

Zurich 22 11 pc 22 11 pc

## The WSJ Daily Crossword | Edited by Mike Shenk



### SPECIAL DELIVERY | By Alice Long

#### Across

- 1 Current checker
- 4 Storm-tracking aid
- 9 Blizzard battler
- 13 Broad with billions
- 14 "Know Your Power: A Message to America's Daughters" writer
- 15 Mixologist's mixer
- 16 #1 hit of 1971 written by Sly Stone
- 18 Crowning point
- 19 Some Swiss watches
- 20 Calamitous, as an error
- 22 Hired muscle
- 23 Cancer-detecting aids?
- 27 Rascally bunch
- 30 Surname of the "It's Your Thing" singers
- 31 Its back curves forward into armrests
- 37 "You're making me angry!"
- 38 Matthew Broderick won one in 2017
- 39 Oscar nominee for "Exodus"
- 40 Four, on some clocks
- 41 See 34-Down
- 42 His "Oil" was the basis for "There Will Be Blood"
- 44 Main object of pitching outside?
- 46 Some special deliveries, and a hint to solving this puzzle
- 51 Opposite in character
- 55 Three for the price of one, say
- 56 Sudden enlightenment
- 57 Mud
- 60 They occupy the same orbital
- 62 Biz bigwig
- 63 Make like the dinosaurs
- 64 Styling stuff
- 65 What la guillotine removes

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

- 66 Failed to deal with
- 67 Two-time British Open champ
- 68 Trick out
- 69 Irritated state
- 70 Truffle coating
- 71 Some wooden counters
- 72 Pan, e.g.
- 73 With 41-Across, Nestlé nonpareil
- 74 Division of the Kenyan shilling
- 75 Carwash sight
- 76 Completely
- 77 Army division
- 78 To some extent
- 79 Strasbourg's region
- 80 Network-to-affiliate transmissions
- 81 Sly's on-screen wife in four sequels
- 82 Cold shower
- 83 Ultimate Miami sound?
- 84 Adrien of skin care fame
- 85 Omani money
- 86 Leave flabbergasted
- 87 Shark's foe
- 88 Cut abruptly
- 89 Chicken tender
- 90 Sound in the park

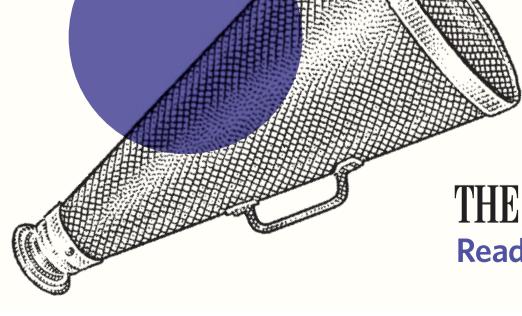
#### Previous Puzzle's Solution

C	R	O	F	T	S	L	E	D	M	U	M
R	O	L	L	B	L	U	M	E	I	K	E
O	L	D	E	W	A	X	I	N	G	N	U
L	D	E	W	A	X	I	N	G	N	G	U
D	E	W	A	X	I	N	G	N	G	G	U

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THE WALL STREET JOURNAL.

Thursday, September 28, 2017 | B1

**Yen vs. Dollar** 112.6620 ▲ 0.38%

**Hang Seng** 27642.43 ▲ 0.47%

**Gold** 1298.80 ▲ 0.14%

**WTI crude** 52.20 ▲ 0.62%

**10-Year JGB** yield 0.053%

**10-Year Treasury** yield 2.297%

**HEARD ON  
THE STREET**

By Paul J. Davies

## Insurers May Be A Problem For the Fed



Everyone is wondering how markets will react when central banks unwind their huge bond-buying programs. One sector in which regulators have definite concerns is insurers.

The industry represents a huge pool of investment and its activity has a big effect on markets. The big worry is that when interest rates start to rise, the investment incentives of life insurers in particular will lead them to sell government debt, especially long-term bonds, and turbocharge the increase in market interest rates.

Since 2008, the bond buying, or quantitative easing, by central banks in the U.S., Europe and Japan pushed down market interest rates, and insurers appear to have accelerated rate changes, according to Hyun Song Shin, head of research at the Bank for International Settlements.

This was down to a perverse quirk: When long-term debt gets more expensive, insurers need more of

**When long-term debt gets more expensive, insurers need to have more of it on hand.**

it. One of the main things life insurers do is make long-term promises to pay pensioners. They need to meet these promises with cash flows from long-term investments, but falling long-term rates mean those cash flows shrink.

A study of the German market by the BIS found that since 2008, insurers had more than quadrupled their holdings of ultralong-term bonds—those with maturities of more than 20 years—as long-term interest rates fell. As Mr. Shin notes: “The more expensive the bonds are, the more the insurance sector holds.”

The trouble is that mechanism is also likely to work in the opposite direction, the feedback from higher yields and cheaper bonds being a big fall in demand and thus even higher yields.

Bank of England researchers also have been looking at the problem of insurers' investment incentives. Their conclusion was that a cut in interest rates would put pressure on insurers' capital bases by increasing the theoretical cost of selling their liabilities, an important calculation under new European capital rules. That could push them to cut riskier assets like corporate bonds and move to safer ones like government bonds, again potentially creating a feedback loop that further squeezes market interest rates.

The reverse in this case—higher rates encouraging greater risk appetite and a move away from safer bonds—could also become an accelerant to higher market rates.

Much of this is theoretical, and insurers in various countries could react differently. U.S. variable annuity writers, for example, may be more exposed to what stocks do. But this huge sector is one of the biggest investors in government debt. Regulators, central bankers and other investors need to keep a close eye on insurers' response to the end of quantitative easing. It could get messy.



GREG BAKER/AGENCE FRANCE PRESSE/GETTY IMAGES

How the real-estate scenario plays out after a period of easy credit for builders has major implications for China's economy.

## Building Unease in China

Property developers face bond repayments at time government is trying to cool market

By DOMINIQUE FONG

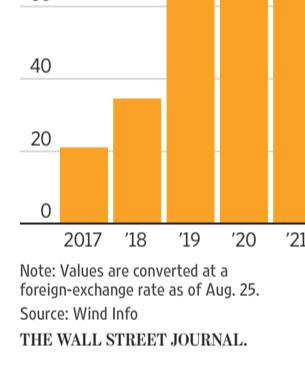
BEIJING—A wave of local-currency debt coming due next year, alongside new stricter lending rules, is bearing down on China's developers and posing a risk to the country's economy.

The twin threats, combined with a widely expected property-market slowdown, portend a shift in fortunes for many home developers after they rode a housing boom and strong profits in this year's first half.

The volume of maturing yuan bonds will jump 64% in 2018 for home builders to at least 230 billion yuan (\$35 billion), and rise a further 87% the year after that, according to data provider Wind Information Co. Meanwhile, many yuan bondholders have the option to

### Mounting

Yuan debt issued by Chinese developers, by maturity



Note: Values are converted at a foreign-exchange rate as of Aug. 25.

Source: Wind Info

THE WALL STREET JOURNAL.

demand early repayment starting next year and increasingly in 2019 and 2020.

Those circumstances could force a wave of asset sales and deprive developers of cash for new projects, potentially leading to a further deterioration in their finances, according to credit analysts.

How the real-estate scenario plays out has significant implications for China's economy, which is a bellwether for many investors on the prospects for global growth. The property sector contributes nearly one-third of China's overall growth, according to Moody's Investors Service.

The latest trends reflect in part Beijing's efforts in the past year to restrict home sales for fear that an overheated market fueled by a surge of mortgage lending could burst and ripple across the economy. Now, concern is growing that in parts of China the market might cool even more than policy makers had hoped.

"This year's very strong sales in tier-three cities is unlikely to be sustained," said Larry Hu, China economist at Macquarie Group. "For next year, they're going to enter a down cycle."

Developers also are likely to pay more dearly for debt after home prices slowed for three straight months this summer, save a few small cities.

Last year, only about 25% of developers paid 6% or higher for their yuan bonds, according to Wind Information.

This year the ratio exceeds 33%, and credit analysts expect a further rise.

Because property serves as collateral for many loans, declines in value could exacerbate any chain of defaults for yuan bonds and bank loans and in China's lightly regulated informal lending sector, potentially infecting the country's financial system.

Large developers such as China Evergrande Group, Sunac China Holdings and Guangzhou R&F Properties Co. prospered through China's property boom in recent years. But they also racked up debt to fund land purchases while monetary policy was looser and credit was cheaper. Five large developers hold nearly half the bonds and options coming due next year, according to Moody's.

As the economy continues to ease—the government targets about 6.5% growth in

Please see DEBT page B2

## Alstom, Siemens Set Deal For Rail Giant

By MATTHEW DALTON

PARIS—German industrial company Siemens AG on Tuesday agreed to merge its rail operations with French train maker Alstom SA, aiming to create a European giant with the scale to fight growing competitive threats from state-backed Chinese rivals.

Shares in Alstom opened more than 8% higher Wednesday, while those in Siemens were up 1%.

Under the deal, Siemens will have majority control of the new company, receiving slightly more than 50% of its shares, officials from Alstom and Siemens said. Alstom shareholders will receive two special dividends totaling €1.8 billion (\$2.13 billion): €4 a share for surrendering control of the company and €4 a share as an "extraordinary dividend," the companies said.

The proposed merger marks a major test of Europe's ability to overcome national economic rivalries and establish a European champion, akin to Airbus SE in aviation. The deal faces the risk of political backlash in France, where Alstom's factories have been a symbol of national industry for more than a century.

Yet the merger has strong backing from French President Emmanuel Macron, who has argued that Europe needs to cooperate across borders to compete better against economic powers in China, the U.S. and elsewhere. The deal echoes the political overtures Mr. Macron is making to German Chancellor Angela Merkel to bolster the eurozone economy by establishing a shared budget for the currency bloc.

"We put the European idea to work and together with our friends at Alstom, we are creating a new European champion.

Please see TRAIN page B2

◆ Bombardier endures two setbacks on same day..... B3



ZAIN AL-ABIDIN TAWFIQ CREATED MESSAGING SITE SARAHAH FOR SAUDI WORKERS. IT IS POPULAR WITH TEENAGERS.

## Saudi App Goes Viral in the U.S.

When Zain al-Abidin Tawfiq developed the anonymous messaging website Sarahah, he was intending to make the

By Margherita Stancati in Beirut and Georgia Wells in San Francisco

digital equivalent of a suggestion box for confrontation-shy office workers in Saudi Arabia.

