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## What's News

Business & Finance

♦ DowDuPont is altering its plan to splinter into three companies, a step that appears set to end the threat of a fight with as many as four activist investors. A1

♦ A Beijing court sentenced two men who led a massive Chinese online-lending scam to life imprisonment. B5

♦ Equifax lobbied for looser regulation of credit-reporting firms in the months before its massive data breach. B5

♦ States are moving to bolster investor protections out of concern the Trump administration will weaken the "fiduciary rule." B1

♦ U.S. prosecutors accused an ex-Deutsche Bank executive of misleading investors about loans backing \$1.4 billion in securities issued in 2007. B5

♦ Fintech firm SoFi said Chairman and CEO Mike Cagney would step down by the end of the year. B1

♦ OPEC crude-oil production fell last month for the first time since April. B5

♦ Blackstone is preparing for an IPO or sale of smart-home tech firm Vivint. B3

♦ The FCC said there is "effective competition" in the wireless market, for the first time since 2009. B3

♦ AT&T said it would offer free HBO service to more of its wireless subscribers in the fight for cellular customers. B3

### World-Wide

♦ China's endorsement of new international sanctions against North Korea came with a heavy dose of caution as Beijing tries to stall its neighbor's pursuit of nuclear arms without causing its collapse. A1

♦ Hurricane Irma destroyed a quarter of the homes in the Florida Keys and badly damaged many more. A1

♦ Russia has begun military drills ahead of major war games that NATO allies say are helping them prepare for future provocations. A3

♦ Trump's lawyers concluded Kushner should step down as senior White House adviser. A6

♦ May won a key vote on Brexit legislation, but must get Parliament to support her vision for how the U.K. should exit the EU. A4

♦ Britain pledged to contribute troops and to work with the EU to implement foreign sanctions after Brexit. A4

♦ Service companies won't get the benefit of the lower tax rates Republicans are planning for other businesses. A7

♦ Bannon remains in frequent contact with Trump weeks after leaving his administration job. A7

♦ China's failure to bring air quality up to global standards is shaving years off the lives of its citizens. A4

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# China Holds Back in U.N. Sanctions

Beijing keeps oil lifeline to safeguard regime, preserve leverage over North Korea

By CHUN HAN WONG

BEIJING—China's endorsement of new international sanctions against North Korea came with a heavy dose of caution as Beijing tries to stall its neighbor's pursuit of nuclear arms without causing its collapse.

The United Nations Security

Council agreed late Monday to curb key aspects of North Korean trade and income—including oil imports, textile exports and revenue from overseas workers—without imposing blanket bans that could choke off Pyongyang's economic lifelines.

The U.S. initially asked for a complete oil embargo and asset and travel freezes targeting North Korean leader Kim Jong Un, but eased those demands, diplomats said, to win support from China and Russia, which each wield veto power on the Security Council.

Watering down the sanctions helps China retain leverage over Pyongyang and avoid the collapse of a fellow socialist regime that would drive refugees across its border and bring U.S. troops closer.

"China wants to reserve some tools in its kitbox, to be used if North Korea carries out more provocative acts," such as another nuclear test, said Cheng Xiaohe, an associate professor at Renmin University in Beijing.

In agreeing to cap Pyongyang's oil purchases, "China is offering some breathing space

to North Korea, while signaling that harsher measures—like a total ban on oil imports—would follow should they conduct more nuclear tests," Mr. Cheng said.

Monday's resolution bans North Korea from importing natural gas, slashes its oil imports by 30% and caps its annual purchases of refined petroleum products such as gasoline and diesel at roughly 2 million barrels and crude oil at about 4 million barrels.

A proposed ban on North Korean expatriate workers, who are estimated to number

93,000 world-wide and contribute hundreds of millions of dollars in annual revenue to Pyongyang, was amended to allow countries to employ North Koreans if deemed necessary for humanitarian reasons—a change that Chinese experts said was likely requested by Beijing.

The resolution also bans all textile trade with North Korea, which U.S. officials say earned \$760 million for Pyongyang in

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♦ China's World: Beijing guides markets with heavy hand... A2



Residents walk through a destroyed trailer park in Plantation Key in the aftermath of Hurricane Irma on Tuesday.

## GOOGLE LEARNS TO SPEAK DETROIT

Alphabet's self-driving car unit hires auto-industry veteran to bridge divide with the Motor City

By TIM HIGGINS

MOUNTAIN VIEW, Calif.—John Krafcik can speak two languages, Motor City and Silicon Valley, and if Google makes progress in developing self-driving cars, it might have his translation skills to thank.

After building his career at Ford Motor Co. and Hyundai Motor Co., Mr. Krafcik, 55 years old, now heads Google's self-driving car effort, called Waymo. Unlike automotive industry executives, who tend to have plush offices, he has a desk among software engineers. On a recent afternoon, the desk was mostly clear except for a

copy of trade journal Automotive News.

The tech and auto industries have been at loggerheads for years. General Motors Co. was so annoyed with Google, a unit of Alphabet Inc., it once tossed one of its software engineers off a test track for plowing through cones. Fiat Chrysler Automobiles NV's Dodge ran a television ad that took a thinly veiled shot at the tech giant. More than two years of on-and-off talks with Ford were fruitless.

The mutual mistrust has fostered a confusing array of alliances between auto makers, ride-hailing companies, rental-car concerns and tech giants. Silicon Valley looked down its nose at the

mundane work of manufacturing. Detroit feared being turned into a commodity producer making a shell for others to fill, like cellphone handset makers, a problem Mr. Krafcik wants to solve.

"We're not a disruptive element, we're an enabling element," he said in an interview.

Whether Mr. Krafcik can knit the two industries together will go a long way in determining the future shape of the robot-car market and who stands to profit from it.

Please see CARS page A8

♦ U.S. investigators say Tesla's Autopilot feature shares blame in fatal crash..... B3

## DowDuPont Gains Truce By Altering Split-Up

By DAVID BENITO

Two weeks after its formation, DowDuPont Inc. is altering its plan to splinter into three companies, ending the threat of a fight with as many as four activist investors.

The company, formed by the union of Dow Chemical Co. and DuPont Co. on Aug. 31, has long planned to split into separate companies focused on agriculture, specialty-chemical products and materials. The plan was to break up over 18 months.

The new plan still envisions three separate companies but it moves businesses with more than \$8 billion in annual revenue from the materials spinoff—which is to house the legacy Dow operations and be named Dow—into the specialty-chemical concern.

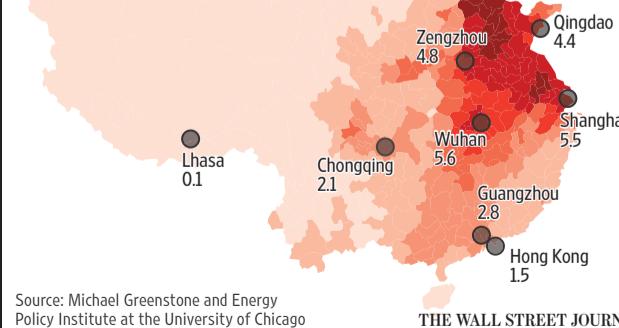
The move will also divide up what had been Dow Corning, a pioneer in silicone technology

## Price of Pollution

A new analysis found that Chinese people would live an average of 3½ years longer if the country's air quality were at levels deemed safe by the World Health Organization. A4

### Number of years life expectancy would be extended if WHO standards were met

0 1 2 3 4 5 6



## WHAT TO DO WHEN THE KIDS GO TO COLLEGE

LIFE & ARTS, A9

## INNOVATIONS IN HEALTH CARE

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## Macron Faces Labor Protest



DISSENT: A far-left union in France led strikes and rallies against Emmanuel Macron's plans to overhaul the labor code. A3

## After Multiple Invasions, the U.S. Army Is Tired of Liberating Atropia

\* \* \*

Military planners use fake countries for war games, creating real-world problems

By JAMES MARSON AND JULIAN E. BARNES

The U.S. Army always knew defending Atropia would be a slog.

But officers didn't expect allies to abandon the authoritarian regime. And they didn't think war weariness would be set the troops so quickly.

"Candidly," says Lt. Col. Joe Buccino of the 82nd Airborne Division, a veteran of multiple Atropia actions, "having liberated that place four times in 15 months, it is about time we let the Atropians provide security for themselves."

Atropia's problem, it seems, is reality. It keeps interfering with an elaborately constructed military-training scenario.

The U.S. Army's training

command in 2012 developed a rich back story for various ersatz countries in its war games. The fictional country of Atropia, according to the playbook, is a pro-western dictatorship. The Army ordered its training centers adopt the scenario.

Soldiers, like Col. Buccino, soon tired of rerunning the same old script. Bigger problems with Atropia arose when some European U.S. allies balked at the idea of propping up faux dictators—even if the blood on their hands was only stage paint.

The U.S., its NATO allies, Russia and other militaries around the world use fictional scenarios to make their military drills more sophisticated.

Please see DRILLS page A8

## WORLD NEWS

# Beijing Guides Markets With a Heavy Hand



### CHINA'S WORLD

By Andrew Browne

XIONGAN, China—The Chinese economy is in a strange kind of limbo.

Take Xiongan, a sleepy rural district south of Beijing that for one giddy moment became the country's hottest stretch of real estate.

Investors converged here after state media this spring

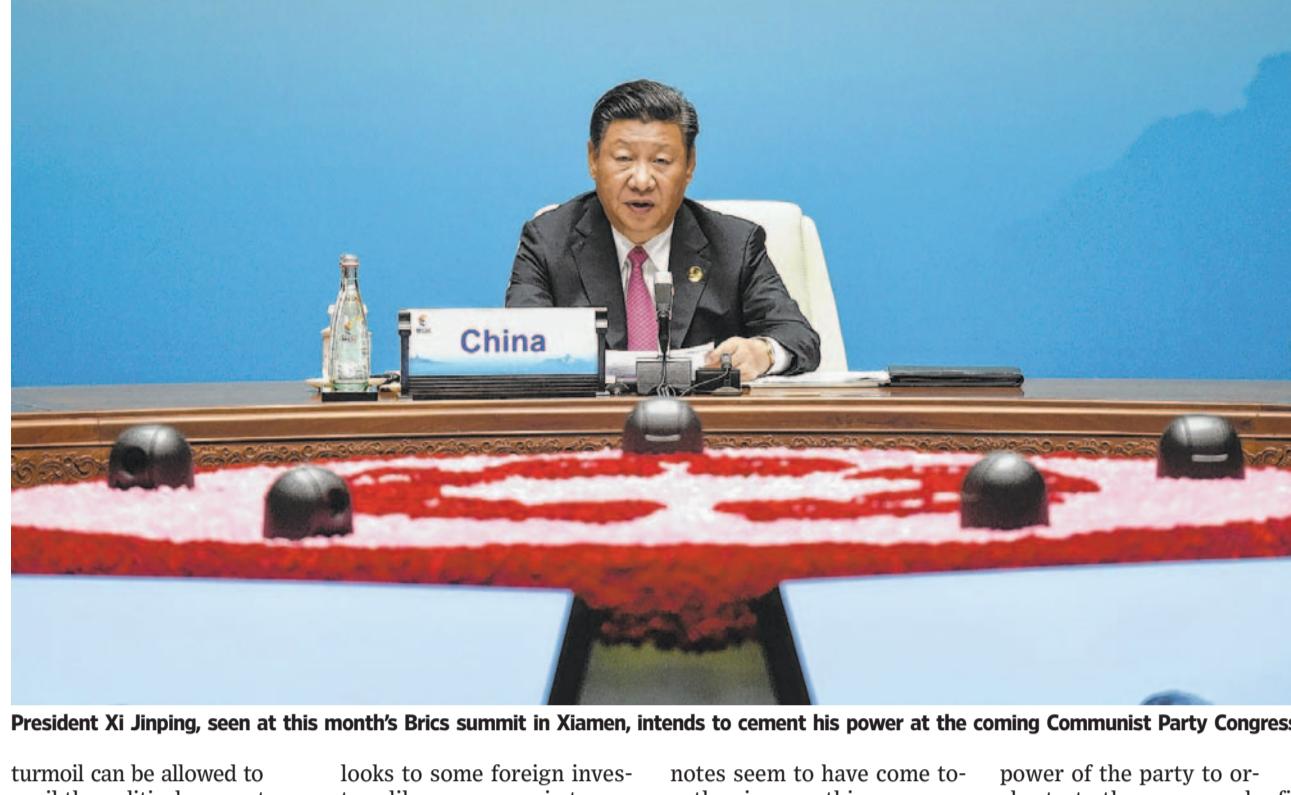
proclaimed that President Xi Jinping had picked it as the location of a new super-city, twice

the area of New York and "crucial for the millennium to come." But when prices tripled overnight, officials froze real-estate transactions rather than see Mr. Xi's model city turn into a speculators' playground.

Today, Xiongan is on hold: Cranes swing idly over the half-finished apartment blocks that dot the landscape, and the gates to newly completed luxury villa complexes are padlocked.

The same concocted calm pervades much of the world's second-largest economy.

In the run-up to next month's 19th Communist Party Congress, where Mr. Xi intends to cement his power for another five years, the government has laid its heavy hand on the country's markets. No



FRED DUFOUR/PRESS POOL

President Xi Jinping, seen at this month's Brics summit in Xiamen, intends to cement his power at the coming Communist Party Congress.

turmoil can be allowed to spoil the political pageantry.

Municipal governments in megacities like Shanghai and Beijing have managed to hold down runaway property prices with a web of restrictions on who can buy apartments.

In a recent echo of the Xiongan freeze, regulators have closed China's roaring exchanges for bitcoin, the cryptocurrency that has become another manifestation of the Chinese economy's susceptibility to bubbles.

To stanch a gush of money out of the country, authorities have hauled in for questioning prominent tycoons who have been buying up trophy assets overseas. Capital flight is now under control.

This imposed discipline

looks to some foreign investors like an economic turnaround: The yuan has recouped much of last year's loss; Shanghai stocks are recovering broadly, led by "old-economy" state companies in steel, aluminum and manufacturing; and the Hong Kong-issued bonds of Chinese property conglomerates are red hot.