He never expected it to become this summer's viral sensation among American teenagers.

Sarahah, Arabic for "candor," lets anyone send short, anonymous messages to registered users, who in turn have

no way of interacting with the sender. Mr. Tawfiq made a free app version of Sarahah in June, and within weeks it was the most downloaded app in Apple's app store in the U.S. and dozens of other countries. It now has 95 million registered users, and the U.S. is its biggest market.

Sarahah owes much of its popularity to Snapchat. In July, Snap Inc., Snapchat's parent company, added a feature to its messaging app that lets people include links in their short messages. That is when teens started using Snapchat to circulate one another's Sarahah accounts and send anonymous messages.

Like many anonymous messaging platforms before it, Sarahah has come under fire for enabling cyberbullying

"Some comments were hilarious, some were gross and some were hurtful," said Didi Rio, a 14-year-old in San Diego who received some 500 messages after posting his Sarahah profile link on Snapchat earlier this month.

He took screenshots of what he deemed the best comments—such as "You're funny except you look like a french fry"—and then posted them to Snapchat, where he has built a following with his comedy videos.

Like many anonymous messaging platforms before it, Sarahah has come under fire for enabling cyberbullying

Please see APP page B2

## Loans to Veterans Face U.S. Review

By CHRISTINA REXRODE

are intentionally trying to evade efforts meant to curb churn.

"When people say the mortgage industry has learned its lesson, this seems to suggest that that may not be the case," Mr. Bright said, referring to the financial crisis.

The VA said in a statement it is "evaluating potential regulatory or policy changes" to ensure that refinance loans benefit veteran borrowers.

Michael and Jennifer McCall, both U.S. Navy veterans, got bombarded with offers to refinance their Colorado home almost as soon as they bought it in 2015. One lender offered to save them \$94 a month. But the McCalls thought the fees, at \$3,200, were too high and didn't trust a lender they didn't know.

"You can find \$100 a month easier than refinancing your home through a shady lender," Mr. McCall said.

Making homeownership affordable for veterans has been a tenet of U.S. government policy since World War II. To encourage lenders to make VA loans, which often offer perks such as no down payments, the government takes on some of the risk of potential losses.

VA loans were a negligible part of mortgage lending before the financial crisis, but have expanded in its wake. Lenders made more than \$200

Please see LOANS page B5

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## Guess Who's Talking

Top five markets for the Sarahah app, by operating system



Source: Sarahah

## APP

Continued from the prior page among U.S. teenagers.

"Everyone has that 'Oh, I wonder what people say about me' moment," said 17-year-old Samantha Neely, who lives near Orlando, Fla., and writes for the teen magazine *Affinity*. She downloaded Sarahah after seeing her friends' Snapchat posts sharing the anonymous messages they had received on Sarahah. "It's morbid curiosity. But in the hands of high schoolers...it could really destroy you," Samantha said.

One of her friends received messages that called her "fake" every day for a week, she said. "She was beaten down by it."

Sarahah has moved to discourage bullying by introducing filters and an option to block particular senders. Sarahah invites users, before they press send, to "leave a constructive message :)" but that isn't always enough.

Sarahah has just two full-time employees working out of an office in the eastern Saudi city of Dhahran, including the 29-year-old Mr. Tawfiq. They have three part-time customer-service representatives.

Under a startup-sponsorship program earlier this year,

Sarahah obtained free cloud storage from Microsoft Corp. worth \$120,000. That credit has run out, and Sarahah recently introduced limited online advertising to cover costs. While anonymous messages remain free, Mr. Tawfiq is trying to generate more revenue with new paid features for corporate clients. He said the company isn't profitable.

Mr. Tawfiq came up with the idea for an anonymous messaging platform about a year ago while thinking about the culture at the company where he is employed as a financial analyst: Aramco, Saudi Arabia's oil giant. With the idea that supervisors could benefit from frank feedback, he developed the platform in his spare time, often working out of the company's cafe.

"In the workplace, people are worried about telling their honest opinion," said Mr. Tawfiq, who was born and raised inside Aramco's residential compound in Dhahran and is on a leave from the company.

It was only in June, after its release as an app in both English and Arabic, that Sarahah became a global hit. Unregistered users can send anonymous messages, while only registered ones can receive them. Mr. Tawfiq said "close to a billion" messages have been sent on the service.

genes. U.S. farmers allege that the market for U.S. corn shrank as a result, weighing on prices and their incomes.

Syngenta said Tuesday that its proposed settlement with the farmers would "avoid the uncertainty of ongoing litigation." Syngenta isn't admitting to the plaintiffs' charges. The agreement still requires court approval.

Lawyers for the farmers said they looked forward to proposing a final settlement agreement over the next several weeks.

BY JACOB BUNGE

**Syngenta** AG said it would settle thousands of lawsuits from U.S. farmers who alleged the Swiss agricultural giant's launch of genetically engineered corn seeds cost them money.

Syngenta introduced a new variety of pest-resistant corn, called AgriSure Viptera, in 2011. The strain hadn't been approved by authorities in China, which in 2013 began rejecting U.S. corn shipments found to contain the Syngenta

## BUSINESS & FINANCE

# Delphi Automotive Is Now 'Aptiv'

BY CHESTER DAWSON

DETROIT—**Delphi Automotive PLC** is shedding its name as part of a business makeover to shift from hardware to software.

The automotive systems supplier said Wednesday it will rename itself Aptiv and that its current chief executive, Kevin Clark, will continue to run that part of the company after it splits in two by next March. It said it would seek shareholder approval of the name change in November.

The senior management of Delphi, which itself was spun off from General Motors Co. in 1999, decided in May to jettison the company's engine components unit and focus instead on higher tech electronics for advanced safety and self-driving applications.

The company which is based in Britain for tax purposes but is run from its headquarters outside of Detroit,



KRISTOF TERLAKO/ASSOCIATED PRESS

The name change comes as part of a shift to higher tech electronics.

aims to stave off incursions by Silicon Valley into the auto industry by harnessing the latest technology to develop autonomous and connected vehicles.

"The vehicle has evolved and so have we," Mr. Clark said in a statement, adding that the neologism Aptiv "reflects knowledge, adaptiveness and drive."

As part of that new strategic focus, Delphi is leaving behind its legacy as a supplier of commodity-like components for car makers' assembly-line parts bins.

The decision was cheered by Wall Street for creating one

of the few larger capitalization "pure plays" on next-generation automotive technology. Investors have pushed the value of Delphi's stock up by 31% since the spinoff was announced on May 3.

Delphi's \$12 billion advanced electronics business is its top revenue generator and employs about 145,000 people globally. Its \$4.5 billion engine, or powertrain, business has about 20,000 employees world-wide.

The company said its hardware-dependent engine parts business will retain the Delphi moniker and be rechristened Delphi Technologies. That will be run by Liam Butterworth, who will transition to the CEO role from his current position as a senior vice president in charge of Delphi's powertrain operations, it said.

Aptiv will trade under the stock ticker APTV and Delphi Technologies will trade under the current ticker DLPH.

## EU Probes Essilor-Luxottica Merger

BY EMRE PEKER

BRUSSELS—The European Union's antitrust authority said Tuesday it has started an investigation into the proposed merger between Ray-Ban maker **Luxottica Group** SpA and optical-lens maker **Essilor International** SA, which would create a global eyewear colossus.

The deal—announced in January and poised to forge a firm with a combined market value of roughly €46.3 billion (\$54.5 billion)—threatens to exclude other lens suppliers from markets, according to the EU's executive arm, the Euro-

pean Commission. Essilor is the largest supplier of ophthalmic lenses while Luxottica is the top provider of eyewear both in Europe and across the world, the EU said.

The bloc's competition authority said it is concerned that their combination could result in bundling or tying practices that harm rivals.

"The merged entity may use Luxottica's powerful brands to convince opticians to buy Essilor lenses and exclude other lens suppliers from the markets," the EU said.

In a joint written statement, Essilor and Luxottica

said they were confident that the review "will be completed in a timely manner."

The companies said they would cooperate with EU authorities to demonstrate the "benefits that [the merger] will bring to customers, consumers and all the eyewear industry players."

The companies reiterated their goal to complete their transaction around year-end, adding that authorities in Russia, India, Colombia, Japan, Morocco, New Zealand, South Africa and South Korea had already cleared the deal.

EU officials have 90 working days to reach a decision,

which sets a Feb. 12 deadline for the review. The authorities said their investigation "does not prejudice the outcome."

"We need to carefully assess whether the proposed merger would lead to higher prices or reduced choices for opticians and ultimately consumers," said European Competition Commissioner Margrethe Vestager.

France-based Essilor and Luxottica of Italy would merge in a complex share swap, which would remove the risk of stepping on each other's toes as Luxottica expanded into lens manufacturing and Essilor moved into frames.

## DEBT

Continued from the prior page gross domestic product this year—some analysts wonder how vulnerable developers are.

The recent rules aimed at cooling the market are also constraining developers' ability to raise money. Regulations include property-buying controls in big Chinese cities, such as caps on new-home sales prices and higher down-payment ratios. Other rules limit yuan bond sales on mainland exchanges and ban private asset managers from engaging in certain types of debt financing for real estate.

Smaller developers are particularly vulnerable because of their high debt loads, experts

say. For example, the net debt of state-backed **Yunnan Metropolitan Real Estate Development** Co. is 57 times earnings before interest and taxes, according to research firm Granite Peak Advisory. The ratio is 37 times for Fuzhou-based commercial real-estate developer **Tahoe Group** Co., and more than 23 times for Shanghai-based **Yango Group** Co. In comparison, the leverage for all mainland-listed developers is 6.4 times, and 4 times for all Chinese companies excluding financial institutions, according to Granite Peak Advisory.

Most developers have adequate liquidity if they can't refinance debt and must repay bonds in full with cash next year, Moody's says. But their ability to do so is weakening.

Rated developers' cash was 1.6

times short-term debt coverage, compared with 2 times last year, S&P Global Ratings says.

Moves are afoot to address the concerns. Evergrande pledged to cut its net debt ratio to 70% from 270% by 2020 af-

ficial leverage.

Despite the risks to China's real-estate market, global investors have continued to pile into the dollar-denominated bonds of Chinese developers. Those developers issued \$58 billion offshore over the year through late August, the highest volume for the period since 2014, according to Dealogic.

Other investors however are avoiding the market, concerned they aren't getting paid enough for the risk.

"Coupons have to be much higher than where we are now," said Jennifer James, head of corporate research for emerging-market credit at Janus Henderson Investors, which holds the offshore debt of one Chinese developer. "Headwinds are too strong to warrant this kind of return."