Just a few months ago, the almost universal belief among Western economists was that the yuan was on a slow grind lower. Many thought that real-estate markets, fed by a mortgage boom, were dangerously frothy and saw state-owned corporate behemoths as drags on the economy, rather than growth drivers.

Now, all these discordant

notes seem to have come together in a soothing symphony.

But what, fundamentally, has changed? Mr. Xi has done little in his first term to address the root causes of the economy's imbalances: Growth is still juiced by easy credit despite a mountain of debt. Rather than trim the bloat in state enterprises, the president is bulking them up.

True, global trade has picked up sharply, lifting Chinese exports and boosting industrial profit. And Donald Trump's stalled economic agenda has weighed on the dollar, thereby helping boost the yuan.

Mostly, however, we're

witnessing the awesome

power of the party to orchestrate the economy, by finesse if possible and diktat when necessary.

Those who think the economy has turned a corner should consider what might happen if the authorities let the yuan find its own level, or allowed capital to leave the country freely or got serious about reducing debt: almost certainly a run on the currency and a severe jolt to growth.

For optimists, bullish market valuations are justified by expectations that Mr. Xi will leverage his new strength after the congress to overhaul the economy.

Xiongan will be a test. Mr. Xi imagines it as a model for a new kind of urbanization—green, super-high-tech, innovative

and socially inclusive, focused on generating real jobs and incomes for the middle classes, not windfalls for speculators and corrupt officials.

But the outskirts of China's megacities are littered with failed utopias where previous visions have run into reality.

A decade ago, Shanghai sought to unclog the city center and pioneer sustainable lifestyles by building a series of European-themed satellites. Architectural follies, they never took off. Thames Town, a replica of "Ye Olde England" complete with a pub, church spire, cobblestone streets and statue of Winston Churchill, is used as a backdrop for wedding photos.

Another Shanghai scheme, to create a green metropolis on the world's largest alluvial island—the British engineering firm Arup called it "the quest to create a new world"—died on the drawing boards.

A short drive from Xiongan on the Bohai Bay, an "international ecocity"—a pet project of Mr. Xi's predecessor, Hu Jintao—was meant to have a monorail and harvest almost all its energy from the wind and sun. It's now a debt-ridden ghost town.

Xiongan has gotten off to the worst possible start, with a speculative frenzy.

For Beijing, however, it's easier to smother this kind of activity than deal with the fundamental causes. An all-powerful leadership can likely keep the forces of disruption at bay for some time. But they haven't disappeared; like Xiongan speculators, they're just lurking.



Chinese customs officials in the northeastern Liaoning province inspect goods-laden trucks heading to and from North Korea.

## KOREA

Continued from Page One

2016 and was the last major economic sector that hadn't yet been targeted by U.N. sanctions.

"China is definitely leaving itself some leeway to show North Korea that it could go farther, but each additional sanctions resolution has a diminishing marginal return in terms of the signal sent," said Justin Hastings, an associate professor at the University of Sydney and an expert on Pyongyang's trade networks.

"Without a strategic change in policy, China is likely to asymptotically approach cutting off North Korea entirely without ever actually getting there."

China in February suspended North Korean coal imports for the rest of this year to enforce U.N. sanctions, and then in August said it would comply with additional U.N. measures by making the coal-import suspension permanent, while also banning imports of North Korean iron and seafood.

These curbs made Chinese

textile purchases a more important revenue source for Pyongyang. The value of Chinese textile imports from North Korea totaled \$328.7 million from January to July, surpassing the \$226.1 million North Korea earned from selling coal and other mineral fuel products to China over the same period, according to Chinese customs data.

China doesn't publish data on North Korean workers in the country. In 2012, the North Korea Strategy Center, a Seoul-based nonprofit, estimated that about 7,000 to 8,000 North Koreans were working in Chinese restaurants and construction sites, while 40,000 more expected to take jobs in northeastern Chinese cities over the subsequent year or so.

The impact of the latest bans will be muted by gaps in sanctions enforcement, said Benjamin Silberstein, an associate scholar at the Foreign Policy Research Institute, a Pennsylvania-based think tank.

"Much of North Korea's oil imports already go unrecorded and happen through sources that lay outside of official trading frameworks," Mr. Sil-

berstein said. Furthermore, "North Korean society is already adapted to a reality where oil and fuel is very scarce," he said.

The ban on textile exports can be circumvented by an already widespread practice of labeling the goods as Chinese-made, while curbs on North Korean overseas labor can be skirted under humanitarian exemptions, according to Mr. Silberstein.

Watering down the

sanctions helps

China retain leverage

over Pyongyang.

China's Foreign Ministry

spokesman Geng Shuang on Tuesday said Beijing strictly enforces all U.N. resolutions, and reiterated calls for Washington and Seoul to avoid "actions that will further complicate the situation," a phrase China has used to characterize U.S.-South Korea joint military drills.

On Monday, China's central bank issued a directive instructing state-owned and commercial lenders to take steps to comply with all U.N. resolutions, including freezing accounts and blocking transactions linked to clients under sanction.

A number of Chinese state-owned banks have been blocking North Koreans from opening new accounts this year, according to bank employees based in cities near the North Korean border, who declined to say when the measures started.

A China Construction Bank representative said North Koreans have been blocked from withdrawing money, while an employee at Agricultural Bank of China said existing North Korean-owned accounts have been frozen.

Xiao and Liyan Qi contributed to this article.

## DOW

Continued from Page One

that was taken over by Dow last year, putting some of it into each of the specialty and materials companies. Previously, the silicone business was to be housed entirely in the new Dow, which Dow executives argued was the best fit; that represented the crux of the debate with the activists.

Both the investors and Dow executives appear to have gotten at least some of what they wanted. DowDuPont shares rose on the news, first reported by The Wall Street Journal, up 1.9% at \$68.11 in midday trading.

Shareholders, including activists Trian Fund Management LP, Third Point LLC, Glenview Capital Management LLC and Jana Partners LLC, had pressed for a dramatic reshaping of the breakup, particularly as it relates to the silicone business.

Dow Chief Executive Andrew Liveris had said in a July interview that "noisy shareholders" were focused too much on short-term results, but added that he was open to any outcome that produced value.

Dow executives believe the growth in silicones since Dow took over Dow Corning is evidence of the sales and research opportunities created by putting the two companies together.

On Tuesday, Mr. Liveris said he fully supported the changes.

Meanwhile, the investors applauded the moves, the result of a five-month review led by consultants at McKinsey & Co., which talked with 25 of the biggest shareholders.

"It takes guts for board members to admit they need a do-over, and we're happy the board members here took the time to listen to shareholders and improve their spinoff plans," Jana Partners founder Barry Rosenstein said in an email.

The new Dow will house products aimed at packaging, infrastructure and consumer care and now have roughly \$40 billion in annual revenue, the people familiar with the matter said. The specialty-chemical business will focus on electronics and imaging, transportation

and construction and nutrition, with some \$20 billion in revenue.

The agriculture business, with about \$14 billion in revenue, will remain the same.

The review process included directors who made visits to several company plants and sought to account for changes to the markets and the company's portfolio in the nearly two years since the roughly \$60 billion merger and the split were announced in December 2015.

Mr. Liveris, who is executive chairman of the combined company, is in charge of setting up the new Dow, though he will retire next summer.

DuPont's Edward Breen, now CEO of DowDuPont, is in charge of establishing the other two companies and hasn't yet declared his post-split plans.

On a conference call with analysts Tuesday, Mr. Breen left open the possibility of further breakups down the road for the specialty business, which investors and analysts have suggested. When asked about future splits, he said the new structure, based on customers, will set up businesses with a lot of "optionality."

Dana Mattioli contributed to this article.

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# WORLD NEWS

## Macron Faces Labor Outcry in France

Far-left union leads strikes and protests against president's pro-business plans

By WILLIAM HOROBIN

PARIS—French President Emmanuel Macron faced his first street protests as a far-left union led strikes and demonstrations against his plans to shake up the labor code.

The CGT union on Tuesday organized almost 200 rallies around the country against laws Mr. Macron plans to sign this month that would reduce financial risks for companies laying people off and make it easier to negotiate working conditions with employees. But, in a favorable early sign for Mr. Macron, the other major unions didn't participate in the demonstrations.

"It is a considerable retreat for worker rights and a generalized destabilization of labor," said Antoine Girard, an unemployed theater worker at a march in Paris.

Thousands of people set out from the city's landmark Bastille column, chanting and shouting. There were no immediate estimates of total numbers from police or the CGT.

The demonstrations are a test for Mr. Macron as he embarks on contentious changes to welfare, taxes and pensions.



CLOUDE PARIS/ASSOCIATED PRESS

Steelworkers in Marseille burned flares on Tuesday during a nationwide day of protest against the government's planned labor laws.

He has said the moves are necessary to address low growth and high unemployment after his predecessors backed away from overhauling worker protections when faced with strikes and protests.

Mr. Macron is hoping he can use success at home to push for broader changes in the eurozone.

The French president is facing slumping polls amid public skepticism of his policies, but

he has notched some victories. Of the five largest unions that officially represent employees in bargaining agreements, only the CGT's leadership has called for strikes. In addition, the CGT hasn't struck an alliance with far-left political groups, which are planning a separate demonstration on Sept. 23.

The 39-year-old leader said the new measures are necessary to encourage companies

to hire by giving them more flexibility to adjust their workforces in difficult times. The proposal would enable small companies to strike deals on pay and conditions with their employees, without having to negotiate with unions. The measures also include a cap on fines for unfair dismissals and a limit on the time workers have to appeal layoffs.

The CGT said the measures will increase joblessness and

instability.

"This is the first step of a mobilization to make people aware of what's at stake," CGT leader Philippe Martinez said of the protests. The CGT has called for more strikes and demonstrations on Sept. 21.

Mr. Macron, meanwhile, was in the Caribbean visiting victims of Hurricane Irma on the island of St. Martin.

The French president hopes to persuade other countries in

the eurozone to put their taxpayers' money into a shared budget to counter economic shocks, but said France must first show it is an asset and not a liability for the currency bloc by addressing its own economic problems.

The French leader has made a series of missteps that have hurt his approval ratings. Surveys show French voters oppose austerity measures and what they see as Mr. Macron's authoritative style, which was blamed for a budget spat with the army in July and the departure of the head of the armed forces.

Last week, the French leader drew fire from rivals when he said he would push through overhauls and cede no ground to "the lazy, cynics and extremists." Mr. Martinez described the remarks as "scandalous." On Monday, Mr. Macron stood by his comments, which he said referred to past governments.

"Those who think we have the luxury to do nothing and remain seated are making a profound error," Mr. Macron said.

The centrist CFDT union—the largest by membership—has said it is disappointed with the plans but won't join the protests. Force Ouvrière, a leftist union that has regularly protested alongside the CGT, also is staying on the sidelines this time.

## Corruption Battle Roils Ukraine

By JAMES MARSON

KIEV, Ukraine—A push for overhauls encouraged by Ukraine's Western backers is deepening divisions in the government, including a call by some officials for the dismissal or investigation of the reformist finance minister.

The clash has raised concern in the U.S. and European Union and presents a new challenge for the country's economy, which is recovering from a two-year recession sparked by Russia's annexation of Crimea in 2014 and military interventions in Ukraine's east.

Finance Minister Oleksandr Danylyuk is point man for talks with the International Monetary Fund that were set to continue on Tuesday, and has driven efforts to overhaul state finances and cut official interference in business, steps seen as key in curbing corruption.

A push by Mr. Danylyuk and others to weaken the state's hand in the economy and overhaul inefficient state sectors has spurred attacks from opponents who accuse him of hindering their work.

"This is not surprising," Mr. Danylyuk said. "We are working to change the old system and the old rules, and quite logically, the system is fighting back."

General Prosecutor Yuriy Lutsenko, who was appointed by President Petro Poroshenko, told his staff in late August that he had written to the prime minister asking him to fire Mr. Danylyuk, according to Mr. Lutsenko's spokeswoman. Prime Minister Volodymyr Groysman's spokesman didn't respond to a request to comment.

Two other senior officials have publicly called for investigations of Mr. Danylyuk's finances and budget decisions.

Mr. Danylyuk has denied any wrongdoing and said the multiple allegations he has faced were "distractions, often intentional and aimed to derail."

The finance minister gained

VINCENT MUNYI/BLOOMBERG NEWS

Finance chief Oleksandr Danylyuk called allegations against him distractions aimed at derailing reforms.

a firmer grip on his job recently when the General Prosecutor's Office closed an investigation into allegations that he had evaded taxes, according to the Finance Ministry.

He began meeting with international investors on Monday with the aim of placing Ukraine's first Eurobond since restructuring around \$15 billion of foreign debt in 2015.

Some other reformist officials and anticorruption activists have also complained of official pressure—causing unease in the West.

"Members of civil society play vital role for transparency; targeting them is a step backwards," the U.S. Embassy in Kiev tweeted in March.

The U.S., like the EU, has provided financial support to the Ukraine government when it carried out certain economic and anticorruption overhauls.

Ukraine's Western backers have praised economic and governance changes since a pro-Western government came to power in 2014, but have taken a more critical tone in recent months as progress on overhauls has slowed.

"Ukraine needs to continue moving aggressively to strengthen the rule of law and

to limit the influence of entrenched interests," U.S. Ambassador Marie Yovanovitch said in August.

The IMF, too, has criticized what it says is slow progress on steps needed to open up Ukraine's economy and spur growth. First Deputy Managing Director David Lipton was set to begin a visit to Kiev on Tuesday, amid concerns about whether Ukraine can push ahead with such measures.

The IMF has provided billions of dollars in loans to Ukraine in return for measures to strengthen state finances. Yet calls by the IMF and others for privatizations and creation of a land market have faced resistance from some lawmakers who argue the changes would benefit few people. Long-promised efforts to strengthen rule of law through changes to the judicial system have stalled.

Corruption and economic inequality have fueled two revolutions in Ukraine in the past decade and a half, and surveys show many Ukrainians are unhappy with progress under Mr. Poroshenko, whose approval rating stood at 17% in July, according to pollster GfK Ukraine.