MARTIN LEISS/BLOOMBERG NEWS

An employee at the Alstom factory in Salzgitter, Germany, in 2015. Siemens on Tuesday agreed to merge its rail operations with Alstom.

## TRAIN

Continued from the prior page pion in the rail industry for the long term," said Siemens Chief Executive Joe Kaeser.

Alstom Chief Executive Henri Poupart-Lafarge on Wednesday expressed confidence that the deal would receive antitrust approval.

"This is a large deal, so it's no surprise that it will be looked at closely by the European Commission. We are confident," he said on a call with analysts.

"We have a global market

and a global market follows global rules," Mr. Kaeser added Wednesday. "We do not see any major issues on a global perspective. I hope that that view is going to be shared everywhere in the world and then we're going to be OK."

The deal would dilute French control over Alstom, which shrank dramatically in 2015 when the company sold its electric turbine division to U.S. industrial conglomerate General Electric Co.

That deal handed a key piece of France's nuclear power business to GE, outraging members of France's So-

cialist government at the time.

To ease French concerns, the current chief executive of Alstom, Mr. Poupart-Lafarge, will lead the new business. Its headquarters will remain in France.

Siemens will be prohibited from owning more than 50.5% of the new company for four years, but after that can boost its stake as much as it likes.

A combination would create a European transportation business with about \$18 billion in annual sales. Alstom had sales of €7.3 billion in the financial year ended March 31. Siemens's mobility unit had

€7.8 billion in revenue last year.

Tuesday's deal is intended to help Europe's rail industry confront an increasingly serious threat: CRRC Corp., the world's biggest rail supplier, and other companies in China's government-run train industry. Backed by government financing, CRRC and other Chinese rail suppliers have been making deep inroads into markets around the world formerly dominated by Siemens and Alstom.

Jacquie McNish and William Boston contributed to this article.

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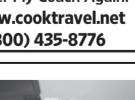
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#### Businesses For Sale.

## BUSINESS NEWS

# Toyota to Make Hybrid Engines in U.S.

Japanese firm says it plans to spend nearly \$374 million to upgrade five plants

BY ADRIENNE ROBERTS

**Toyota Motor Corp.** said Tuesday it will start production of its first American-made electric-gas hybrid engines, the latest in a series of investments by foreign auto makers to expand operations in the U.S. and electrify more of their vehicles.

The Japanese auto maker plans to spend nearly \$374 million to upgrade five U.S.

plants, including \$115 million at a Buffalo, W.Va., engine factory that will begin making core electrical components for its hybrid vehicles.

The expansion is part of a commitment made in January by CEO Akio Toyoda to invest \$10 billion in the U.S. and comes amid a wave of investments by foreign auto makers to boost their American manufacturing footprint, mostly in Southern states.

Toyota will bring assembly of hybrid transaxles—made up of an electric motor, generator and power split device—to the U.S. for the first time. The company began making hybrid versions of its Camry sedan in

the U.S. more than a decade ago using domestic gasoline engines, but the electrical components for those and other U.S.-made hybrids have been imported.

The increased investment will create positions for 50

plant in Georgetown, Ky., and update another engine-manufacturing plant in Huntsville, Ala.

Three other foreign-based auto makers have also unveiled plans to ramp up their manufacturing capacity in the U.S.

Daimler AG said last week it will invest \$1 billion in its Alabama manufacturing operations and start U.S. production of a fully electric sport-utility vehicle. Honda Motor Co. also said last week it plans to spend \$267 million on its Marysville, Ohio,

plant, which produces the Accord sedan, and hire 300 people.

Chinese-owned auto maker Volvo committed to more than doubling its investment in its new South Carolina plant to \$1.1 billion and adding a second production line to build the XC90 SUV.

Toyota has focused on its current-generation technology gas-electric hybrids and futuristic fuel cell-powered cars in its efforts to boost fuel efficiency, but has recently said it also will seek to commercialize all-electric vehicles as demand for those cars increases.

*Other auto makers also are boosting their American footprint, mostly in the South.*

Those will be used in such hybrid vehicles as the Highlander midsize SUV, which is built in Princeton, Ind. Toyota said it also plans to increase production of gasoline engines for use in its hybrids at a

new workers at its northern Alabama facility and "help to ensure the stability" of current employment levels at the other plants, it said.

The move comes as several states vie for a \$1.6 billion in-

vestment and 4,000 jobs at a planned assembly plant to be built by Toyota in partnership with Mazda Motor Co. The two companies expect to open that 300,000 vehicle-a-year factory in 2021.

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cars increases.

## U.S. Ranking Rises in Global Business Index

BY LAUREN WEBER

The U.S. is the second most competitive economy in the world in 2017, trailing only Switzerland, according to a closely watched index from the World Economic Forum.

The U.S. climbed one spot since last year's rankings, reaching its highest place in eight years, possibly reflecting executives' early optimism that a new administration would enact business-friendly policies and do away with regulations limiting corporations' behavior.

The index, from the organization that produces the annual Davos conference on global politics and economics, assesses 137 countries on 12 factors that attract business investment and help determine productivity. The factors include nations' institutions, infrastructure, education systems and innovation.

For the ninth year in a row, Switzerland topped the list. Rounding out the top five were Singapore, the Netherlands and Germany.

The Global Competitiveness Report relies on public data on measures such as inflation and debt levels along with a survey of chief executives.

That CEO survey took place mostly in the spring, soon after the inauguration of President Donald Trump, amid hopes among business leaders that his administration would quickly press for deregulation and lower corporate taxes.

Since that time, "there's been a lot of talk but not a lot of actual change," says Daniel Gomez Gaviria, who leads the competitiveness research for the WEF.

Tax reform has been held up by efforts, unsuccessful so far, to repeal the Affordable Care Act and by intraparty divisions over the size of tax cuts and how they should be distributed. The administration has halted or delayed a

### Growth Mindset

Countries that do well on 12 'pillars of competitiveness' have better prospects for economic growth and long-term prosperity.

#### Global competitiveness index

2017-18	RANK	COUNTRY	2016-17	RANK
1.	Switzerland	1	1.	Switzerland
2.	U.S.	3	2.	U.S.
3.	Singapore	2	3.	Singapore
4.	Netherlands	4	4.	Netherlands
5.	Germany	5	5.	Germany
6.	Hong Kong	9	6.	Hong Kong
7.	Sweden	10	7.	Sweden
8.	U.K.	6	8.	U.K.
9.	Japan	7	9.	Japan
10.	Finland	8	10.	Finland

Source: World Economic Forum

THE WALL STREET JOURNAL.

number of Obama-era regulations unloved by businesses but seen by many as beneficial to workers or consumers. For example, the Labor Department delayed for 18 months

implementation of the fiduciary rule, which requires brokers to act in the best interests of retirement savers when selling investment products.

The U.S. also scores high in the index on measures related to market efficiency, such as technological readiness and the country's capacity to attract and retain talent.

America ranks relatively poorly on measures of health and primary education and the macroeconomic environment, including government debt levels.

Ten years after the worst global financial crisis since the Great Depression, economic systems around the world remain at risk from further shock and are ill-prepared for the next wave of innovation and automation," according to the report.

## BUSINESS WATCH

### GOOGLE

#### Searches in Europe Undergo Overhaul

Google has started overhauling millions of search results in Europe—and neither the search giant nor its detractors are happy about it.

The Alphabet Inc.-owned search engine said Wednesday that it has started allowing rival shopping-comparison services to bid for and resell advertising space at the very top of Google search results in Europe.

The new ads appear alongside similar product ads from the technology company's own shopping-ad unit, which Google said is bidding independently in the same auctions.

The changes are part of Google's effort to comply with a European Union antitrust decision that fined the company €2.42 billion (\$2.85 billion) for using its dominant search engine to favor its own shopping ads at the expense of competitors—and ordered it to start treating itself the same as its rivals as of Thursday.

Google is appealing the decision, but is implementing its order to avoid noncompliance fines that can total 5% of the com-

pany's global daily revenue, or more than \$12 million.

—Sam Schechner

and Laurence Norman

### PARKER HANNIFIN

#### Clarcor Deal Sparks Antitrust Lawsuit

The U.S. Justice Department has filed an antitrust lawsuit challenging Parker Hannifin's \$4.3 billion acquisition of Clarcor Inc., alleging the deal created an unlawful monopoly.

The department, in a legal challenge filed in a Delaware federal court on Tuesday, argued that Parker Hannifin's acquisition, completed in February, had eliminated the company's only competitor in the market for products that filter fuel for airplanes. Aircraft fuel must be filtered to remove particles that could cause engine failure.

The lawsuit asks a federal judge to order Parker Hannifin to sell off either its own aviation fuel filtration business or Clarcor's to restore the previous competition in the market.

Parker Hannifin, based in Cleveland, said it had cooperated fully with the Justice Department and "is now reviewing the complaint."

—Brent Kendall

down in August.

The International Trade Commission ruled in favor of a complaint from **Boeing Co.** and said it would add a 220% tariff to the cost of the new CSeries jet. The jet's sale to **Delta Air Lines Inc.** last year prompted a complaint from Boeing. A final decision on any duty is expected next year.

The U.S. agency's decision was widely ridiculed by aerospace-industry experts, who said cutting prices to boost sales was a common practice.

"The Commerce Department will instruct U.S. Customs and Border Protection to collect cash deposits from importers of 100- to 150-seat large civil aircraft based on these preliminary rates," the department said in a statement.

Boeing said that "subsidies enabled Bombardier to dump its product into the U.S. market, harming aerospace workers in the United States and throughout Boeing's global supply chain."

Bombardier said it strongly disagrees with the trade ruling.

"The magnitude of the proposed duty is absurd and divorced from the reality about the financing of a multibillion-dollar aircraft program," the company said.

Boeing has no American-made product to offer because it canceled production of its only aircraft in this size range, the 717, more than 10 years ago," it said in a statement.

The Commerce Department ruled in favor of Boeing's claims on the jet pricing despite vehement denials from Bombardier and Canadian officials.

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"The magnitude of the proposed duty is absurd and divorced from the reality about the financing of a multibillion-dollar aircraft program," the company said.

The Montreal-based com-

pany accused Boeing of using a "skewed process" to "stifle competition and prevent U.S. airlines and their passengers from benefiting from the CSeries."

Canadian Foreign Minister Chrystia Freeland said that Canada strongly disagrees with the U.S. tariff ruling.

"This is clearly aimed at eliminating Bombardier's CSeries aircraft from the U.S. market," she said, reflecting the strident tone her Liberal government has taken in recent weeks about Boeing's trade complaint. The dispute over the CSeries jet has already frozen talks on a potential multibillion-dollar deal in which Canada would buy Boeing-made combat jets, and the trade ruling comes as talks continue between the U.S., Canada and Mexico over the future of the North American Free Trade Agreement.

Delta, whose 75-jet order for the CSeries triggered the case, said it was confident the U.S. would take no action against it.

In addition, Bombardier was left on the sidelines when Germany's **Siemens AG** announced that it is forming an alliance with French train maker **Alstom SA** to create a train business with \$18 billion of annual sales. Bombardier had been in discussions with Siemens since early this year to form a similar partnership, but talks broke

down in August.

Spokesmen for DirectTV-parent **AT&T Inc.** and the National Football League declined to comment.

The shift is the latest twist in a controversy that has divided the nation after President Donald Trump blasted players who took a knee during the anthem and said they should be fired. He has called on people to walk out of stadiums when players are kneeling.

Several teams have issued

statements defending the rights of their players to express their opinion.

The NFL also has shown solidarity with the players.

The protests started last sea-

son when quarterback Colin Kaepernick refused to stand for the national anthem to protest treatment of minorities by police. They transformed into something more over the weekend, when more players took a knee in what amounted to a league-wide rebuke of Mr. Trump's comments.

DirectTV is letting at least some customers cancel subscriptions to its Sunday Ticket package of NFL games and obtain refunds if they cite players' national anthem protests as the reason, customer-service representatives said Tuesday.

By Joe Flint, Amol Sharma and Andrew Beaton

Sunday Ticket's regular policy doesn't allow refunds once the season is under way. But the representatives said they are making exceptions this season—which began in September—in response to the protests, in which players kneel or link arms during the U.S. national anthem.

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## TECHNOLOGY

WSJ.com/Tech

PERSONAL TECHNOLOGY | By Geoffrey A. Fowler

# High-End Camera Lights the Way



Raise your hand if you or someone you love goes on vacation laden like a pack

mule with camera gear. Big-lens digital SLR cameras sure take lovely photos but carrying one is literally a pain in the neck.

So I'm relieved to report that a new leap in high-end camera tech is replacing the big honkin' lens with something much more manageable: a bunch of small lenses, plus smart software.

That's the big—or, rather, little—idea in a \$1,950 camera from a startup called Light. The slim L16 weighs less than a pound and fits in your back pocket, yet packs 16 lenses and sensors that work together to capture a single holy-guacamole 52-megapixel shot.

How nuts is 52 megapixels? Most phone cameras have 12; a fancy DSLR captures around 30. An L16 photo I took of the Golden Gate Bridge covers the entire span, yet is detailed enough to spot a single person peering over the rail. It's part ultimate travel camera, part spy gear.

Beyond all those pixels, the alien-looking L16 has a few other far-out capabilities (though shooting video isn't one). Slide your finger up on its touch-screen view finder, and an optical zoom brings you up to five times closer. After you've snapped a photo, you can use the L16's software to change the level of background blur, and even the focus.

With the L16, I've taken more than 2,000 photos including several that I plan to print as wall posters. I know a lot of photographers who would benefit from the L16 and a few who've been pa-



The Light L16 makes camera software as important as hardware—and weighs less than a pound.

places I'd never drag a DSLR.

The L16's battery always lasted through a long day of shooting, and there's built-in storage for some 1,500 massive shots.

But my initial L16 shots stank. Perhaps because it looks so much like a smartphone—it even runs Android—I was trying to use it like a smartphone camera. Much of what I got was out of focus. Night shots were a blur. And working with such large files in Light's editing software was a struggle at times, even for my top-of-the-line iMac.

Then I slowed my roll. I pulled out my tripod, and the shots improved noticeably. I learned to tap on the view finder where I wanted it to focus, and wait for it to turn blue before pressing the shutter. The L16 can't auto-track a face, at least not yet.

Pixel perfectionists may quibble with some of the L16's image performance, particularly with noise in low light. After a few side-by-side shoot-outs with my favorite DSLR, the \$3,300 Canon 5D Mark IV equipped with a \$1,000 24-105mm lens, the L16's photos sometimes had more detail but lacked the Canon's color and contrast, not to mention its quick focus in the field.

The software even lets you make micro adjustments to the focus point.

For serious photographers, many of whom have been anticipating the L16 since its 2015 unveiling, the question is: Can it actually replace a trusty DSLR?

I can, if you're patient.

I have taken some absolutely gorgeous shots with the L16. Having all that resolution made me seek out high-up vistas and other detailed scenes that reveal new stories the closer you look. Because of the camera's compact size,

I was able to take it on a serious vertical hike and other

issues. Light noticeably improved the L16's software during my testing, and it has been refreshingly honest with pre-order customers about its to-do list—especially working on focus and low-light performance. Order one now only if you're up for being part of Light's journey.

As it evolves, Light's tech is sure to attract more than just curious pros. I won't be surprised if eventually it shows up on smartphones.

# Twitter Tests Longer Messages

BY GEORGIA WELLS

On Twitter, 280 is the new 140.

Twitter Inc. said it would begin testing a new limit of 280 characters, double its current limit, as a concession to users clamoring for more space in the short-messaging service.

The new limit will be tested on a small portion of users—a percentage in the single digits, according to a Twitter spokeswoman—and the company will monitor the experiment for several weeks before making a decision. Twitter users would be randomly selected as testers, the spokeswoman said. She declined to comment on whether President Donald Trump would be included.

"We want every person around the world to easily express themselves on Twitter, so we're doing something new," Twitter product manager Aliza Rosen and senior software engineer Ikuhiro Ihara wrote in a statement.

The 140-character limit was a barrier to some people using Twitter, Ms. Rosen and Mr. Ihara said, particularly users tweeting in languages like English that tend to use more words to express meaning. Users sometimes abandon their tweets when they bump up against the 140-character limit, they said.

The change in tweet length is significant for a company that has long shied away from making bold changes to its product. The brevity of tweets is a defining feature, underpinning how the real-time network differentiates itself.

## Ford, Lyft To Create Driverless Vehicles

BY GREG BENINGER

Ford Motor Co. and Lyft Inc. said Wednesday they would develop self-driving vehicles for the ride-hailing service, adding to a growing number of alliances between auto makers and tech companies jockeying for control of the road.

The two companies plan to design software that lets Ford vehicles communicate with Lyft's app-based services. Lyft, based in San Francisco, is playing catch-up in some respects to larger crosstown rival Uber Technologies Inc., which has been testing robot cars in Pittsburgh, Tempe, Ariz., and parts of California.

Lyft has struck a series of partnerships with companies developing the technology, including Waymo, the self-driving car unit of Google parent Alphabet Inc., Tata Motors Ltd.'s Jaguar Land Rover and startups Drive.ai and Nutonomy Inc. And it is forming its own autonomous-car development division, which will be staffed by hundreds of engineers and technicians at a new office in Palo Alto, Calif.

Lyft also has a partnership with Ford rival General Motors Co., which invested about \$500 million in the company and added a board member. Last year, GM said it planned to work with Lyft to put self-driving taxis on the road sometime this year using technology acquired from startup Cruise Automation in a \$1 billion deal. A Lyft spokeswoman said the GM agreement wasn't exclusive.

Last month, new Ford Chief Executive Jim Hackett said his company was evaluating how it could deploy fully autonomous vehicles within the next four years. The Dearborn, Mich., company envisions vehicles with no steering wheels or pedals and no need for a human driver. And it plans to invest \$1 billion over the next five years in Argo AI, an artificial intelligence company in which it acquired a majority stake.

# Dyson Tries Hand at Building Electric Cars

BY STU WOO  
AND WILLIAM BOSTON

LONDON—Dyson Ltd., the British technology company known for its high-end vacuum cleaners and ubiquitous hand dryers, said Tuesday that it is developing an electric car to hit roads as early as 2020.

The closely held company's founder, James Dyson, revealed few details about the vehicle, which would compete against those of electric-car pioneer Tesla Inc., during a news conference at his company's London store. He said it would be neither a sports car nor a mass-market model.

Big auto makers also are piling in to develop their own answers to Tesla, and they have the deep pockets and auto-making experience to give them a running start. But Dyson has made an international mark as a technology and design house that successfully fused innovative engineering and design to provide fresh takes on everyday appliances such as vacuum cleaners and hair and hand dryers, for which consumers have paid high prices. The company's founder promised to pour £2 billion (\$2.69 billion) into his car effort.

Mr. Dyson said his company wouldn't collaborate with other car makers and hoped to make an automobile distinctive in design and technology.

Both London skirmishes are adding to Uber's regulatory and legal headaches around the world. The threat to its operating license could eventually shut it out of one of its biggest global markets.

The case at the heart of Wednesday's tribunal over the legal status of its drivers also carries large, long-term repercussions.

The worker-or-contractor question has been one of



Dyson offices in the U.K. The company plans to launch an electric vehicle as early as 2020.

"We want to do it ourselves," he said. "There's no point in doing one that looks like everyone else's."

Mr. Dyson said the company had been working on the electric-car project for 2½ years and has 400 employees dedicated to it so far.

Even with a popular brand, Dyson will be entering a crowded field. When Tesla introduced its now iconic Model S luxury sedan in 2012, global car makers were asleep at the wheel. Now most major car makers are on track to launch

new-generation electric vehicles—from compact city cars and luxury sedans to sport-utility vehicles—in 2020, Dyson's target year.

The company will develop the car in Britain, though it hasn't decided where to manufacture the vehicle. Mr. Dyson said he would spend £1 billion on car development and an additional £1 billion to develop its battery.

Mr. Dyson said his company is working on batteries that don't contain liquid, which virtually all car batteries have to

day. He said all-solid ones would be safer, quicker to charge and more powerful. The batteries would be similar to the ones it hopes to use in its vacuum cleaners and other gadgets.

Dyson's go-it-alone approach likely would still rely on close cooperation with suppliers, many of which have taken on some of the heavy lifting of electric-car development.

For example, Robert Bosch GmbH, the big German supplier, provided core components for an electric delivery van developed by StreetScooter GmbH, a one-time university research project that Deutsche Post acquired in 2014.

Major auto suppliers, including Bosch, ZF Friedrichshafen AG, Continental AG, Delphi Automotive PLC and Valeo Group SA, have invested heavily in electric-vehicle technology in recent years.