The president has notched some successes since taking office in 2014 with the country in recession and conflict in its east. Ukraine launched its Anticorruption Bureau, started cleaning up its banking system and moved to strengthen the finances of the state energy company.

As finance minister since April 2016, Mr. Danylyuk, a 42-year-old former McKinsey & Co. consultant and investment-fund head, has led an overhaul of the system for value-added tax refunds, for years a venue for corruption. He has helped draft legislation needed to unlock further IMF loans this fall, and is working to overhaul the state fiscal service by cutting bureaucracy, allowing online submissions and abolishing the tax police.

Anticorruption activists have accused such agencies of corrupt abuse of their powers.

"Danylyuk is a key anchor in terms of reforms," said Timothy Ash, senior sovereign strategist for emerging markets at BlueBay Asset Management in London. "He's likely trodden on a few people's toes."

—Ian Talley in Washington contributed to this article.

"I was trying to pull her out, but I couldn't get her," he said. "The sea took everything."

Irma's unprecedented force has traumatized residents across the island and convinced many that the death toll will rise sharply in the days to come. The official death toll stood at 13, but many residents know someone who disappeared or died in the storm. Radio stations broadcast lists of missing people throughout the day.

Bernard Chance, an electrician and one-time local politician, said he knows at least three people who tried to ride out the storm on houseboats and then disappeared or drowned.

"It may seem foolish to stay on the boat, but when that's your only possession, you try to protect it," Mr. Chance said.

Close calls abound. After thrashing Sarah Lelloouche's wooden house for hours, Irma suddenly went quiet. She and her 3-year-old daughter were

in the eye of the storm. Ms. Lelloouche used the lull to leave with her daughter to a neighbor's house, built with concrete walls.

"I saw the door shaking, shaking, shaking, and I said, 'No, we're not staying here,'" Ms. Lelloouche said.

Hours later, when the storm had passed, she walked outside to find her toilet surrounded by a pile of rubble. "We're happy to be alive," she said.

Armelle Flicker and her

husband were planning on riding out Irma at their house on the water, but friends persuaded them to stay elsewhere.

They returned to the house to find that the sea had broken through her walls and swept away her family's belongings from the past 31 years on the island.

"We didn't even find our furniture," she said. "No clothes, nothing."

Now the couple is among 20 living in a house with

friends on the island's cloistered western end. Ms. Fricker insists the death toll is much higher than official estimates.

"Just between the 20 of us in the house, we know already five people who died," she said.

Mr. Chance said the previous major hurricane to hit St. Martin—Luis in 1995—left the island complacent.

"I myself was saying, ah, we can handle whatever comes," he said, "but this hurricane was beyond anything."

## 'The Sea Took Everything': St. Martin Reels After Irma

By MATTHEW DALTON

ST. MARTIN—Joseph Richardson and his wife Sheila rode out plenty of hurricanes over the decades in their house next to this island's aquamarine waters. None of those storms prepared him for the force of Hurricane Irma.

The sea rammed through his wall, pulling him and his wife into the water. Mr. Richardson reached for Sheila. Neighbors found her body hours later washed ashore.

"I was trying to pull her out, but I couldn't get her," he said. "The sea took everything."

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Armelle Flicker and her

## WORLD NEWS

# U.K.'s May Wins Vote on Brexit Bill

Legislation aims to shift EU laws to British books; debate rages on best plan of departure

BY JENNY GROSS

LONDON—British Prime Minister Theresa May won a key vote on Brexit legislation, but she faces tough battles ahead in getting Parliament to support her vision for how the U.K. should exit the European Union after more than four decades.

Lawmakers early Tuesday voted 326-290 in favor of a bill designed to transpose more than 10,000 EU laws on to the U.K. statute book. The bill would come into effect on March 29, 2019, the day the U.K. is scheduled to leave the bloc and aims to prevent a legal vacuum thereafter.

However, critics argue the bill hands too much power to the prime minister and her cabinet because it allows them to alter laws without parliamentary approval.

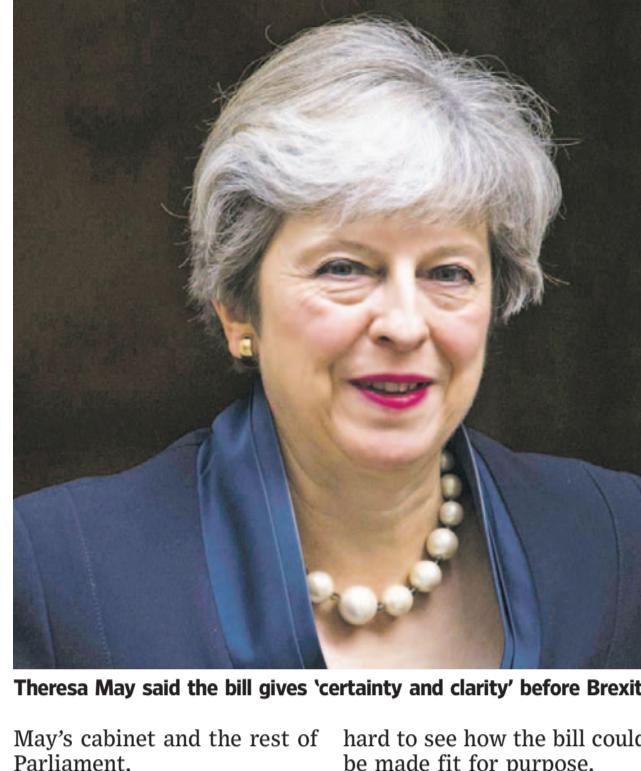
The bill's difficult journey through the early stages of parliamentary scrutiny—normally a formality—signals further hurdles along the line for Mrs. May, who lost her party's majority in an election gamble this summer. While negotiations with the EU over Brit-

ain's departure have reached an impasse over issues such as how much the U.K. owes the bloc as part of its divorce, a bigger issue for Mrs. May could be getting a divided Parliament and country behind her negotiating aims.

Mrs. May said the bill gives "certainty and clarity" ahead of Brexit. "Although there is more to do, this decision means we can move on with negotiations with solid foundations and we continue to encourage MPs from all parts of the U.K. to work together in support of this vital piece of legislation," she said.

The vote on the bill is just one step in a longer legislative process. While some lawmakers who supported staying in the EU say they will vote in favor of the bill, they will seek to attach amendments at a later stage that restrict the government's authority to make substantial changes to U.K. law without parliamentary approval, such as watering down to laws protecting workers' rights or environmental standards.

Keir Starmer, the opposition Labour Party's Brexit spokesman, said in an interview with The Wall Street Journal that the government's attempt to weaken the role of lawmakers in the Brexit process had set the stage for a lengthy standoff between Mrs.



WILL OLIVER/REX SHUTTERSTOCK/EUROPEAN PRESSPHOTO AGENCY

Theresa May said the bill gives 'certainty and clarity' before Brexit.

May's cabinet and the rest of Parliament.

"This is only the beginning of quite a turbulent two years," Mr. Starmer said ahead of the vote. "There are a number of shared concerns across the house about the nature of this bill." He said after the vote that Labour would seek to remove the worst aspects of the bill as it passes through Parliament, but its flaws are so fundamental that it was

hard to see how the bill could be made fit for purpose.

Brexit Secretary David Davis warned the U.K. would descend into chaos if the bill isn't approved.

"The British people did not vote for confusion and neither should Parliament," Mr. Davis said ahead of the vote.

Mr. Starmer said Labour isn't voting against Brexit, but against the principle that ministers should have the power

to modify elements of EU law once they are incorporated into U.K. law. These powers are known as Henry VIII clauses, after a 16th-century statute that gave the king power to legislate by proclamation.

"Even if you're a Labour MP that campaigned and voted for leaving the EU, you still think it's right that Parliament has a say over what the withdrawal looks like," Mr. Starmer said. "Whether we're leaving is a closed question, but how we're leaving isn't."

The Labour Party has increased pressure on the Conservatives to pursue a closer relationship with the EU than Mrs. May has outlined. Mr. Starmer said the U.K. shouldn't rule out staying in the EU's customs union indefinitely if trade deals forged outside it won't make Britain better off.

The bill's scope highlights the complexity of leaving the EU, a process that has absorbed most of Parliament's time.

A report by the think tank Institute for Government published Monday said introducing customs checks after Brexit could cost more than £4 billion (\$5.3 billion) a year and that the task would require changes across more than 30 government departments and local authorities.

## Britain Pledges Military Might to Europe

BY JENNY GROSS

LONDON—Britain pledged Tuesday to contribute troops and to work with the European Union to implement foreign sanctions after Brexit, underscoring how the U.K. sees its military and security contributions as key cards to play in negotiating its exit from the bloc.

As Brexit negotiations hit road blocks over issues like how much Britain will have to pay to leave the EU, the U.K. wants to emphasize that a close economic partnership would mean strong military cooperation in the future. The U.K. and France provide the bulk of the EU's military, intelligence and foreign policy weight and Britain's exit represents a threat to the EU's international standing.

In a new paper—the latest in a series on how Britain sees its future relationship with the EU—the U.K. government seeks to address a major concern of pro-Brussels lawmakers: that Britain will be excluded from foreign policy discussions, including on sanctions, once it leaves the bloc. Its exit is scheduled for March 2019.



SGT JAMIE PETERS/BRITISH MINISTRY OF DEFENSE/EUROPEAN PRESSPHOTO AGENCY

# Living in China Takes 3½ Years Off Your Life



BOB LENDRUM/ZUMA PRESS  
Smog shrouds the tallest building in Hong Kong, the ICC International Commerce Centre.

BY TE-PING CHEN

BEIJING—China's failure to bring air quality up to global standards is shaving years off the lives of its citizens: 3½ years on average, to be precise.

That is according to a new analysis by the Energy Policy Institute at the University of Chicago, which also finds that

Beijing declared a 'war on pollution' in 2014 but smog levels remain high.

in northeastern cities like Harbin, which are located in the country's industrial heartland, that figure is as high as 6.9 years.

Greater levels of particulate-matter pollution have been linked to higher risks of heart disease, stroke and lung cancer. "Particulate matter is the greatest environmental risk to human health around the world, and most of the damages are occurring in China and India," said Michael

Greenstone, Energy Policy Institute's director.

Chinese Premier Li Keqiang declared a "war on pollution" in 2014, but smog levels remain far in excess of World Health Organization standards, as well as China's own. In 2016, among 338 cities surveyed by the country's Environment Ministry, only 84 met national guidelines on air quality.

The institute's analysis found that if China brought its air quality up to domestic standards, it would extend life expectancy of its residents by more than a year.

Beijing's war on air pollution has been concentrated in the country's smog-plagued north, where air pollution reliably rises sharply in winter when government-provided free heating gets turned on and coal plants are fired up.

A separate study published Monday in the U.S.-based journal Proceedings of the National Academy of Sciences found that as a consequence of such pollution, people living in northern China live 3.1 years less than those in the south when controlling for other factors.

The U.K. said Tuesday it wanted closer defense cooperation than any other country with the EU and would use its military and intelligence agencies to combat terrorism and cybercrime.

Britain has the largest defense budget in Europe and the second largest in the North Atlantic Treaty Organization after the U.S. Britain and France are the only two EU countries that are permanent members of the United Nations Security Council.

Earlier this year, U.K. Prime Minister Theresa May was criticized by EU politicians after she said a failure to reach a Brexit agreement would damage cooperation between the U.K. and the EU in countering crime and terrorism.

At the time, Guy Verhofstadt, the EU Parliament's chief negotiator on Brexit, said the European Parliament wouldn't accept any attempt by the U.K. to use its military prowess as a bargaining chip.

One way forward could be to establish a formal body for the U.K. and the EU to discuss foreign policy goals, sanctions and security issues to ensure close cooperation. However, the U.K. government didn't spell out on Tuesday how this could work and said these discussions would take place as part of Brexit negotiations.

The paper said continued cooperation was crucial because Europe's peace was more fragile than any time since the Cold War.

EU countries have increasingly used sanctions to carry out foreign policy aims and Britain has been one of the bloc's strongest proponents of penalizing Russia over its actions in Ukraine, as well as Syrian President Bashar al-Assad.

On Tuesday, the U.K. said a strong economy would increase its ability to respond to threats like cyberattacks—thereby linking security issues to a future trade deal with the EU.

—Laurence Norman and Emre Peker in Brussels contributed to this article.

## WORLD WATCH

### MYANMAR

#### Bangladesh Assails Attacks on Rohingya

The Bangladeshi prime minister visited a refugee camp that has absorbed hundreds of thousands of Rohingya refugees and demanded that Myanmar "take steps to take their nationals back."

"We will not tolerate injustice," Prime Minister Sheikh Hasina said Tuesday at a refugee camp near the border town of Ukhia in the Cox's Bazar district.

On Monday, she accused Buddhist-majority Myanmar of committing "atrocities" and said Bangladesh had long protested the persecution of Rohingya Muslims.

At least 313,000 Rohingya have flooded into Bangladesh since Aug. 25, when Rohingya insurgents attacked police posts, prompting Myanmar's military to retaliate with "clearance operations" to root out the rebels.

The move has drawn sharp criticism. Germany has halted several aid projects with Myanmar in protest, and Iran's supreme leader called the killing of Muslims a political disaster for Myanmar. Ayatollah Ali Khamenei also urged other Muslim countries to "increase political, economic and commercial pressures" on Myanmar to stop the violence.

The United Nations human-rights chief said Myanmar's ethnic Rohingya minority was facing what seems like "a textbook example of ethnic cleansing." U.N. rights investigators have been barred from entering the country.

—Associated Press

### EUROPE

#### Official Says Inflation Target is Achievable

The European Central Bank ultimately will reach its inflation goal if it keeps an appropriate level of policy accommodation, the central bank's vice president said in a speech Tuesday.

Vitor Constâncio also said the central bank's negative interest rate policy has been a success, but that policy makers need to keep a close eye on the tool.

"We share with other advanced economies the puzzle of wages and prices not responding to strong growth as usual," he

said in Frankfurt. "By keeping a sufficient degree of monetary policy accommodation we can be confident that our goal will eventually be reached, in accordance with our mandate."