In doing so, they have morphed from mechanical-engineering companies that supply individual parts for auto makers into high-tech operations employing thousands of software programmers and selling complete systems that unify a wide range of components in the car.

The emergence of the supplier as systems provider is simplifying the job of integrating technology into cars, making it easier for new players to enter the industry. The barrier to entry for electric cars is also lower because the costs of developing an electric vehicle are lower than a conventional vehicle.

Dyson wouldn't be the first auto outsider to break through. Through a combination of its own development and close cooperation with suppliers, Tesla came out of nowhere and managed to design and produce electric vehicles that have become the gold standard for the industry.

# Uber Drivers' Status Is Weighed in London Tribunal

BY STU WOO  
AND GREG BENINGER

LONDON—As Uber Technologies Inc. tries to negotiate with London regulators over its operating license, the ride-hailing company is fighting another battle in Britain with high stakes for its broader business model.

On Wednesday, following a months-long dispute, Uber argued in a London appeals tribunal that its U.K. drivers should be treated as independent contractors, not as workers, and so shouldn't be entitled to benefits such as minimum wages and paid vacations.

Uber is planning to take up

a separate appeals process relating to last week's decision by London's top transportation authority that it wouldn't renew the ride-hailing service's operating license citing a lack of corporate responsibility.

Both London skirmishes are adding to Uber's regulatory and legal headaches around the world. The threat to its operating license could eventually shut it out of one of its biggest global markets.

The case at the heart of Wednesday's tribunal over the legal status of its drivers also carries large, long-term repercussions.

The worker-or-contractor question has been one of

Uber's biggest regulatory hurdles, both in the U.S. and further afield. At the heart of the issue is whether Uber drivers should be considered employees of the company—and be granted worker benefits and

status as contractors.

One current case could affect several hundred thousand drivers in California and Massachusetts.

The question of whether

"gig economy" workers should

Ride-hailing firm argues that its U.K. drivers should be treated as independent contractors.

rights that typically go with such status.

Many drivers and their representatives say they should. Uber has said they shouldn't. In the U.S., drivers have repeatedly sued Uber over their

treatment and paid like regular employees has vexed Silicon Valley investors and entrepreneurs. Uber's business model, as well as those of startups including TaskRabbit Inc. and delivery-service Post-

mates Inc., relies on workers assuming costs including fuel, vehicle maintenance, registrations and insurance.

That keeps overhead costs down. Labor costs for such app-based companies could rise 20% or higher if they must treat workers as employees, by some estimates. The companies say they would have to cut workers and raise rates for customers.

Some companies, including grocery delivery service Instacart Inc., have converted some contractors to full- or part-time employees, in part to ensure they get proper training and can be told when and where to work, as well as requiring they wear uniforms.

## FINANCE & MARKETS

# U.S. Stocks Edge Up; Banks Gain

By RIVA GOLD AND  
AMRITH RAMKUMAR

U.S. stocks pared early gains Wednesday following reports about the Republican tax plan.

The Dow Jones Industrial Average was up four points, or less than 0.1%, at 22288 in midday trading. The S&P 500 was up 0.1% and the tech-heavy Nasdaq Composite climbed 0.5%.

The tax framework, reviewed by

The Wall Street Journal before its official release later Wednesday, showed that the plan proposes to sharply reduce tax rates on businesses and many individuals. Although some investors are still skeptical that a tax overhaul will pass, some have held out hope that encouraging signals could support shares of firms that generate more revenue domestically.

"Most people see this is going to be very contentious," said Michael Hans, chief investment officer at Clarfeld Financial Advisors.

Rising Treasury yields supported financial stocks Wednesday, as investors con-



A Nike store in Manhattan. The stock fell on a downbeat outlook.

tinued to bet on higher U.S. interest rates, which tend to boost lenders' profitability. Last week, the Federal Reserve reiterated its plans to gradually raise rates, sending bond yields and the dollar higher.

Fed Chairwoman Janet Yellen and other central-bank officials have defended those projections this week, further supporting bank shares. The S&P 500 financial sector was up roughly 1% Wednesday and was on track for its highest close of the year.

While years of ultra-easy monetary policy have been seen as a boon for stocks,

many investors say the stock market is ready to handle the long-anticipated gradual tightening of policy.

"It certainly is supportive for the time being," Mr. Hans said. "Yellen has done a great job at trying to telegraph their decisions well in advance and avoid any shocks."

Fed-funds futures tracked by CME Group show investors now project a roughly 83% chance of a rate rise by December, compared with about 73% a week ago. The yield on the benchmark 10-year U.S. Treasury note was at 2.294%, according to Tradeweb, com-

pared with 2.229% Tuesday. Yields rise as bond prices fall.

The WSJ Dollar Index, which tracks the dollar against a basket of 16 currencies, was up 0.3% midday in New York.

Treasury yields and the dollar extended gains after data were released showing demand for long-lasting factory goods rose more than expected in August.

On Wednesday, earnings drove some of the day's biggest moves among individual stocks. Micron Technology climbed 7.8% after the chip maker posted record sales in the most recent quarter. The semiconductor stock and bank shares were among the biggest gainers in the S&P 500.

Shares of Nike weighed on the Dow industrials, falling 3.4% following the athletic apparel retailer's downbeat outlook for the current quarter. Nike said weak North American sales will weigh on results.

In Asia, Japan's Nikkei Stock Average edged down 0.3% while Hong Kong's Hang Seng Index advanced 0.5%. Shares of Apple suppliers gained after a recovery in U.S. technology shares Tuesday. Taiwan's stock benchmark rebounded 0.7% from six-week lows.

# TPG Consortium Aims To Sell Indonesia Firm

By P.R. VENKAT

vate-equity firms is called Trinugraha Capital.

SINGAPORE—An investor group that includes U.S. private-equity firm **TPG Capital** is looking to sell its controlling stake in one of Indonesia's oldest finance companies, in a deal that could value the company at about \$1 billion, according to people familiar with the matter.

The consortium, which owns nearly 43% of publicly listed PT **BFI Finance Indonesia**, also includes private-equity firm Northstar Group, which is based in Singapore. The owners are seeking potential buyers for their stake, which could trigger a takeover offer for all of **BFI Finance**, people close to the process said.

Other shareholders of BFI Finance include local and foreign institutions as well as individual investors. According to Indonesian takeover rules, an acquirer of a large stake in a listed company has to make an offer for all of its shares if the deal would lead to a change of control.

TPG, Northstar Group and BFI Finance declined to comment. The consortium of pri-

ate-equity firms is called Trinugraha Capital. BFI Finance was originally set up in 1982 as a joint venture between an American firm, Manufacturers Hanover Leasing Corp., and local partners. A nonbank lender, it provides financing for vehicles, heavy equipment, machinery and property, among other things. The company has branches scattered around the country and had more than 8,000 employees at the end of 2016, according to its website.

The investor group that includes TPG and Northstar bought its stake in BFI Finance in 2011 for less than \$200 million. BFI Finance shares have climbed 83% over the past year, giving the company a market capitalization of about \$656 million.

For the first half of 2017, BFI Finance said its net profit rose 55% from a year earlier to 526 billion Indonesian rupiah (\$39.3 million).

The bulk of BFI's business is automotive financing and it has benefited from increasing car, motorcycle and truck ownership in Southeast Asia's largest economy.



Lenders made more than \$200 billion of VA loans last year.

## LOANS

Continued from page B1

billion of VA loans last year, or 10% of all U.S. mortgage originations, according to the trade publication Inside Mortgage Finance. A decade ago, they were roughly \$25 billion, or 1%.

The expansion reflects how

banks have tightened lending criteria since the crisis, increasing the appeal of government programs like VA loans to some borrowers. Many banks have cut back on loans through government programs such as the VA or the Federal Housing Administration to focus instead on more affluent customers they view as less risky. That has made room for nonbank lenders who in some case aren't subject to the same regulations.

Allegations of serial refinancing focus on a VA product known as the Interest Rate Reduction Refinance Loan, or IR-RRRL. The product is meant to be a quick, easy way for veterans to save money when rates are falling. Unlike most other refinances, the arrangement requires no home appraisal and no credit underwriting.

The government is contemplating civil legal action against some lenders.

Despite that, these refinances often carry hefty fees. Although the loans are sometimes advertised as costing "no money out of pocket," fees of \$3,000 to \$6,000 are in many cases tacked on to a borrower's mortgage principal.

"So you're saving \$100 a month, but you're more and more in debt each time," said Chris Mason, a U.S. Marines veteran and mortgage broker in Alameda, Calif.

Other government mortgage programs carry stricter rules about when, how often and under what terms lenders can refinance a loan. For example, a lender using the program to refinance a VA loan from one fixed-rate mortgage into another must offer a lower interest rate—but there is no rule on how much a reduction must be. A lender using a similar FHA refinance program would have to lower the interest rate by at least 0.5 percentage point.

The task force plans to discuss refinances with lenders large and small that it believes have a high "churn" rate. That is likely to include Freedom

Mortgage, according to people familiar with the situation. The nonbank lender was the third-biggest provider of VA mortgages in the first half of this year, according to Inside Mortgage Finance. More than 70% of Freedom Mortgage's VA volume from that period came from the special VA refinancing product, according to the trade publication.

Officials at Freedom Mortgage didn't comment.

Borrowers aren't the only ones who potentially lose out from multiple refinances. Investors who buy mortgage securities backed by the loans also complain about the practice.

When lenders make VA loans, they usually package them into securities along with FHA loans, then sell them to investors. Ginnie Mae guarantees that investors will get their monthly payments.

When a loan in a Ginnie Mae security is refinanced, it is removed from its pool, which means investors potentially lose part of their monthly income stream and the security shrinks in size. Fund managers who invest in Ginnie Mae securities said they expect some refinances—but not from loans just a few months old.

That has increasingly happened and has caused investors to push down the price of some Ginnie Mae securities. Those usually command a premium compared with similar securities backed by Fannie Mae and Freddie Mac. But now some Ginnie Mae securities are trading at a discount, according to analysts and fund managers.

That also pushes up borrowing costs for VA and FHA borrowers. Ginnie Mae calculates that VA and FHA borrowers are paying 0.25 to 0.5 percentage point more on their loans as a result.

Army veteran Brendan Beely started getting refinancing flyers almost as soon as he and his family moved into their Texas home in 2015.

Mr. Beely eventually decided to refinance his loan to cut his monthly payment by about \$200. He doesn't know how much he paid in closing costs, which were rolled into his total loan amount. The refinance also reset the clock on his 30-year loan, which doesn't bother him because the loan was still new.

"If I had been 10 or 15 years in, I would have had more hesitation," Mr. Beely said.

He still gets fliers in the mail, but ignores them. "I'm quite happy where I am," Mr. Beely said. "I don't feel like going through this process again so soon."

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## MARKETS DIGEST

### Nikkei 225 Index

**20267.05** ▼63.14, or 0.31%

High, low, open and close for each trading day of the past three months.

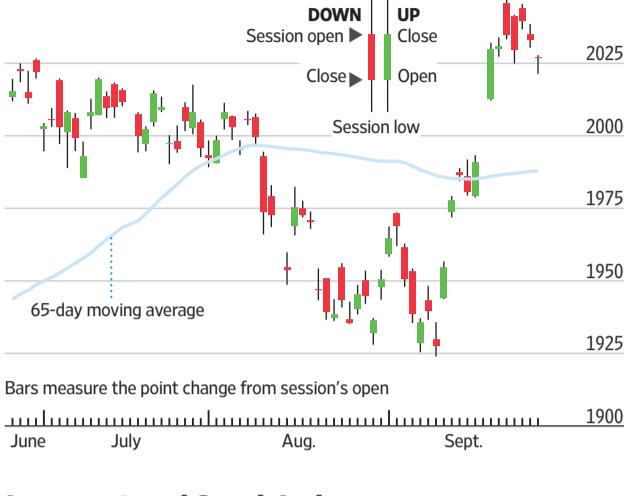
Year-to-date  
52-wk high/low  
All-time high

20397.58  
16251.54  
38915.87 12/29/89

### STOXX 600 Index

**385.62** ▲1.59, or 0.41%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

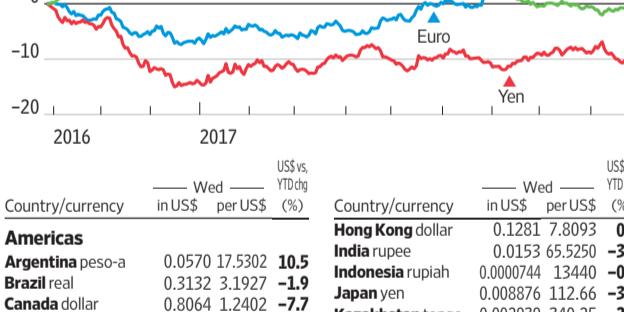
June July Aug. Sept.

### International Stock Indexes

Region/Country	Index	Data as of 12 p.m. New York time					
		Close	Net Chg	% chg	52-Week Range	YTD High	% chg
<b>World</b>	<b>The Global Dow</b>	2886.78	-3.02	<b>-0.10</b>	2386.93	2910.53	14.2
	<b>MSCI EAFE</b>	1954.72	-1.27	<b>-0.06</b>	1614.17	1981.49	13.9
	<b>MSCI EM USD</b>	1076.84	-3.27	<b>-0.30</b>	838.96	1112.92	35.6
<b>Americas</b>	<b>DJ Americas</b>	603.27	0.20	<b>[0.03]</b>	503.44	606.05	11.6
Brazil	Sao Paulo Bovespa	73447.75	-870.97	<b>-1.17</b>	56828.56	76419.58	22.0
Canada	S&P/TSX Comp	15533.94	59.82	<b>[0.39]</b>	14468.03	15943.09	1.6
Mexico	IPC All-Share	49935.40	-424.07	<b>-0.84</b>	43998.98	51772.37	9.4
Chile	Santiago IPSA	4016.58	20.47	<b>[0.51]</b>	3120.87	4023.41	24.6
<b>U.S.</b>	<b>DJIA</b>	22280.23	-4.09	<b>-0.02</b>	17883.56	22419.51	12.7
	<b>Nasdaq Composite</b>	6412.49	32.32	<b>[0.51]</b>	5034.41	6477.77	19.1
	<b>S&amp;P 500</b>	2498.50	1.66	<b>[0.07]</b>	2083.79	2508.85	11.6
	<b>CBOE Volatility</b>	10.22	0.05	<b>[0.49]</b>	8.84	12.01	-27.2
<b>EMEA</b>	<b>Stoxx Europe 600</b>	385.62	1.59	<b>[0.41]</b>	328.80	396.45	6.7
	<b>Stoxx Europe 50</b>	3156.38	14.13	<b>[0.45]</b>	2720.66	3279.71	4.8
France	<b>CAC 40</b>	5281.96	13.20	<b>[0.25]</b>	4342.64	5442.10	8.6
Germany	<b>DAX</b>	12657.41	52.21	<b>[0.41]</b>	10174.92	12951.54	10.2
Greece	<b>ATG</b>	736.64	-3.73	<b>-0.50</b>	560.34	859.78	14.4
Israel	<b>Tel Aviv</b>	1418.85	0.65	<b>[0.05]</b>	1346.71	1490.23	-3.5
Italy	<b>FTSE MIB</b>	22622.19	191.54	<b>[0.85]</b>	15923.11	22650.00	17.6
Netherlands	<b>AEX</b>	531.09	2.59	<b>[0.49]</b>	436.28	537.84	9.9
Russia	<b>RTS Index</b>	1126.94	-0.32	<b>-0.03</b>	956.36	1196.99	-2.2
Spain	<b>IBEX 35</b>	10368.90	179.30	<b>[1.76]</b>	8512.40	11184.40	10.9
Switzerland	<b>Swiss Market</b>	9098.58	-15.07	<b>-0.17</b>	7585.56	9198.45	10.7
South Africa	<b>Johannesburg All Share</b>	55214.07	143.69	<b>[0.26]</b>	48935.90	56896.89	9.0
Turkey	<b>BIST 100</b>	101218.30	-2711.03	<b>-2.61</b>	71792.96	110530.75	29.5
U.K.	<b>FTSE 100</b>	7313.51	27.77	<b>[0.38]</b>	6676.56	7598.99	2.4
<b>Asia-Pacific</b>	<b>S&amp;P/ASX 200</b>	5664.30	-6.70	<b>-0.12</b>	5156.60	5956.50	-0.0
China	<b>Shanghai Composite</b>	3345.27	1.69	<b>[0.05]</b>	2987.86	3385.39	7.8
Hong Kong	<b>Hang Seng</b>	27642.43	129.42	<b>[0.47]</b>	21574.76	28159.77	25.6
India	<b>S&amp;P BSE Sensex</b>	31159.81	-439.95	<b>-1.39</b>	25765.14	32575.17	17.0
Indonesia	<b>Jakarta Composite</b>	5863.03	-0.94	<b>-0.02</b>	5027.70	5915.36	10.7
Japan	<b>Nikkei Stock Avg</b>	20267.05	-63.14	<b>-0.31</b>	16251.54	20397.58	6.0
Malaysia	<b>Kuala Lumpur Composite</b>	1764.24	-1.35	<b>-0.08</b>	1616.64	1792.35	7.5
New Zealand	<b>S&amp;P/NZX 50</b>	7913.78	26.60	<b>[0.34]</b>	6664.21	7913.78	15.0
Philippines	<b>PSEI</b>	8221.92	51.78	<b>[0.63]</b>	6563.67	8294.14	20.2
Singapore	<b>Straits Times</b>	3236.15	24.11	<b>[0.75]</b>	2787.27	3354.71	12.3
South Korea	<b>Kospi</b>	2372.57	-1.75	<b>-0.07</b>	1958.38	2451.53	17.1
Taiwan	<b>Weighted</b>	10326.68	69.66	<b>[0.68]</b>	8931.03	10631.57	11.6
Thailand	<b>SET</b>	1670.27	0.52	<b>[0.03]</b>	1406.18	1672.59	8.3

### Currencies

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



London close on Sept. 27

US\$ vs. Country/currency

— Wed — YTD chg

Country/currency

— Wed — YTD chg

Country/currency	in US\$	per US\$ (%)	Country/currency	in US\$	per US\$ (%)
<b>Americas</b>			<b>Europe</b>		
Argentina peso-a	0.0570	17.5302	<b>Bulgaria</b> lev	0.6006	1.6651
Brazil real	0.3132	3.1927	<b>Croatia</b> kuna	0.1567	6.3833
Canada dollar	0.8064	1.2402	<b>Euro zone</b> euro	1.1752	0.8510
Chile peso	0.001569	637.50	<b>Czech Rep.</b> koruna-b	0.0452	22.138
Peru so	0.3055	3.2735	<b>Denmark</b> krone	0.1579	6.3342
Uruguay peso-e	0.0346	28.940	<b>Hungary</b> forint	0.003774	265.00
Venezuela bolivar	0.099273	10.07	<b>Iceland</b> króna	0.009339	107.08
<b>Asia-Pacific</b>			<b>Norway</b> krone	0.1258	7.9507
Australia dollar	0.7869	1.2708	<b>Poland</b> zloty	0.2724	3.6714
China yuan	0.1506	6.6385	<b>Russia</b> ruble-d	0.01720	58.143
			<b>Sweden</b> krona	0.1227	8.1489
			<b>Switzerland</b> franc	1.0272	0.9735
			<b>Turkey</b> lira	0.2803	3.5680
			<b>Ukraine</b> hryvnia	0.0378	26.4800
			<b>U.K.</b> pound	1.3400	0.7463

US\$ vs. Country/currency

— Wed — YTD chg

## FINANCE & MARKETS

# Why the FANG Phenomenon Has Teeth

Retirees, partygoers latch onto internet stocks as interest moves to Main Street

Finance professor Lily Fang is known in the academic community for her research into the perils of investing in stocks with lots of media hype.

By Steven Russolillo  
in Hong Kong and  
Ben Eisen in New York

Even so, when she saw a barrage of attention on a tech-stock acronym matching her surname, she couldn't resist.

"I figured I had to own these stocks," Ms. Fang, who teaches at France's Insead business school, said of the popular quartet of Facebook Inc., Amazon.com Inc., Netflix Inc. and Alphabet Inc.'s Google. "I mean, it's my last name, so why not?"

The FANGs are among the market's leaders this year. Though they have collectively lost nearly \$52 billion in market value in September—their worst month since June and just the second down month this year—the rout isn't detering FANG fans.

Investors will soon have a new way to bet on the buzzy investing phenomenon. **Intercontinental Exchange** Inc., parent of the New York Stock Exchange, on Tuesday unveiled an NYSE FANG+ Index,



Lily Fang couldn't resist FANG stocks despite their media hype.

made up of the four stocks and a few other tech highfliers. It plans to launch a new futures contract based on the index in November, subject to regulatory review.