The annual inflation rate in the eurozone climbed to 1.5% in August, up from 1.3% in July but still below the ECB's goal of just below 2%.

The comments come as the ECB appears to be getting closer to unwinding some of the accommodative policies it has used to combat weak price pressures. Many expect the ECB to make an announcement about the future of its bond-buying program at its meeting Oct. 26. Economists ex-

pect the central bank to gradually reduce its asset purchases from the current monthly volume of €60 billion (\$72 billion).

—Todd Buell

### AUSTRALIA

#### Postal Vote Begins On Same-Sex Union

Australia on Tuesday launched a postal vote on whether to legalize same-sex marriage as a widely watched poll indicated the country would be overwhelmingly in support.

The noncompulsory ballot, which runs until the end of October, will determine whether

Australia becomes the 25th country to legalize same-sex marriage, while also healing a rift in the government.

Despite securing 70% public support in an Ipsos/Fairfax poll on Tuesday, the issue of same-sex marriage had faced a political deadlock, only broken last week when the High Court gave the all-clear for the vote.

—Reuters

### GUATEMALA

#### Beleaguered Leader Gets a Reprieve

Lawmakers voted against lifting President Jimmy Morales' immunity from prosecution Monday, hours after a congressional commission recommended the protection be withdrawn to open the way for a possible trial on campaign-finance accusations.

Congress voted overwhelmingly not to do so. But since the measure failed to meet a threshold of 105 votes either for or against needed to settle the matter for good, it now goes into a kind of dormant state and can be reconsidered in another session of congress.

Mr. Morales has been targeted by investigators amid allegations that about \$825,000 in financing for his 2015 campaign was hidden and that other expenditures had no explainable source of funding.

The president has denied any wrongdoing. He issued a statement Monday night saying that the congressional decision "demonstrates the democratic maturity" of Guatemala's institutions.

—Associated Press



ANATOLY MALTSEV/REX SHUTTERSTOCK/EUROPEAN PRESSPHOTO AGENCY

Orthodox Russians walk in a procession in St. Petersburg marking the 293rd anniversary of the transfer of the relics of St. Alexander Nevsky, who is considered to be a heavenly protector of the city.



TURKISH  
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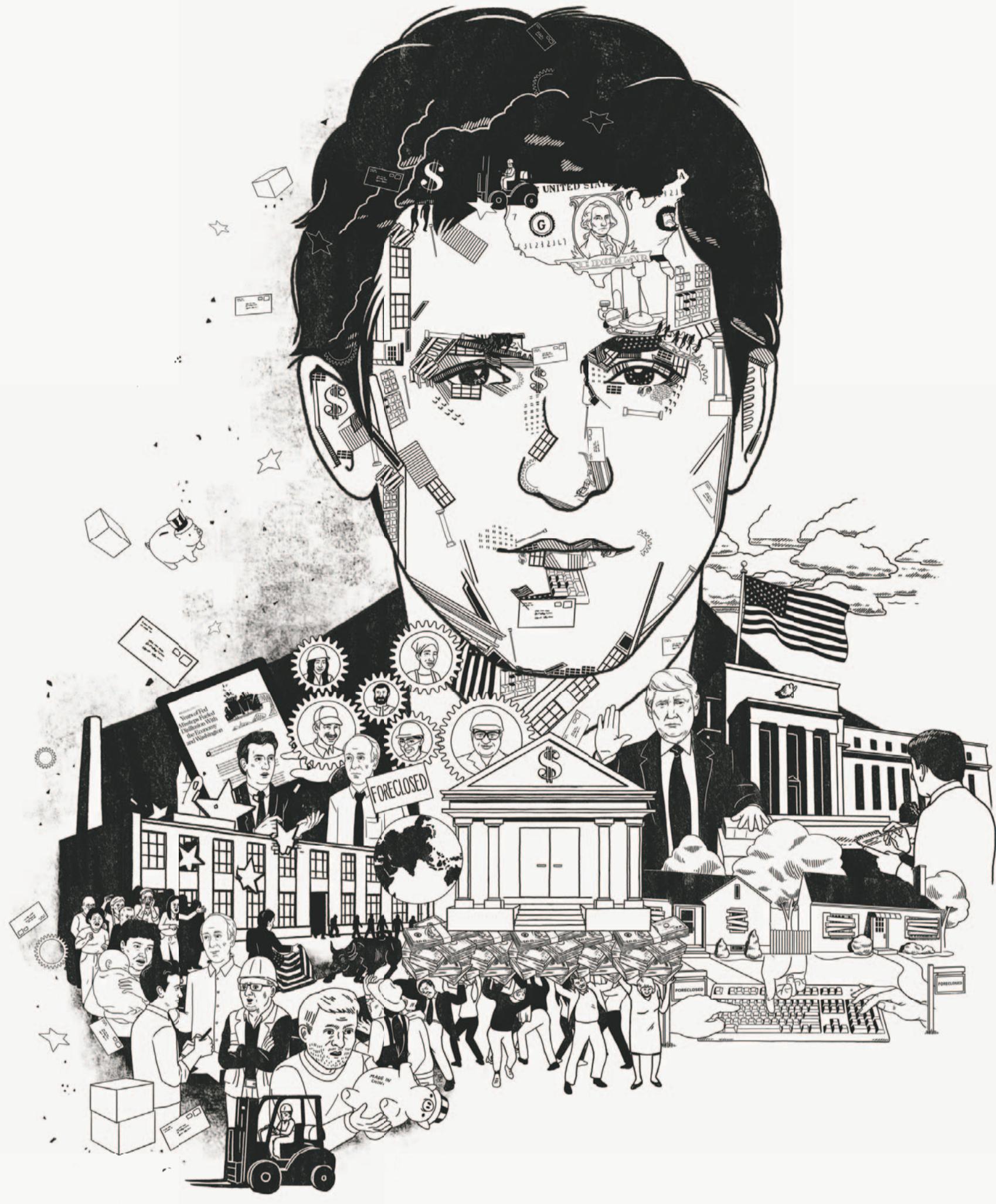
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WAITING TO UNFOLD  
TO HEAR TO SMELL TO SEE  
TO TASTE TO TOUCH  
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JON HILSENRATH ECONOMICS EDITOR

## The Face of Real News

Jon Hilsenrath's investigation into the economic workings of America's heartland uncovered the brewing dissatisfaction that led to the election of Donald Trump.

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## WORLD NEWS

# Real Madrid Looks Like a Real Dynasty

As the Champions League season kicks off, Real, the first modern-era team to win back-to-back titles, is a favorite to win again

BY JOSHUA ROBINSON

No sports dynasty has ever been made by winning a title just twice in a row. But on the field of Cardiff's Principality Stadium last spring, with the Champions League trophy back in its hands, Real Madrid offered a compelling case to the contrary.

Their argument was simple: in the tournament's modern era, no other club had ever won Europe's most prestigious tournament back-to-back. "I didn't think it was possible to defend this title," midfielder Toni Kroos said on the field that night. "It is so difficult to win it once."

Four months later, Real's case for dynasty status hasn't just grown, it has reached a ridiculous new high. As the Champions League kicked off on Tuesday, it not only seemed possible that Real Madrid will defend this title again—it's difficult to imagine any other outcome.

Until Real did it last season, repeating as champions was considered an almost impossible task in the modern game. In the European championship tournament that preceded the Champions League, AC Milan won back-to-back titles in 1989 to 1990; the last three-time winner was Bayern Munich in the mid-1970s.

But those triumphs came long before the billionaire-driven Champions League was born in 1992. The current tournament features a long group stage before proceeding to a knockout round.

When Milan won the 1990 title, for instance, it played just nine games. The modern slog through the final takes nine months and 13 games—more time for things to go wrong, more time for Barcelona or Bayern or Juventus to throw a wrench in the Real works.

And yet, Los Blancos still



Real Madrid's Cristiano Ronaldo, right, celebrates after scoring in the Champions League final against Juventus in Cardiff, Wales, in June.

its past two games, fallen four points behind Barcelona already and sparked talk of an attacking crisis. But Ronaldo's ban doesn't apply to European competition. So when he returns for Real's opener against Cypriot club APOEL on Wednesday, all will seem right in the Real universe again. The Champions League is the club's happy place.

"He can't wait," Zidane said of his biggest star. "He's fed up of not playing for us."

As for the rest of Europe, Real's biggest opponents will be the same cast of usual suspects it has wiped the floor with in the past two years. The likes of Bayern Munich, Atlético Madrid, and Juventus aren't significantly improved since last season. Barcelona, under new coach Ernesto Valverde, could easily go backward without Neymar and Paris Saint-Germain has yet to prove it can move forward with Neymar. (The scars of PSG's collapse at Barcelona last season have yet to heal, too.)

Then there are the five English clubs in the competition this year. Their greatest enemy, as ever, is each other and the grueling Premier League schedule, which softens them up long before they get to the business end of the Champions League.

Zinedine Zidane makes sure he has the legs to do so by managing his minutes more carefully. Everyone at Real, of course, is fine with that.

Ronaldo repaid the team's flexibility last season by saving his best performances for the Hollywood occasions. He scored hat tricks against Bayern Munich and Atlético Madrid in the quarters and semis, respectively, before banging in two more goals in the final against Juventus.

This season, Ronaldo has barely featured for Real, due to a five-game domestic suspension for shoving a referee. (Possibly the one thing in soccer that even Ronaldo can't get away with.) Without him, the club has drawn

manage historic levels of consistency. They have reached the semifinals in each of the past seven seasons.

Their secret is tricky to pin down. They spend huge amounts on player salaries, but their payroll isn't that much more absurd than any other superclub's. They haven't built a particularly distinctive style of play. And they replace managers like Cristiano Ronaldo changes hairstyles.

But there is one thing about the club that no one else in Europe can match. Over the years, Real Madrid has convinced itself that it isn't just a worthy winner of the Champions League.

Rather, it believes it is the only worthy winner of the

Champions League. That conviction, as much as anything else, has kept Real alive in the competition when most other teams would have folded. In the 2014 final, it found a stoppage-time equalizer to topple Atlético Madrid. In the 2016 final, it survived a penalty shootout to beat Atlético again. And in 2017, Real trailed in five of its six knockout games before the final and won the tournament anyway.

"We're Real Madrid and we always fight until the very end," defender Marcelo said after clinching a spot in last season's final.

That Real's string of semifinal appearances coincides with the Cristiano

Ronaldo era at the club is no coincidence. The team has been built around him since his arrival from Manchester United in 2009 and has molded itself to his evolving game.

### What Real has that no one else can match: It believes it's the only worthy winner.

Now 32 years old, Ronaldo is no longer the full-time playmaker he was earlier in the career. He has simplified things to focus on scoring goals while Real manager

Peter Paul Rubens, "Portrait of Clara Serena Rubens", c. 1616.  
© LIECHTENSTEIN. The Princely Collections, Vaduz-Vienna



VALUES WORTH SHARING

**"We like to work with the best. That's why we bought our first Rubens in 1643."**

H.S.H. Prince Philipp von und zu Liechtenstein,  
LGT Chairman since 1990

A formal portrait of H.S.H. Prince Philipp von und zu Liechtenstein. He is a middle-aged man with white hair, wearing a dark blue suit, a white shirt, and a patterned blue and green tie. He is standing with his hands clasped in front of him, looking directly at the camera with a slight smile. Behind him is a wall with a geometric wood paneling pattern.



Private  
Banking

## U.S. NEWS

# Trump's Lawyers Wanted Kushner Out

Some aired concerns about possible legal complications tied to Russia election probe

Some of President Donald Trump's lawyers earlier this summer concluded that Jared Kushner should step down as senior White House adviser

By Peter Nicholas,  
Rebecca Ballhaus  
and Erica Orden

because of possible legal complications related to a probe of Russia's alleged involvement in the 2016 presidential election and aired concerns about him to the president, people familiar with the matter said.

Among their concerns was that Mr. Kushner was the adviser closest to the president who had the most dealings with Russian officials and businesspeople during the campaign and transition, some of which are currently being examined by federal investigators and congressional oversight panels. Mr. Kushner, Mr. Trump's son-in-law and confidant, has said he had four such meetings or interactions.

Another issue was Mr. Kushner's initial omission of any contacts with foreign officials from the form required to obtain a security clearance. He later updated the form several times to include what he has said were more than 100 contacts with foreign officials.

The president's lawyers weren't united in the view that Mr. Kushner should step down.

John Dowd, who first joined the legal team in June and now heads it, said in an interview Monday that "to my knowledge" the proposal wasn't taken to Mr. Trump. Mr. Dowd also said he didn't side with some of his col-



JOSHUA ROBERTS/REUTERS

**Among lawyers' concerns was that Jared Kushner was the adviser closest to the president who had the most dealings with Russian officials and businesspeople during the campaign and transition.**

leagues who believed Mr. Kushner needed to go. "I didn't agree with that view at all. I thought it was absurd," Mr. Dowd said. "I made my views known." He called Mr. Kushner "absolutely terrific" and "a great asset, real gentleman, a pleasure to work with."

After some members of the legal team aired their concerns to Mr. Trump in June, including in at least one meeting in the White House, press aides to the legal team began to prepare for the possibility that Mr. Kushner would step down, drafting a statement explaining his departure, said people familiar with the matter.

Mr. Trump, a Republican, wasn't persuaded that Mr. Kushner needed to leave. One person said Mr. Trump's view was that Mr. Kushner hadn't done anything wrong and that there was no need for him to step down.

The legal team has been reshuffled since it was first as-

sembled in late May, after the Justice Department appointed Special Counsel Robert Mueller to oversee the federal probe of Russia's alleged interference in the U.S. election. In mid-July, Mr. Dowd took over leadership of the team from Marc Kasowitz, Mr. Trump's longtime attorney.

Mr. Kasowitz in a statement said: "I never discussed with other lawyers for the president that Jared Kushner should step down from his position at the White House, I never recommended to the president that Mr. Kushner should step down from that position and I am not aware that any other lawyers for the president made any such recommendation either."

According to a January report from the U.S. intelligence agencies, the highest levels of the Russian government directed electoral interference. Its tactics included hacking state election systems;

infiltrating and leaking information from political strategists; and disseminating through social media and other outlets negative stories about Democratic nominee Hillary Clinton, the report said.

Mr. Mueller also is investigating whether associates of Mr. Trump colluded with Russia. Mr. Kushner has denied any collusion, as has Mr. Trump. Russia also has denied interfering in the election.

"I did not collude, nor know of anyone else in the campaign who colluded, with any foreign government," Mr. Kushner wrote in a July statement.

Mr. Kushner played a top role in the campaign and oversees a sweeping policy portfolio that includes Middle East peace, China relations and the workings of the federal government. In a measure of the president's loyalty, Mr. Kushner has often prevailed in battles with internal rivals, according to people familiar with

## Yellen Met With Ivanka Trump in July

Federal Reserve Chairwoman Janet Yellen met with Ivanka Trump in July, roughly a week before President Donald Trump said he was considering nominating the central bank chief to a second term.

Ms. Yellen met the president's eldest daughter and senior adviser for a one-hour breakfast July 17 in a room at the central bank, according to the latest release of the Fed leader's monthly calendar, which didn't provide further details.

Mr. Trump told The Wall Street Journal in an interview July 25 that he thought Ms. Yellen was doing a good job and he had "a lot of respect for her." He also said Ms. Yel-

len was in the running to serve a second four-year term as leader of the central bank, after her current term expires in February.

During her time at the White House, Ms. Trump has promoted issues concerning women and children. On June 5, she tweeted about a May 5 speech Ms. Yellen gave at Brown University on female labor participation. In the tweet, Ms. Trump quoted Ms. Yellen's remark that "too many women struggle to combine aspirations for work and family."

Ms. Trump reached out to Ms. Yellen after reading the speech, "as it was about women's participation in the economy," a White House official said in an email Monday. A Fed spokesman declined to comment on the nature of the July meeting.

—Harriet Torry

U.S., and another one that he held with the head of a Russian-run bank that has faced U.S. sanctions.

Some of Mr. Trump's attorneys were also aware of a meeting that hadn't yet been made public: one at Trump Tower in June 2016 that involved a Russian lawyer with ties to the Kremlin, Mr. Kushner and the president's eldest son, Donald Trump Jr., according to people familiar with the matter.

That meeting became public on July 8. It was organized by Donald Trump Jr. In a series of evolving statements, Donald Trump Jr. initially said the meeting had covered foreign adoptions. He later released emails showing that, before agreeing to the meeting, he had been promised damaging information about Mrs. Clinton, collected as part of a Russian effort to boost his father's campaign.

U.S.

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star, admitted to an affair with an aide who was married to a former aide. He was forced to resign from the Senate in 2011.

**Robert Torricelli, New Jersey Democratic senator**

Mr. Torricelli withdrew from a 2002 re-election campaign after allegations related to improper gifts. Mr. Torricelli was "severely admonished" by the Senate Ethics Committee but not charged criminally.

**Republican lobbyist Jack Abramoff**

Mr. Abramoff pleaded guilty in 2006 to fraud, tax evasion and conspiracy and was sentenced to prison. The case became a wide-ranging scandal ensnaring several public officials.

**President Bill Clinton**

Mr. Lowell served as chief counsel to the minority Democrats on the House Judiciary Committee in 1998, arguing that then-President Clinton's behavior didn't amount to impeachable offenses. Mr. Clinton was impeached by the House but acquitted by the Senate.

—Naftali Bendavid

# Both Parties Turn to Lawyer Lowell

By DEL QUENTIN WILBER

**NEWARK, N.J.**—Washington lawyer Abbe Lowell has represented high-profile clients on both sides of the political spectrum—a Republican governor, a conservative super-lobbyist and a former Democratic vice-presidential nominee—and even played a key role in defending President Bill Clinton during his impeachment proceedings.

Now, he is representing major players in separate cases that could have big implications for both parties.

Last week, Mr. Lowell launched his courtroom defense of U.S. Sen. Bob Menendez, a New Jersey Democrat facing federal charges he sold political favors for luxurious trips and campaign contributions. If Mr. Menendez is convicted and leaves the Senate, it could further tilt the balance in the chamber toward the GOP.

Mr. Lowell is also representing Jared Kushner, the

son-in-law and senior adviser to President Donald Trump. Mr. Kushner faces scrutiny from congressional and federal investigators over his dealings with Russians in the 2016 campaign. Mr. Lowell's ability to keep Mr. Kushner from becoming a target of Special Counsel Robert Mueller's investigation of possible collusion between Russia and Mr. Trump's campaign could affect Mr. Trump's presidency.

Mr. Lowell's decades of representing major Washington figures in trouble, including 2004 Democratic vice-presidential candidate John Edwards, led to his unusual situation juggling arguably the two biggest political cases unfolding today. "He is brilliant and organized, so taking on several wars at once doesn't seem to faze him," said Jack Abramoff, a conservative lobbyist whom Mr. Lowell helped obtain a plea deal in 2008.

Mr. Lowell, a trim and balding 65-year-old, declined an

interview request.

By the early 1980s, he was building a private practice that eventually began attracting a steady stream of high-profile clients, including Mr. Abramoff. Among the others who sought his help: New York Senate Majority Leader Joe Bruno, a Republican; former U.S. Rep. Gary Condit of California, a Democrat; and entertainer Sean "Diddy" Combs.

He is obsessive in his preparation for a negotiating session or a trial. He insists on printing out every piece of evidence and inspecting it before entering a courtroom. In some cases, that can amount to thousands of pages of mind-numbing material.

Such efforts helped him successfully defend Mr. Edwards, according to associates. The former senator was accused by federal prosecutors of accepting more than \$900,000 from campaign donors, in part to help him cover up an extramarital affair and resulting preg-

nancy. Mr. Lowell argued that donors provided the money out of personal friendship and not to help Mr. Edwards's 2008 presidential campaign.

Mr. Lowell deployed a similar line of attack in his opening statement last week in the trial of Mr. Menendez, who is accused of doling out political favors to a Florida physician in exchange for \$1 million in gifts, lavish trips and campaign contributions.

Mr. Lowell told jurors Mr. Menendez and the doctor were longtime pals, not a politician and influence-seeker trading favors. "Acting out of friendship is not improper," he said.

For Mr. Kushner, Mr. Lowell's work has been behind the scenes, helping him respond to inquiries from investigators looking into alleged Russian meddling in the 2016 election.

Moscow has denied the allegations, and Mr. Trump has denied collusion with Russia.

—Thomas MacMillan contributed to this article.

## Washington Clients Of Super-Attorney

Washington lawyer Abbe Lowell has represented many politicians over the years who faced public scandal, legal trouble or both. Among the best known:

**John Edwards, Democratic vice-presidential candidate**

Mr. Edwards was charged with campaign-finance violations related to an extramarital affair. After a 2012 trial, he was acquitted on one count and a mistrial was declared on others.

**Gary Condit, California Democratic congressman**

Mr. Condit drew national attention after the disappearance of intern Chandra Levy, with whom he had been close. Ms. Levy's body was later discovered but her death remains a mystery; Mr. Condit isn't suspected. He lost a re-election bid in 2002.

**John Ensign, Nevada Republican senator**

Mr. Ensign, a rising political

# IRMA

**Continued from Page One** day. Jacksonville Mayor Lenny Curry said Irma hit the city with a storm surge like a Category 3 hurricane, even though its winds were at tropical-storm level when it reached northeast Florida.

More than 350 people had to be rescued, the GOP mayor said. On Tuesday, he lifted an evacuation order but warned returning residents would have to navigate serious flooding and road blockages.

The state of 20.6 million people has begun the difficult task of assessing damage and rebuilding from Irma, which first made landfall in the Keys Sunday morning as a Category 4 hurricane.

The storm's winds, heavy rain and surging seas have crippled the state after 6.5 million people were ordered evacuated. Many places including Miami Beach were just beginning to reopen, and highways leading into the state from Georgia had bumper-to-bumper traffic.

Residents and business owners in the Upper Keys were allowed back into the area Tuesday morning as far

south as Islamorada. But Monroe County officials urged people to stay away. "Fuel, water, power & medical super limited," the county wrote on Twitter.

The county has about 53,000 housing units, census figures show. Nearly all are on the Keys, a 110-mile ribbon of low-lying islands linked by bridges. Monroe County is home to 79,000 people, the vast majority of whom live on the archipelago.

**Power outages left hospitals, nursing homes operating on generators.**

Florida Gov. Rick Scott said Tuesday that transportation authorities were inspecting those bridges to make sure they can bear significant weight.

Cities and towns throughout the state were still dealing with widespread power outages. A state tally early Tuesday showed about 5.5 million outages, or 53% of the electrical accounts, were still offline. The outages included about

662,000 customers in Miami-Dade County, Florida's most populous.

Power outages left 49 hospitals and 111 nursing homes operating on generators as of Tuesday morning, according to the state's Emergency Operations Center.

"I've had a lot of calls from nursing homes," Mr. Scott, a Republican, said Tuesday.

Crews with Florida Power & Light Co. were working with local emergency-operations centers to prioritize getting power back to critical services such as nursing homes, hospitals, police stations and water-treatment facilities, an FPL spokesman said. Some Floridians will likely wait weeks before power is restored, utility officials have said.

The storm knocked at least a million power customers offline in Georgia and the Carolinas, according to local utilities, while flooding downtown Charleston, S.C.

As damage assessments continued on the Keys, stories also emerged of the harrowing ordeal some residents experienced after ignoring a drumbeat of official pleas to evacuate.

Hubert Baudo, who has lived in the Keys for 30 years and owns two restaurants and

a hotel, boarded up his properties to protect them from the storm and took shelter with a friend in a concrete shelter Mr. Baudo built after Hurricane Andrew in 1992.

Then came the "high-anxiety waiting game," he said, fueled by adrenaline and ice tea. The men listened to the unnerving whistling of the wind, the snaps and cracks of

trees giving out and transformer explosions.

"Each gust felt like someone was giving you a lash on the back and you thought: 'What did I just lose?'" Mr. Baudo said.

Sunday evening, the two men ventured out to survey the destruction. Mr. Baudo couldn't get to his home, on the Atlantic side of the island,

but could see it had taken on water. His businesses, on the bay side, fared better. But he estimates half of the 1,000 or so trees on his land are gone.

"In the Keys, we are very resilient people, and we know there is a high price to live in paradise," he said.

—Melanie Evans and Valerie Bauerlein contributed to this article.



Boats damaged by high waters near Biscayne Bay a day after Hurricane Irma hit South Florida.

## U.S. NEWS

# Business Tax Cut Excludes Services

By KATE DAVIDSON  
AND RICHARD RUBIN

Some services companies such as accounting firms won't get the benefit of lower tax rates Republicans are planning for other businesses, Treasury Secretary Steven Mnuchin said Tuesday.

Republicans want to cut the 35% corporate tax rate. They also want to lower rates on so-called pass-through businesses, which pay business taxes through the individual tax returns of their owners at individual tax rates, which currently reach as high as 39.6%.

Many pass-through businesses are small. They also include some of the largest law, accounting and investment firms, which Mr. Mnuchin suggested wouldn't get the new lower rate on pass-through business income that Republicans are planning.

The idea is to create a special tax rate that is higher than the corporate tax rate but lower than the tax rate that applies to wages. That new rate would apply to pass-through business income but with boundaries to prevent it from being used by people whose income from service businesses closely resembles

wages.

"If you're an accountant firm and that's clearly income, you'll be taxed an income rate, you won't be taxed a pass-through rate," Mr. Mnuchin said. "If you're a business that's creating manufacturing jobs, you're going to get the benefit of that rate because that's going to be passed through to help create jobs and better wages."

Mr. Mnuchin's remarks, at the Delivering Alpha conference in New York, offered new detail on how the administration and Congress may tailor new rules for partnerships, limited liability companies and other pass-through firms that account for a majority of U.S. business income.

Unlike corporations, whose taxable investors have to pay taxes on capital gains and dividends while the company itself pays corporate income tax, there is just one layer of tax on pass-through businesses.

The details are crucial, because they will help determine which businesses win and which lose from the tax plan Republicans aim to push through Congress this year.

It could be a challenge to define which companies get the lower tax rate Republicans



Treasury Secretary Steven Mnuchin said a cut in the corporate tax rate won't apply to accounting firms and other service companies. J. SCOTT APPLWHITE/ASSOCIATED PRESS

are planning and which owners of companies would continue paying higher individual tax rates on their business income.

Creating that distinction would cut against another Republican goal for the tax code: simplification.

Possibly affected industries include law, engineering, medicine, finance, architecture and consulting.

"Trying to define a service business is challenging because all businesses use a combination of services, capital and entrepreneurship," said Steve Rosenthal, a tax lawyer and senior fellow at the Tax Policy Center in Washington.

Mr. Rosenthal said he expected Congress and the administration would write a

"Rigid lists are easy to exploit. As a former tax planner, that's what we did. You give us a bright line, and we make sure to fall on one side or the other," he said.

Rep. Kevin Brady (R., Texas), chairman of the House Ways and Means Committee, said last week that policy makers want to lower the tax rates on corporations and pass-through businesses by the same percentage. If the corporate rate is reduced from 35% to the low 20s, that suggests a pass-through tax rate in the high 20s.

Mr. Rosenthal said he expected Congress and the administration would write a

vague anti-abuse rule and leave the details to the Treasury Department and Internal Revenue Service to fight it out with taxpayers.

"This problem has been out there for a couple of years and nobody's come out with good solutions," he said.

Mr. Mnuchin also said the administration and GOP tax writers are "absolutely" open to making any tax law retroactive to Jan. 1, which would allow companies and individuals to take advantage of the new rules on income earned this year.

A retroactive tax cut would increase tax refunds on the returns that individuals file in

early 2018, putting more money in consumers' hands. It would also reward individuals and businesses for decisions they already have made, undercutting the argument that the point of tax cuts is to enhance incentives for future decisions.