FANG's teeth seem to have sunk in far beyond Wall Street. The term has resonated with retirees, millennials, analysts and market pundits.

And these tech companies have scorching stock prices that account for more than 12% of the S&P 500's gains this year through Monday, even after the recent selloff.

Stock-focused hedge funds are having their best year since 2009, due in part to outsize positions in FANG stocks. An investor who bought all four FANG stocks two years

ago would be sitting on a 69% profit today.

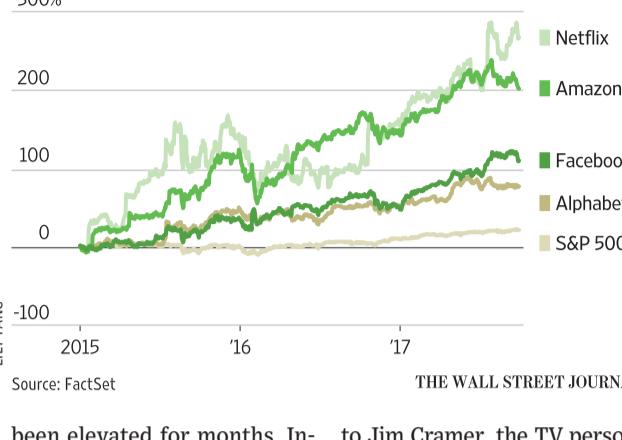
The other FANGmania factor is how deeply entrenched these companies have become in people's lives.

Harold Katzman, a 78-year-old retired ophthalmologist in Los Angeles, last year trimmed his holdings of dividend-paying stocks such as **Procter & Gamble** Co. to make room for the FANGs, which he considers more exciting. "I'm not the kind of guy to put all my money on red in Vegas and see what happens, but in retrospect, I wish I had put more into FANGs," Mr. Katzman said. "Technology is going to be the saving grace for the U.S."

Internet search traffic for "FANG stocks" on Google has

### Sharp Bite

The FANGs—Facebook, Amazon, Netflix and Google parent Alphabet—have outperformed the S&P 500.



Source: FactSet

THE WALL STREET JOURNAL

been elevated for months. International Investment, an online newsletter for financial professionals, added FANG to its compendium of investment acronyms in June.

"I think FANG will define our generation," said Ross Gerber, president and chief executive of Gerber Kawasaki Wealth & Investment Management in Santa Monica, Calif. "These are the companies that, well, if you're not involved in them, you're not really an investor." All four FANG stocks are prominent in the portfolio of Mr. Gerber, whose firm manages \$645 million.

FANG was created as a humorous way to describe how investors were interested in just a handful of stocks, according

to Jim Cramer, the TV personality who claims to have coined the term a few years ago. In 2015, Google reorganized into a holding company called Alphabet, effectively turning the "G" into an "A." Mr. Cramer said he emailed Ruth Porat, the company's chief financial officer, to tell her she had ruined FANG. He said he didn't hear back. Ms. Porat said she has no recollection of the event.

Over time, the FANG acronym stuck around. In June of this year, Christopher Birges-Pierce, a Santa Monica, Calif.-based financial adviser, said he was at a birthday party attended by people who didn't have jobs in finance when someone brought up FANG.

All the hype is a bit much

for Joe Krier, a financial planner in Jacksonville, Fla. He says the euphoria around FANG is the "same way investors looked at dot-com stocks back in 1999."

Acronyms and their related investment concepts have a rich history. In the 1960s and 1970s, the Nifty Fifty—blue-chip stocks such as **Coca-Cola** Co. and **McDonald's** Corp.—were the most popular stocks on the NYSE. In the early 2000s, Brazil, Russia, India and China were grouped together as BRIC, for the fastest-growing emerging economies.

The BRIC concept has had its ups and downs. A Goldman Sachs Group Inc. fund set up in 2006 to focus on it initially rewarded investors with huge gains but plunged in value after China's economy slowed. Goldman closed the fund in 2015.

Ms. Fang, the academic, in a research paper analyzed thousands of stocks from 1993 to 2002, a period that included the last internet bubble. She found that stocks with little or no media coverage earned higher returns than stocks with an overabundance of exposure.

Still, she decided to scoop up FANG stocks, as well as Chinese internet stocks Alibaba Group Holding Ltd. and Tencent Holdings Ltd., because she saw them as industry leaders in large and growing markets. "When momentum is still unfolding, you want to ride that," she added.

## Eurozone Weighs New Bond To Lessen Risk of Breakup

BY MIKE BIRD

looked for ways to dilute the risk of a sovereign default in a way that doesn't leave stronger economies on the hook.

A European Safe Bond, known as an ESBie, would package most eurozone government bonds into two parts, one of which would take on the risk of a country defaulting. That would reduce the riskiness of any individual sovereign bond within the pool.

What "it solves is the doom loop, whenever spreads for sovereign bonds went up, the banks that hold a lot of that sovereign risk are suddenly exposed to a sharp rise in risk," said Markus Brunnermeier, a Princeton economics professor and one of the architects of the proposal.

Still, investors have witnessed many failed calls to integrate fiscal risk in the eurozone, including past attempts to kick-start the safe bond.

Much will depend on the evolving relationship between the eurozone's two biggest

players, Mr. Macron and Germany's Angela Merkel, which may change after the chancellor's weaker-than-expected electoral victory Sunday.

The European Systemic Risk Board, a group set up by the European Union to monitor threats to the financial system, is surveying investors on the proposal. The European Commission, the EU's executive body, endorsed the idea in May.

Here's how it would work:

An investment vehicle would raise cash by selling the safe bonds, then use those funds to buy the debt that eurozone governments would still issue. The safe bonds would be packaged into junior and senior portions. The senior debt would make up 70% of the total issuance and would be as safe as German government bonds, according to its architects. The junior part would take the hit if a eurozone government stopped paying its creditors.

Eurozone banks are major



French President Emmanuel Macron wants to see greater financial integration in Europe.

buyers of their own country's sovereign bonds, creating a potential "doom loop" between bank and sovereign debt. When investors question the creditworthiness of a government, it threatens the assets of domestic banks, which further damages the perception of that country's creditworthiness, while sapping general confidence in the financial system.

Though banks have reduced

their exposure to their own governments, it remains high. Almost two-thirds of Italy's sovereign debt is held by domestic financial firms.

Owning safe bonds in place of debt from the country they are based in would leave banks less exposed to the creditworthiness of a single nation.

When investors get concerned over the eurozone, they tend to move into Ger-

man government bonds and out of other members' debt. The plan's supporters say the safe bonds would prevent this by creating a common asset without the pooling of risk that richer European governments object to.

"At the moment, the situation is that Germany gets cheaper funding at times of crisis and for other countries it gets more expensive," said Mr. Brunnermeier.

## Oil Rally Takes a Breather

BY ALISON SIDER  
AND CHRISTOPHER ALESSI

Oil prices wavered between gains and losses Wednesday after U.S. data showed that crude stockpiles fell but gasoline inventories grew last week.

Record U.S. oil exports and an increase in activity by refiners helped contribute to a 1.8-million-barrel draw from crude stockpiles. Analysts surveyed by The Wall Street Journal had anticipated an increase of 2.1 million barrels in crude stockpiles.

Critics of further financial integration, particularly in Germany, have complained that a common budget would leave richer countries liable for their weaker eurozone peers' debts. So, officials have

looked for ways to dilute the risk of a sovereign default in a way that doesn't leave stronger economies on the hook.

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## MARKETS

# Industrial Metals Slide From Their Peaks

Prices of the economic barometers falter as investors await end to central banks' stimulus

By IRA IOSEBASHVILI

Prices for many industrial metals have tumbled to their lowest levels in weeks, as investors react to signs that central banks around the world are gearing up to unwind stimulus programs.

Copper prices have fallen 7.5% from their September high through Tuesday and are hovering near their lowest levels since early August. Nickel was off roughly 14% from its September peak through Tuesday, while iron ore was down 17%.

The declines come at a particularly delicate time, as investors try to gauge how asset prices will respond when central banks dial back the easy-money policies that have helped support markets since the financial crisis. Many investors believe prices for metals, which are used extensively in manufacturing and construction, are a barometer for the global economy's health.

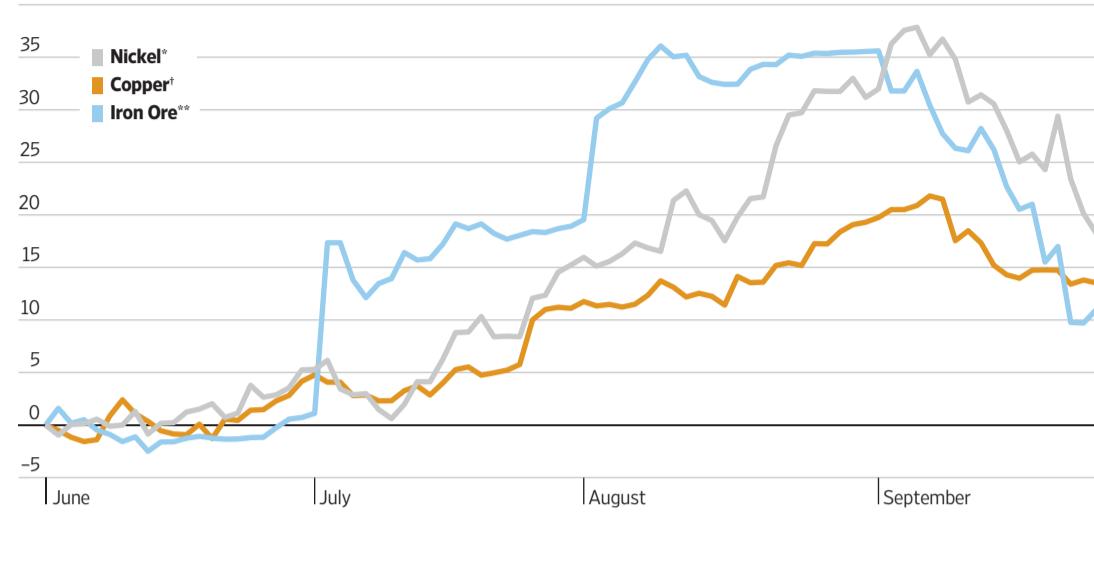
Some cracks are already apparent in China, where policy makers are unwinding stimulus measures that have boosted growth but also inflated asset bubbles and stoked speculation. Industrial production in China, the world's largest consumer of metals and many other commodities, fell last month to its lowest level since December, and fixed-asset investment grew at its slowest pace since 1999.