Policy makers from the administration and Congress, known collectively as the Big Six, have been working on the details of their plan to rewrite the U.S. tax code for months, and are aiming to put out a more detailed blueprint in the coming weeks, Mr. Mnuchin said late last month.

—Louise Radnofsky contributed to this article.

# Bannon Says He Still Talks to President Often

By JULIE STEINBERG  
AND STEVEN RUSSOLILLO

HONG KONG—Former White House chief strategist Steve Bannon speaks with President Donald Trump every two to three days, he told a private luncheon gathering Tuesday in Hong Kong, some three weeks after the adviser left the administration.

Mr. Bannon said he most recently spoke with Mr. Trump the previous night for an hour, according to two people who attended the closed-door meeting with the former presidential adviser. The gathering included a group of about 20 money managers.

Mr. Bannon couldn't be reached for comment.

White House press secretary Sarah Huckabee Sanders said Monday that she thought Mr. Bannon had spoken with the GOP president once since leaving his role in the administration.

The White House didn't respond to a request for comment on Mr. Bannon's remarks.

When he worked in the ad-

ministration, Mr. Bannon, a former investment banker and media executive, was associated with the president's "America First" agenda and had pressed for more protectionist trade policies, restrictions on immigration and withdrawal from the Paris climate accord. Mr. Bannon joined Mr. Trump's presidential campaign in the summer of 2016 and stayed on in the White House as chief strategist.

He left the administration last month and rejoined Breitbart News, a right-wing website, as executive chairman after a week in which the president came under fire for saying that both white supremacists and counter-protesters were to blame for racially charged unrest in Charlottesville, Va.

Mr. Bannon had supported the president's defense of Confederate symbols in the days after the Charlottesville violence, in which an alleged white supremacist is charged with killing a woman by plowing his car into a crowd of counterprotesters.

Mr. Bannon described him-



Ex-chief strategist Steve Bannon was associated with President Trump's 'America First' agenda. CHIP SOMODEVILLA/GETTY IMAGES

self at the Tuesday lunch as a "schmendrick" engineer—invoking the Yiddish word for "foolish person"—while Mr. Trump was the architect of the campaign, the attendee said. Mr. Bannon said while he had influence before in the White House, he now has

"power" at Breitbart.

On Tuesday evening, Mr. Bannon told an investment conference organized by financial-services firm CLSA, a unit of Chinese state-owned brokerage firm Citic Securities Co., that Mr. Trump's relationship with President Xi Jinping

of China is very positive, three conference attendees said. The speech was closed to the media, and attendees said the room was packed.

Mr. Bannon said Mr. Trump has enormous respect for Mr. Xi and was confident something would get done on trade,

the people in the room said. Mr. Bannon did say that China structures its economy to protect certain industries from capitalist ways and that the U.S. needs to play a stronger role changing the system in China, an attendee recalled.

While in the White House, Mr. Bannon was deeply involved with Mr. Trump's tough talk on trade with China, and he told CBS's "60 Minutes" in an interview that aired this week that China was "at economic war" with the U.S.

In describing Asia more broadly, Mr. Bannon said the region is witnessing both a century of growth and a century of conflict, according to attendees.

Mr. Bannon told the conference he doesn't expect any U.S. tax-law changes for at least the next three months and that it probably wouldn't happen until next year, according to a person who was in the room. He also said he wants to be Mr. Trump's "wingman" from outside the White House, another attendee recalled.

—Natasha Khan contributed to this article.

# Houston Re-Evaluates Land Development

By DOUGLAS BELKIN  
AND SHIBANI MAHTANI

HOUSTON—For years there hadn't been much debate over how to regulate land use here. Developers in the nation's fourth-largest city mostly built what they wanted, where they wanted. Now, after Hurricane Harvey killed at least 50 people and caused roughly \$180 billion in damage, a battle is shaping up over how best to oversee real-estate development in Houston.

"If Houston does not change, it will not survive from an economic standpoint," said Jim Blackburn, a professor of environmental law and co-founder of Rice University's Severe Storm Prediction, Education and Evacuation from Disaster Center. "This absolutely should change our policies and our trajectory."

Two men in particular will have a large say in Houston's path forward.

Stephen Costello, whose official title is chief resilience officer but who is known to many as Houston's flood czar, says the go-go culture of growth is here to stay. "I don't think you're going to see a dramatic change in the way we are developing," he said.

Regulating development through, say, a stricter zoning code is a nonstarter, he said.



Stephen Costello, Houston's so-called flood czar, says the city's culture of growth isn't going to change in response to Harvey.

"Zoning is never going to happen here, not in my lifetime," he said.

Instead, he believes the city needs to build its way out of its flooding problem by investing in a better system to more quickly and efficiently move rainwater out of town and into the bayous during heavy rains.

The second man with a large say in this argument is Russell Poppe, executive director of the Harris County Flood Control District. He hopes to leverage a Federal Emergency Management Agency program to buy hundreds, if not thousands, of homes in vulnerable areas.

For that to come to pass, it needs to happen soon, he said.

They haven't had the ear of the area's politicians who, by and large, have championed development to push economic growth.

Harris County, where Houston sits, added more people than any other U.S. county during the eight years before 2015, according to Census Bureau data. To make way for that growth, developers have paved over tracts of prairie land that once soaked up the rains that sweep in from the Gulf of Mexico.

The tabletop-flat city is now a sprawling metropolis stitched together by 10-lane elevated highways connecting far-flung subdivisions filled with single-family homes. The unmanaged growth has meant cheap housing relative to other parts of the country, which helps attract even more people. "Almost all the flooding in Houston is the result of poor development decisions," said John Jacob, a professor of watershed science at Texas A&M University.

To mitigate the loss of prairie land and the increase in homes near rivers, the city has built drainage systems that channel rainwater toward the city's bayous. A half-dozen major floods in recent years show that infrastructure hasn't been equal to the task, and critics say the catastrophic damage caused by Harvey is the last straw.

## U.S. WATCH

### ECONOMY

#### Household Incomes Rise to New Record

Income for the average American household reached a new high last year for the first time this century, a milestone in the slow and volatile recovery from two recessions and financial bubbles that crossed over three presidencies. Median household income last year was \$59,039, up an inflation-adjusted 3.2% from 2015, the Census Bureau said Tuesday. It was a new high for the figure, surpassing the previous peak for household income reached in 1999, though the agency cautioned against direct historical comparisons due to methodology changes over time.

Last year's rise for household incomes was the second significant jump in a row, coming after years of slipping or stagnant incomes following the 2007-09 recession.

—Ben Leubsdorf

### WHITE HOUSE

#### Communications Director Named

Hope Hicks, a longtime aide to President Donald Trump, will serve as the permanent communications director, White House Press Secretary Sarah Huckabee Sanders said Tuesday. Ms. Hicks was appointed last month to serve as interim communications

director, making her the fourth person in the first eight months of the administration to serve in that role. Mike Dubke and Anthony Scaramucci both resigned from the role under pressure.

Former Press Secretary Sean Spicer, who also assumed those duties on an interim basis, left the White House in July. In the White House, Ms. Hicks, 28, has been director of strategic communications since the start of the administration.

—Rebecca Ballhaus

### HEALTH COVERAGE

#### Uninsured Rate Declined in 2016

The share of people in the U.S. who lacked health insurance for the whole of 2016 declined to 8.8%, the Census Bureau said Tuesday, down from 9.1% the previous year, largely due to Americans aging into the federal Medicare program for people 65 and older. The rate reflects around 28.1 million people without health coverage, a decrease from 29 million a year earlier, hitting a new low that has also been reflected in other government and private surveys. The latest figures mark a modest drop in the number of uninsured people following sharper declines in previous years due to the implementation of provisions of the Affordable Care Act.

—Louise Radnofsky

## IN DEPTH

# CARS

Continued from Page One

At Waymo, Mr. Krafcik is leading efforts to apply driverless technology to a range of uses—whether for ride-hailing, freight delivery or public transportation—and possibly license it to car makers. He has forged partnerships with Fiat Chrysler and is in talks with Honda to build self-driving cars. That's helped Waymo deploy the largest fleet of self-driving cars, racking up more than 3 million miles of testing on public roads and leaving GM, Ford and dozens of other auto makers rushing to develop their own technology.

There have also been setbacks. GM, the largest U.S. auto maker by sales, explored partnerships with Waymo but shifted tactics after talks stalled and instead acquired an autonomous-car tech startup called Cruise Automation in a deal that could be worth more than \$1 billion. It also invested \$500 million in ride-sharing startup Lyft Inc. Talks also unraveled with Ford, which earlier this year pledged to invest \$1 billion in artificial intelligence startup Argo AI.

### Lost in Translation

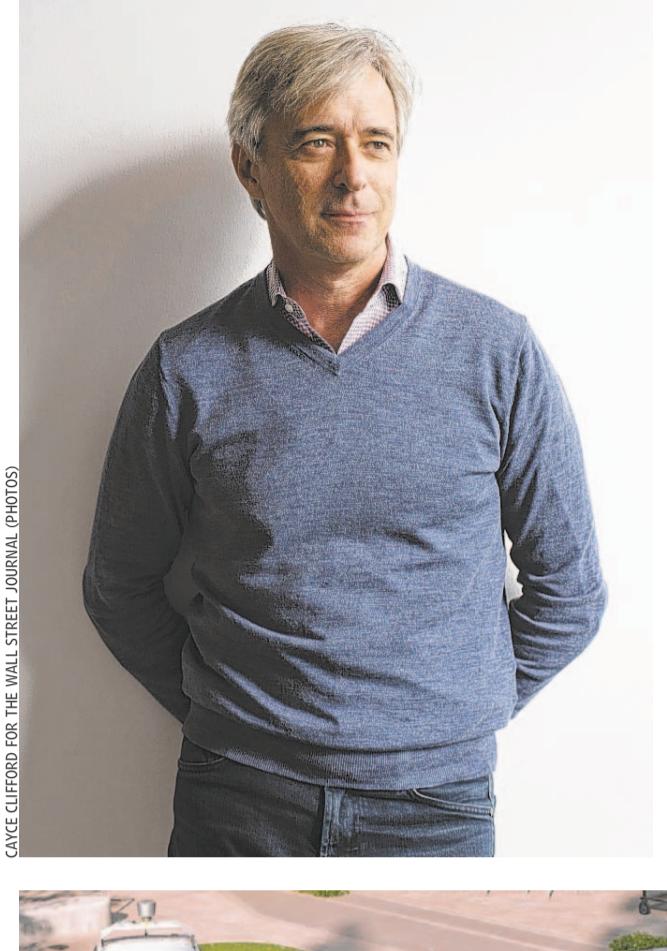
Some question whether Mr. Krafcik has figured out how to maneuver the levers of power within the large tech company.

"He needs to be a futurist, a technologist, a salesman, a counter-regulator, a hacker, a financier," said one Google car alum.

Misunderstandings between Detroit and Silicon Valley were commonplace after Google began teasing details about its car efforts in 2010. Automotive executives were dismissive of the engineers Google recruited from self-driving car competitions held by the Department of Defense. Google's engineers, meanwhile, turned their noses up at Detroit in their pursuit to quickly put the technology on the road.

One of the earliest flirtations with an auto maker, Fiat Chrysler's Dodge brand, didn't go far. Google gave a test ride to a senior executive, according to people familiar with the matter. Soon after, Dodge began running commercials mocking the idea of self-driving vehicles made by "a search engine company." In the television spots, the baritone voice of actor Michael C. Hall says, "We've seen that movie...it ends with robots harvesting our bodies," followed by footage of the 2011 Dodge Charger that he introduced as the "leader of the human resistance."

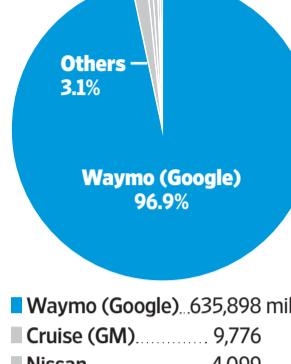
Around the same time, members of the Google team were invited to an event by GM as it began selling in late 2010 the plug-in hybrid Chevrolet Volt, Detroit's high-profile effort to counter Toyota's Prius. During a driving session on a closed course, one of the Google employees began showing off his drifting skills—where the driver intentionally oversteers through a turn. The stunt knocked over



CAYCE CLIFFORD FOR THE WALL STREET JOURNAL (PHOTOS)

### Miles Apart

Alphabet Inc.'s self-driving car unit, Waymo, drove more miles in California last year than its competitors.



	Miles Driven
Waymo (Google)	635,898 miles
Cruise (GM)	9,776
Nissan	4,099
Delphi	3,090
Bosch	983
Mercedes-Benz	673
BMW	638
Ford	590
Tesla	550
Others	3.1%

Note: Annual reporting period covers Dec. 1, 2015 through Nov. 30, 2016.

Source: Company disclosures to the California Department of Motor Vehicles

THE WALL STREET JOURNAL.



John Krafcik is Waymo's CEO. Below, he poses with some of the company's autonomous vehicles

safety cones. A furious GM manager threw the team out, said a person at the event.

The incident became lore among some GM managers. "We had to restrict them a bit. They weren't very good drivers," said a former senior GM executive involved with the Volt introduction. "At least not as good as the car guys from Detroit." Google declined to comment.

Google's so-called Chaffeur team, which in its earliest days was a ragtag bunch, tried to polish its pitch to charm Ford. The Dearborn, Mich., company was interested in replacing its vehicles' software with Google products such as maps and music but the Google team only wanted to talk about robot cars, a person familiar with the effort said. "We came across as arrogant Valley punks—and we were," a former Google employee said.

Ford executives were put off by the fact that Google was testing vehicles on the roadways, a practice Ford consid-

ered premature. "They were looking at our vehicles and thinking of them like science-fair projects," the former Google employee said.

### Driving a 'Larry'

Google didn't have luck with Japanese auto makers, either. Discussions with Honda Motor Co. before 2014 didn't progress, said Nick Sugimoto, the head of Honda's Silicon Valley office. "They were inflexible. They weren't clear about what they wanted, and they really didn't listen to me," he said.

Google couldn't decide whether it should develop its own car or leave that to an auto maker. At one point they debated the merits of acquiring electric-car company Tesla Inc. Google co-founder Larry Page told the group, according to a person in attendance, that "he didn't want to drive a Tesla, he wanted to drive a Larry." A Waymo spokesman declined to comment.

In 2014, Google sent a chill

through the automotive industry with the unveiling of a podlike car it had designed. The "Firefly" car sent a clear message to Detroit that Silicon Valley could compete. Apple's efforts to develop its own self-driving technology leaked out in 2015.

Google was eager to put more vehicles on the road to test with real customers and pushed for putting the technology in Ford and GM vehicles. Those talks also stalled.

Jon Lauckner, GM's head of R&D, visited the Google campus and expressed doubt the technology was ready for use, according to people familiar with the meeting. Months later GM dispatched its president and its product chief to smooth things over with Google, but the two sides still couldn't cement a deal.

GM executives were unhappy Google wanted the auto maker to only supply vehicles, these people said. Google thought it had the leverage, thinking GM didn't have another option, this person said. To its chagrin, GM

surprised the industry last year with plans to acquire Cruise Automation.

Mr. Page and Google's other founder, Sergey Brin, realized they needed someone from the automotive industry with relationships, according to a person familiar with their thinking.

In September 2015, they hired Mr. Krafcik. He had begun his automotive career more than 30 years ago at a car factory about a half-hour drive from Waymo's offices.

As a young engineer-turned-business student at the Massachusetts Institute of Technology, he visited 90 car factories in 15 countries to study why the Japanese companies were better at making cars than U.S. companies. His studies contributed to a seminal book, "The Machine That Changed the World," on "lean production" techniques that inspired a generation of car makers.

As chief executive of Hyundai Motor America, he helped make sales gains in the wake of the 2008 financial crisis when other auto makers were failing. His name had been floated as a potential Ford chief when Alan Mulally retired in 2014 and as a candidate to run GM after it emerged from bankruptcy. He also had experience in the tech sector as president of online car-buying website TrueCar.

"Being able to speak the language of the automotive ecosystem is very important to us," said Astro Teller, head of Alphabet's Google X, an R&D division that was home for the self-driving project until being spun out as Waymo last year.

Mr. Krafcik joined Google when the company was months into talks with Ford about investing in an electric car program in exchange for thousands of cars. The sides were so close to a deal that a news release had been drafted, according to people familiar with the matter. Mr. Krafcik told Messrs. Page and Brin he thought the project was too costly and time consuming, the people said. Google ended the talks.

Several of the program's top engineers have left under Mr. Krafcik's watch, including the program's former leaders, Chris Urmson and Anthony Levandowski, who both set up competing companies.

Mr. Levandowski is at the center of a legal battle between Waymo and Uber Technologies Inc. Waymo alleges Mr. Levandowski stole trade

**'People worry...that we're going to take all of the joy out of driving.'**

secrets from Google to help jump start Uber's self-driving program. Uber denies wrongdoing and fired Mr. Levandowski, who hasn't commented on the allegations.

Mr. Krafcik's message to auto makers is that he wants to make better drivers, not cars. In a world of self-driving cars, many industry executives expect traditional car ownership to be upended as consum-

ers begin paying for rides rather than sheet metal.

In a conference room named after a robot, Mr. Krafcik scribbled numbers on a whiteboard: 3 trillion and 17 million. The bigger number was the total miles driven in the U.S. last year, while the smaller one was roughly the number of new car sales across the country. The challenge was to get consumers spending on the distances they travel in cars rather than on the cars themselves.

If the average large automotive company turns a profit of about \$1,400 per vehicle sold, he said, a vehicle that lasts 150,000 miles only garners about a penny per mile.

### Turning the corner

"The thing that the industry is struggling with right now is that for the 100 years it's been in existence it's been focused on the number of units built," he said. "We are moving to a world where...it has to be miles driven."

Mr. Krafcik said he began talks with Sergio Marchionne, the chief executive of Fiat Chrysler, which lacked the resources to develop its own self-driving software. Months later the two executives announced a deal for Waymo to integrate its hardware into 100 minivans, a partnership that was expanded to 500 more minivans this year.

Mr. Krafcik liked that the new Chrysler Pacifica minivan had two things: rear doors that open and close with the push of a button and plenty of electrical power to run onboard computers needed to drive the car. The trial program marked a turning point for Google. For the first time it was working with an auto maker to install its own software and hardware. That allowed it to retire the Firefly. Mr. Krafcik then developed a deal with Avis Budget Group to maintain the growing fleet.

Waymo is also working on a user experience that allows passengers to feel comfortable in a vehicle without a human driver. It includes a display system that tells riders why the vehicle is making decisions, such as stopping, people familiar with the effort said.

In December, Mr. Krafcik announced that Waymo and Honda had rekindled talks over a possible partnership. This time around, Google's attitude was sharply different, said Honda's Mr. Sugimoto. "John was very clear about his intention is not to invade the auto industry or destroy the existing supply chain," he said.

During a tour that he often gives to curious automotive executives, Mr. Krafcik rushed through a garage with rows of decommissioned robot cars, now being prepared for exhibits. Then he opened a door to the employee parking lot and pointed to his ride, a white 1990 Porsche 964 Targa.

"People worry that with the work we're doing...that we're going to take all of the joy out of driving," he said. "I don't believe that's true. There's always going to be stuff like this."

—Mike Colias and Christina Rogers contributed to this article.

# DRILLS

Continued from Page One

They require soldiers to understand the political environment and motivations of the people they are trying to protect, and defeat.

In North Carolina, where war games often involve the People's Republic of Pineland, locals who live near Fort Bragg sometimes serve as amateur actors in military drills. Some play good guys to be protected. Others play bad guys.

"I mock-assassinated the mayor of this bad-guy-held town," says an Army Green Beret who was struck by how war games can intersect with local life. "It was actually the real mayor."

The flag of Pineland, a nation spun from whole cloth, can be purchased online for \$22 (U.S. dollars only).

Because the role playing can disrupt North Carolina communities, after the military exercise is complete, Army Special Forces sweep through the countryside, doing community service, repainting firehouses, rebuilding fences and tending to animals.

In Belarus, a war-game country created by Russia is being brought to life by none

other than Belarus's beleaguered political opposition.

Russian and Belarusian military planners invented the country of "Veishnoriya" for their Zapad war game, which starts Thursday. On maps of the exercise, the fictional country lies in the northwest part of Belarus. Locals are embracing it.

Internet users created the virtual accoutrements of a real country: a foreign ministry, passports, a national anthem, a currency and a flag. And they're ready to defend their made-up turf.

"Veishnoriya will stand firm!" the unreal ministry wrote on its Twitter account, before offering "enemy soldiers" stew, honey, bread and lard to lay down their weapons.

In some cases, war games

spark anxiety and conspiracy theories. Russia in 2008 used military exercises to obscure its invasion of Georgia. Russia repeated the feint in 2014 to intervene in eastern Ukraine. Moscow then helped carve out new autonomous regions inside Georgia and Ukraine—regions that most of the rest of the world views as fakes.

In Atropia, the problem was maps. The fictional country exists so that Western allies can learn to cooperate. But imaginary national boundaries

superimposed onto actual geography stirred friction.

Atropia's borders roughly coincide with Azerbaijan. Neighboring Limaria, a made-up country, coincides with Armenia. The fake country of Kemalia is roughly equivalent to Turkey. In 2014, Turkey's top general wrote to the head of U.S. European Command complaining that a historically Turkish town was inside the boundary of Limaria, not Kemalia.

"They weren't fooled by the

fake names," says a U.S. official. "It caused a diplomatic kerfuffle."

Turkish officials didn't comment on the episode.

The U.S. training center in Hohenfels, Germany, now bases its war games on a country called "Germany." The alternate reality includes a fictional "Great Fatherland Party" that resembles France's National Front and the like-minded Alternative for Germany.

"We don't take stuff up," says James Derleth, the senior interagency training adviser at the Joint Multinational Readiness Center in Hohenfels. "We take the stuff and change the name so it doesn't create umbrage to real politicians or political parties."

The new scenario also doesn't give soldiers a real-world adversary. Instead, North Atlantic Treaty Organization troops face off against the thinly veiled "Skolkoi Alliance," which was originally created by NATO in 2012. It has a fearsome propaganda television network, "The Voice of Reason."

"They are dangerous, devilish," Mr. Derleth says of the Skolkoi forces. "It replicates a threat from the east."

NATO allows its partners and members to take the Skolkoi scenario and adapt it, but

says it isn't responsible for any alterations. "We sell it as a boiled egg," says German Lt. Col. Michael Derksen of NATO's Joint Warfare Centre.

"You get it and we cannot unboil it for you."

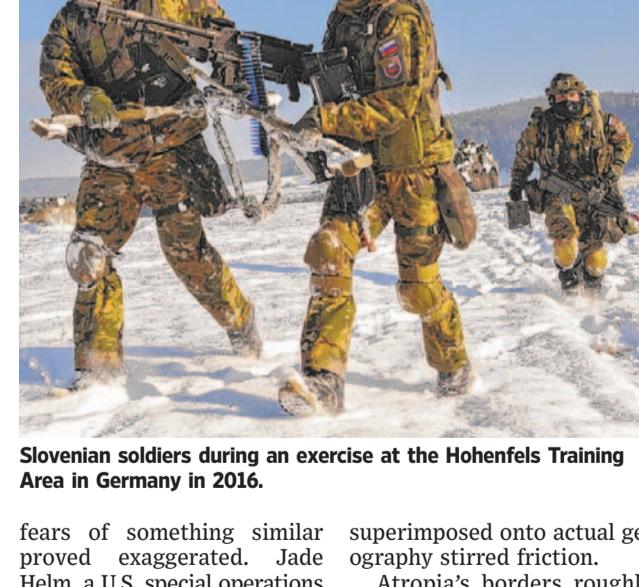
Russia's fictional adversary Veishnoriya replicates an aspiration of sorts for some Belarusians. Its portion of the former Soviet republic is the region most opposed to Belarusian strongman leader, Alexander Lukashenko, once dubbed "Europe's last dictator" by the U.S. State Department.

"Veishnoriya is a country without Lukashenko, without Russian troops, a country that is friendly with its Western neighbors," the not-quite-country's "foreign ministry" tweeted last month.

Alexander Feduta, an opposition political analyst, composed an irony-laden national anthem for the fake country that riffs on themes including Belarus's struggle to find foreign loans.

Aliaksandr Arsionau, a 28-year-old journalist who created Veishnoriya's blue-and-white flag, says the fictional land is like a dream come almost true.

"People want to imagine being in a different country," he says. "Then the government came up with one for us."



MARKUS RAUCHENBERGER/PLANET PIXUNA PRESS

Slovenian soldiers during an exercise at the Hohenfels Training Area in Germany in 2016.

# LIFE & ARTS

BONDS: ON RELATIONSHIPS | By Elizabeth Bernstein

## A Parent's Survival Guide Now That Your Child Is Off to College

A family therapist offers advice on navigating the range of emotions parents of college freshmen can feel this time of year

**IT'S THE BEST OF TIMES** and the worst of times: You just became an empty nester.

When a child leaves for college, parents have the happiness of seeing their son or daughter mature and start off on an independent life. They also miss constant connection, fret about their child's well-being, and worry about the way the relationship may change.

Esther Boykin, a licensed marriage and family therapist in Washington, D.C., says that empty nesters may experience a type of grief—for the loss of the relationship as it was. In some cases, some see a therapist. In an interview, she talked about the mixed feelings empty nesters often have and what they can do. Here are edited excerpts.

**WSJ: What are some of the emotions that empty nesters typically feel?**

**Ms. Boykin:** The empty nest kicks up much more than just sadness or loneliness. For many parents, there is also guilt about what they wish they had, or hadn't, done while raising their child. This can range from specific negative interactions along the way to a broad sense of not having done enough to prepare them for the "real world." And they can feel a great deal of anxiety and worry about how their child will fare in a new environment.

Parents can also feel excitement, pride, joy, and relief as they get a glimpse of a life that doesn't center around kids and their goals all the time.

**Why is this such a complicated issue?**

Parents experience an ambiguous loss, or a loss that doesn't really look like loss. Their child is typically just a few hours or a short plane ride away, so they haven't lost them. Yet the emotional experience of their absence can feel incredibly profound and permanent. This person whom you have centered your life around for 18 years is no longer around on a daily basis and is loosening the connection that had been all-encompassing.

The greatest challenge for parents is that they know that the goal of good parenting is to raise a self-sufficient, independent adult. But the realization of that goal creates a deep sense of loss that can be confusing. It's like realizing that you did an awesome job and the reward is that the person you love most is leaving you for good.

**Do both fathers and mothers experience the emotions of empty nesting the same way?**

The truth is that a parent's emo-



FROM TOP: STOCK; ESTHER BOYKIN

tions are more related to the relationship they have with their child and their role as a caregiver than they are with gender. Often the parent who has the more emotionally intimate relationship will have an easier time processing empty-nest emotions. They may find it easier to trust their child is ready for the challenges of adulthood and to establish regular communication.

**Are empty nesters ever envious of their children?**

Sometimes. If you see this as a sign that you are old and your life is winding down, then it is easy to be envious of your children and all of the new experiences that lay ahead of them. Envy can also be a problem for parents who felt they didn't get the same opportunities. Unfortunately this is often wrapped up in guilt as well. Parents who find themselves feeling jealous of their child's opportunities often then feel guilty or ashamed of that feeling.

**How does empty nesting affect a couple?**

It can be easy to neglect your relationship while the kids are home and life is centered around family rather than romance, but



**The time after dropping off a child at college can bring some unexpected emotions for parents. Family therapist Esther Boykin, left, has some solutions.**

experiences but what you want and need from each other as partners.

I see lots of couples where one partner is excited about all the free time and ready to go on adventures while the other one is sad, lonely, and just wants to grieve. This difference isn't bad, but it usually sets the stage for some resentment and judgment on both sides.

**Should you talk to your child about your feelings?**

Part of cultivating a new relationship with your child is having more grown-up conversations. The goal is to share appropriately without making your child feel responsible for your emotional state. One way to check yourself before sharing is to ask yourself what you hope to get from the conversation. If the answer is comfort and caretaking, then it is probably best for you to talk to a friend, family member or your significant other first.