S&P Global Ratings earlier this month became the latest ratings firm to downgrade China, saying that "a prolonged period of strong credit growth has increased China's economic and financial risks." Moody's Investors Service lowered its China rating in May, while Fitch Ratings did so in 2013.

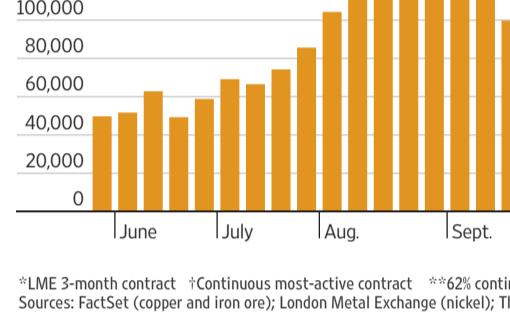
### Back to Earth

Prices for copper and other base metals have dropped in recent weeks after a sharp summer rally.

#### Commodities-price performance

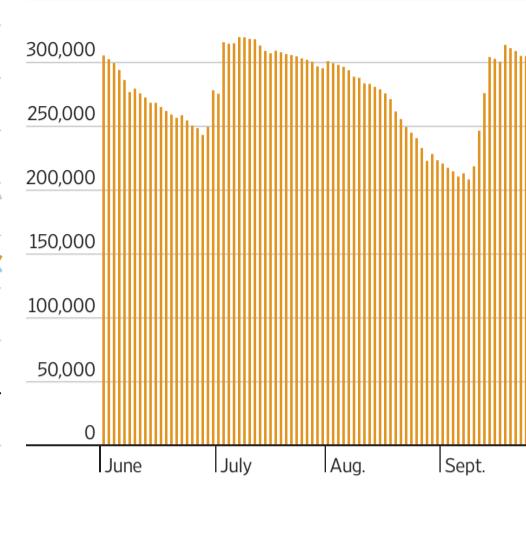


Net futures bets on copper fell for the second time since July, after hitting record levels.



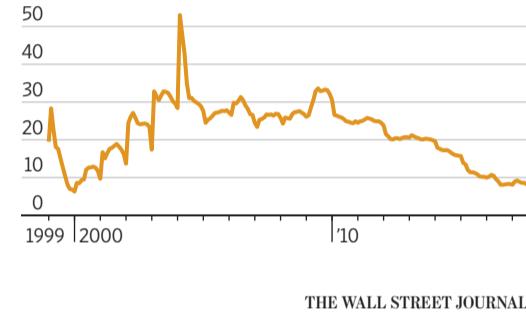
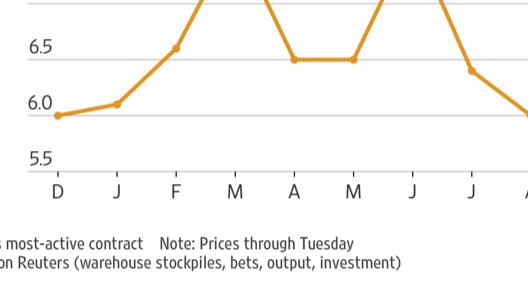
\*LME 3-month contract †Continuous most-active contract \*\*62% continuous most-active contract Note: Prices through Tuesday  
Sources: FactSet (copper and iron ore); London Metal Exchange (nickel); Thomson Reuters (warehouse stockpiles, bets, output, investment)

Copper stockpiles have risen at LME warehouses, indicating growing supply.



The declines come amid a slowdown in Chinese economic data, such as a drop in industrial production and investment in fixed assets.

#### China Industrial output, change from a year earlier



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"There may have been a little too much enthusiasm in markets earlier this year," said Bart Melek, head of commodity strategy at TD Securities. As central banks tighten policy, growth momentum may slow and upside economic surprises will become less likely, he said.

A recent bounce in the dollar is also affecting metals prices. A rising dollar tends to weigh on metals, which are

priced in the U.S. currency and become more expensive to foreign investors when the dollar rises. The WSJ Dollar Index was up 2% from its September lows through Tuesday.

Some investors and analysts believe the decline in metals is a temporary setback, rather than a reversal. Many are betting that an uptick in global growth this year is bound to support metals prices.

The concerns about China come as investors prepare for tightening in the U.S. and abroad. The Federal Reserve signaled last week that it would begin shrinking its balance sheet in October and hinted that interest rates may rise again before the year is up. The European Central Bank is likely to announce plans next month for phasing out the bond-buying program that has helped

reinvigorate the eurozone economy, while policy makers in the U.K. said they may raise rates in coming months to combat inflation. Meanwhile, Canada unexpectedly raised interest rates earlier this month.

Expectations of higher borrowing costs have sapped investors' enthusiasm for metals, after a summer rally lifted prices to their highest levels in years. Net bullish bets on cop-

per prices in the futures markets hit their lowest level since July last week, while posting their second-consecutive week of declines, Commodity Futures Trading Commission data showed. Meanwhile, the amount of copper held at warehouses registered with the London Metal Exchange has surged almost 50% in September to 305,150 metric tons, a sign that demand may be slackening.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

### Micron's Memory Isn't Fading

As parties go, **Micron Technology**'s has been a rager. And last call still seems a while off.

The memory-chip maker has been running strong for the past year, thanks to booming prices of both NAND flash and DRAM memory. Over the past 12 months, Micron's market value has doubled as sales and operating earnings have soared. The company's fiscal fourth-quarter results issued Tuesday afternoon sent the stock up a further 7.8% by midday Wednesday.

Those results cooled understandable fears that memory's good times have peaked. Revenue hit a record \$6.1 billion for the quarter, up 91% year over year. The midpoint of the company's forecast for the quarter ending in November has that growing to \$6.3 billion.

Earnings also set a record of \$1.99 a share compared with a loss of 16 cents a share in the same period last year.

This doesn't mean the memory business is free of downturns. Pricing in the business is highly dependent on supply, and strong prices this year have encouraged Micron's rivals to boost capital spending on their production lines.

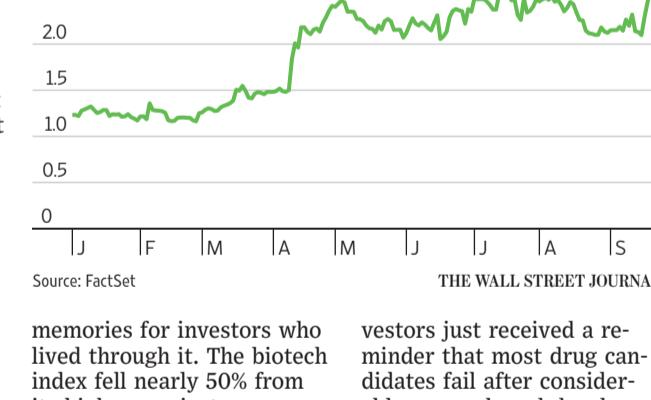
But demand is no longer so heavily dependent on personal computers or even smartphones. Micron says cars are a new key driver as more technology enhancements demand greater memory. Data-center expansion from cloud computing providers is also driving up memory demand. Micron says it expects a "healthy" balance in supply and demand in 2018, which should allow investors to hold on to their chips a while longer.

—Dan Gallagher

### Axovant's Plunge Won't Spread

#### Caught Offsides

Investors had pushed Axovant's market value above \$2.5 billion through Monday



memories for investors who lived through it. The biotech index fell nearly 50% from its highs over just seven months amid a series of drug-pricing controversies.

Higher share prices equal more risk for investors, all else being equal. Biotech is more dependent on strong sentiment than most corners of the stock market, and in-

vestors just received a reminder that most drug candidates fail after considerable research-and-development costs.

Still, biotech stocks seem to be in better position this time. Some high-profile initial public offerings, such as for the richly valued Moderna Therapeutics, potentially loom on the horizon

and large-scale mergers and acquisitions from big pharma have resumed after a lull.

Government policy, a major issue for the sector last time things soured, is now working in biotech's favor. Talk of tax reform is helpful in an indirect sense, since such legislation could unlock billions of dollars trapped overseas for big pharma to spend on new acquisitions.

The U.S. Food and Drug Administration also has signaled an eagerness to streamline the drug approval process, which benefits startups. And, last but not least, drug-pricing talk has been relegated to the back burner.

Given the inherent risk of biotech, investors need to be on guard for any deterioration in the bull case. For now, though, it is reasonable to believe that for investors, the sequel won't be as scary as the original.

—Charley Grant

### OVERHEARD

"Today's business environment is global and highly interconnected, increasing an organization's probability of cyber threats," says the blurb at the top of the consulting firm's marketing page on its cybersecurity services. Below is a release touting an award in June for being ranked No. 1 in security consulting for a fifth consecutive year in 2016.

Here's a guess that there won't be a sixth time atop Gartner's ranking for **Deloitte**. The accounting and consulting firm revealed that hackers broke into its systems and accessed usernames and other sensitive data belonging to clients.

Security news website Krebs on Security says Deloitte's entire internal email system was hacked. Among the services that Deloitte performs is "war-gaming" cyber attacks by trying to breach clients' defenses. Now it seems the hunter has become the hunted.

### Nestlé's Tame Margin Target Doesn't Justify Pricey Shares

**Nestlé** has published a margin target—but not the aggressive one demanded by activist investor Dan Loeb of **Third Point**.

And it doesn't make the company's shares look much less expensive.

The world's largest food company said at Tuesday's hotly anticipated investor day that it would achieve an adjusted operating margin of between 17.5% and 18.5% by 2020. The analyst consensus currently is for about 17%, according to FactSet, so the announcement should prompt a few profit upgrades.

But Mr. Loeb had suggested a target of 18% to 20%, probably inspired by the 20% target announced by **Unilever**, Nestlé's key peer, following an aborted \$143

billion bid from **Kraft Heinz** in February. Kraft Heinz itself made a 28.8% margin in the second quarter.

Nestlé Chief Executive Mark Schneider said he had "watched the margin arms race of consumer-goods companies with apprehension" and warned investors against expecting a new, even higher target in 2020. He made clear the company's top priority is reviving growth, and that boosting sales while cutting costs is tough—like "going on a run and a diet at the same time."

The only other news concerned a slightly accelerated timetable for share buybacks. The company's policy toward its \$27 billion stake in cosmetics giant **L'Oréal** remains unchanged following

Trading for 22 times for-



Nestlé has made reviving growth its top priority.

ward earnings, a premium to peers and to its own record, the shares still look expensive. Nestlé may have waked

up to the challenges facing the food industry. Its investors haven't yet.

—Stephen Wilmot