**How can you renegotiate your relationship with your child?**

Create some new routines. Some

### Steps for the First Fall

Some advice from Esther Boykin on weathering empty nesting:

■ Feel the feelings. Cry, write in a journal, vent to a friend, family member or therapist. Do whatever you can to let those emotions out.

■ Take care of yourself. Eat healthy, go outside, listen to music, get adequate sleep. It's easy for sadness to overwhelm us and that can put us in a cycle of poor self-care, which only amplifies difficult emotions.

■ Develop a check-in ritual. Tell your child you miss him or her and establish a routine for phone calls, text messages or FaceTime. Respect your child's need for independence but also honor your need for connection.

■ Let go of the guilt. There is so much time now to question all the parenting decisions made over the previous 18 years. Don't waste time looking back. Focus your energy on remembering the fun and joy of parenting at each stage of your child's life.

■ Build a support circle. Reach out to other parents who have gone through this life stage. Many universities have parent groups in various cities and on social media.

things will happen organically, like a phone call on Thursdays as you head to work and they head into their early class. Be intentional about establishing some simple ways to connect regularly. This could include anything from emails, texts and phone calls, to social media check-ins or setting a schedule for visits.

And remember that being emotionally supportive to an adult is much more about being available than it is about fixing problems. Practice being a good listener and ask before giving advice. Not only will you respect your child's desire for autonomy but you send the message that you believe in their ability to manage their life without your input even when you want to give it.

## MY RIDE | By A.J. Baime

### A MILLENNIAL'S LOVE FOR A CLASSIC FORD



Kimberly Claybaugh of Tulsa, Okla., with her 1952 Ford Customline. The car's previous owner named the car Myrtle and added the red pinstriping, right.



I called Alice immediately. She was very emotional, because this car had been a 50th birthday present from her husband, who had since passed away, and it meant so much to her. By this time she had owned the car for 17 years. It was time for her to let Myrtle go, and she thought I was the right person to take care of her and to keep her original. It turns out my parents had made a deal with her six weeks earlier, and they had

kept this a secret. (I have no idea what they paid for the car.)

Next summer there is a national meet for the Early V-8 Club of America in Dearborn, Mich., the home of Ford Motor Co. I am planning on driving Myrtle there, back to where it all began.

Contact A.J. Baime at [Facebook.com/ajbaime](http://Facebook.com/ajbaime).



## OPINION

### REVIEW & OUTLOOK

## Trump, Taxes and the Democrats

President Trump is elated with the media applause for his new political condominium with Democrats Chuck Schumer and Nancy Pelosi, and it's amusing to see sudden praise from the same circles that claim he's unfit for the Presidency. If Mr. Trump endorses Medicare for all, maybe they'll put him on Mount Rushmore.

But anyone who thinks this really heralds a brave new world underestimates the current polarization in American politics. Democrats might be able to deal with Mr. Trump if the President embraces their agenda. But then he's going to have a heck of a time getting anything through this Republican Congress. On tax reform in particular, there's little potential common ground.

Recall that Mr. Trump didn't negotiate with Democrats last week. Like a first-time home buyer, he accepted their first offer. His concession was mainly on process, delaying for three months a fight over government spending and the debt ceiling—as part of a \$15.25 billion hurricane-relief bill. Yet even that split the GOP, passing the House 316-90 and the Senate 80-17. All the nays were Republicans, who think Mr. Trump handed Democrats greater leverage for showdowns in December.

Mr. Trump seems to be warning Mitch McConnell and Paul Ryan that he can turn to Democrats if they can't get things done. But turn to them for what? Infrastructure spending is a possibility, except that Mr. Schumer wants all of it to be public money, not a private-public bond issuance. An immigration deal might have a chance, assuming Mr. Trump abandons his wall on the Mexican border. What else?

The December showdown will tee up another fight over the size of government. Does Mr. Trump think Mr. Schumer and Mrs. Pelosi will sign off on his spending increase for the Pentagon? Or steep cuts for the EPA? Even if Mr. Schumer were willing, the antipathy that grassroots progressives feel for Mr. Trump won't let Democrats compromise on much.

The same holds for tax reform, which Mr. Trump says is his top priority. Mr. Schumer and 44 Senate Democrats stipulated their conditions for tax cooperation in a letter this summer: No tax cut for the wealthy, no increase in the deficit and no use of the 50-vote budget reconciliation process. Only three Democrats didn't sign that letter: Heidi Heitkamp (N.D.),

Joe Manchin (W.Va.) and Joe Donnelly (Ind.).

Yet Mr. Trump says he wants a large tax cut, including a corporate-tax rate of 15% from the current 35%, and big tax cuts for "the middle class" and small "pass-through" businesses that pay at the individual tax rate. Democrats might go along with the middle-class tax cuts, but those won't

help the economy.

The lowest corporate-tax rate that Barack Obama would consider was 28%, which wasn't nearly low enough to cause corporations to change investment plans. With Ireland at 12.5% and Britain headed for 17%, the U.S. needs to get to 20% to lift investment enough to spur growth to raise incomes. Will Mr. Schumer go along with that?

As for not adding to the deficit, that requires eliminating tax loopholes and using "dynamic" revenue scoring that assumes faster growth from the tax cut. Democrats aren't likely to go along with either one. They want to raise tax rates on investment income, but that is also a growth killer.

The best chance to win Democratic support is if the GOP and Mr. Trump move to eliminate the state-and-local tax deduction. Then Democrats from high-tax states might want to deal on the corporate rate in a trade for retaining the deduction. But after routing Republicans on health care, Democrats for now seem to believe they can defeat tax reform simply by claiming it's a tax cut for the wealthy.

Which means that if the President really wants Democratic votes on tax reform, he'll have to prove first that he has 50 Republican votes to pass it in the Senate. Only then will Ms. Heitkamp or Mr. Manchin come along to pad the victory margin and neutralize a 2018 campaign issue. They'll never agree to be the 50th vote to pass a bill because that would mean courting the wrath of anti-Trump voters on the left. They'd have to switch parties.

Mr. Trump has few policy convictions, and if Democrats win the 2018 elections, we can see him cutting deals in the next Congress to blow out spending, impose price controls on drugs, raise tariffs on China and maybe even Medicare for all. But if Mr. Trump wants tax reform in this Congress, he'll need Republican votes. Chuck and Nancy won't help him unless he surrenders to their vision of tax reform—which means a tax increase.

on the U.S. The judge held that refugee resettlement agreements between nonprofits and the federal government could constitute a formal relationship. But if the Supreme Court had intended an exception for refugees, it would have said so.

A Ninth Circuit panel—all Bill Clinton appointees—upheld Judge Watson, but the Justice Department asked the Supreme Court to stay the ruling. Justice challenged only the Ninth Circuit's decision applying to refugees, which it argued "would as a practical matter render" the Supreme Court's decision a "dead letter."

The Supreme Court seems to agree, judging by Justice Anthony Kennedy's one-sentence order staying the Ninth Circuit ruling. The order allows the Trump Administration and Hawaii's Attorney General to submit arguments on whether refugees can claim a "bona fide" relationship by virtue of their resettlement agreements. These arguments can be fleshed out next month when the High Court hears challenges to the travel ban on the legal merits.

## The Better IRS Reform

The long saga of Lois Lerner is coming to a close. Ms. Lerner was the infamous Obama Administration cat's paw at the Internal Revenue Service, which harassed conservative political groups in the Tea Party era. Now the Trump Justice Department has decided there is no cause to pursue criminal charges against Ms. Lerner, and Congressional Republicans are howling.

They're upset over a letter Assistant Attorney General Stephen Boyd sent Friday to House Ways and Means Chairman Kevin Brady and tax subcommittee head Peter Roskam laying out DOJ's reasons. The letter notes that the initial Obama DOJ investigation found "substantial evidence of mismanagement" at the IRS but no "evidence of criminal intent by any IRS official"—the necessary hurdle for prosecution.

Mr. Boyd assured the House that the offices of both Attorney General Jeff Sessions and Deputy Attorney General Rod Rosenstein met with Justice's Criminal Division to review that earlier investigation and to consider additional details provided by House investigators. They found no basis to reopen a criminal probe.

Republicans are furious. But this mess happened because the Obama Administration used federal bureaucracies for raw political purposes. If Mr. Sessions's Justice Department has found no way to prove criminal intent beyond a reasonable doubt, Republicans could begin the road back to accountability by respecting that decision.

What House Republicans should do now is create a structure that will stop assaults by bureaucrats on political activity. They've been put-

ting riders in spending bills to bar the IRS from imposing restrictions on nonprofit speech. But this thumbs-in-the-dike approach does nothing about powers that IRS functionaries already have over political activity.

The solution is to get the IRS out of the political arena by limiting its role to the most basic administrative task of giving initial approval to nonprofits. Transfer to the Federal Election Commission the job of deciding whether a nonprofit is abiding by the existing rules governing political spending. The FEC's commissioners would decide if complaints against the political activities of nonprofits had merit.

Democrats will rebel because the design of the FEC makes it difficult to sic the commission on political enemies. That's why they made the IRS their political enforcer. Legislators designed the FEC to prevent partisans from turning it into a political weapon.

It takes a majority vote among its six bipartisan FEC commissioners to proceed with a judgment. Commissioners are confirmed by the Senate and operate in the open. The status quo gives this job—and power—to the IRS's unconfirmed, unseen federal bureaucrats.

Campaign-finance fights make Republicans nervous, but they've got a political self-interest in permanently transferring this job to the FEC. Once back in power, Democrats will mobilize a crackdown against their single biggest obsession—"dark money." Meaning the conservatives who fund their opposition.

Lois Lerner's IRS operation was the swamp at its worst. The GOP would do the country's politics a favor by draining these bureaucrats of partisan political power.

## The Election Putin Doesn't Need to Hack



EVEN AS Germany's Defense Minister Ursula von der Leyen deplores the mighty contingent of Russian forces amassing at the edges of Eastern Europe's democracies, Chancellor Angela Merkel says she's ready in principle to lift the European Union's sanctions against Russia for its seizure of Crimea and clandestine troop presence in Ukraine.

Ms. von der Leyen asserted last week that there will be "more than 100,000" Russian troops engaging in war games on the EU's doorstep beginning Thursday, in contrast to the 12,700 that Moscow acknowledges. Ms. von der Leyen calls this "a demonstration of capabilities and power."

Yet a day later, according to Reuters, in an apparent response to Vladimir Putin's heavily conditioned call for a United Nations peace-keeping unit to enter Ukraine, Mrs. Merkel said that the sanctions could disappear once there were "peaceful relationships" in eastern Ukraine.

The contrast is unique. A German defense minister insists on the maneuvers' magnitude, both political and military. Her chancellor, meanwhile, sings the same why-can't-we-all-just-get-along number she always uses to swivel away from any discussion of an eventual German obligation to the use of force.

Here is a chancellor who has never addressed these Russian war games, which, not accidentally, will run until Sept. 20, well into the final campaign week of Germany's Sept. 24 national election.

Mrs. Merkel talks about abandoning sanctions even though Russian maneuvers will likely bring nuclear-capable Iskander-M missiles to Kaliningrad, the westernmost Russian enclave between Lithuania and Poland, putting Mrs. Merkel's home election district of Stralsund well within target range.

For election-campaign interference and general intimidation, 140,000 men in battle dress will make hacking look almost gentlemanly. John Kornblum, a former U.S. ambassador to Germany, put it bluntly in a conversation last week: "The Russians know they can push the Germans anytime they want."

So how does Mrs. Merkel, so often depicted as Mr. Putin's opponent, wind up looking pushed? And, so far at least, like someone for whom getting re-elected appears to be worth a compromise with reality?

The chancellor reads the polls. Pew Research last month asked respondents in and outside Europe which nation's "power and influence" posed the greatest threat to them. The Germans answered the U.S.

Donald Trump is surely a factor. But the Britons, Dutch, French, Italians and Swedes, digesting the same rhetoric, replied that Russia was the big problem.

Going back to 2015, German and American polling has consistently shown Germans offering no majority support for sanctions against Russia and opposing German soldiers fighting to defend Poland and the Baltic states "if they are attacked by Russia." All this German disengagement without so much as a peep from the chancellor or proposal for a Bundestag debate on the Russian threat.

For the Russians, it's an immense windfall, a perceived German crack in the West. This feeds the Moscow line that Western dominance, as Russia's Foreign Minister Sergei Lavrov says, is coming to an end. Accelerating that end is now the basis of Moscow's strategy.

Germans will go to the polls without a serious debate on Russia policy, and voters seem to like it that way.

So, do the Russians win the German election? No, Mrs. Merkel does, but the campaign is taking place without a single prominent pro-Western voice to be heard.

The makeup of the new parliament is expected to contain four parties showing complaisance for Russia—the center-left Social Democrats, the free-market Free Democrats and the two parties of the hard/extremist right and left.

The Greens aren't in favor of rewarding Russian bullying and aggression. As for the chancellor's center-right Christian Democrats, their election manifesto no longer uses the word "friend" to describe America.

The most likely government to emerge is the worst possible option: a renewed grand coalition with the Social Democrats. Last month, Sigmar Gabriel—the vice chancellor, private St. Petersburg dinner companion of Mr. Putin and Gerhard Schröder, and lift-the-sanctions now, pro-Russian foreign minister—viliified Mrs. Merkel with the ridiculous accusation that she is "subjugated to the American president." Mr. Gabriel has now become, according to last week's polls, Germany's most-liked politician.

In the outside world, notions of the chancellor's wisdom, reliability and goodness still abound. Toomas Hendrik Ilves, a former president of Estonia, wrote last week, "It is now up to Germany and Angela Merkel to decide if Vladimir Putin is to be challenged in a serious enough way for him to stop disrupting Western democracy."

That's a fair admonition. On current evidence, the likelihood of its realization is zero to nil.

## LETTERS TO THE EDITOR

### VAT Will Help Some Problems, Create Others

In "Tax Consumption Through a VAT, and Voilà" (op-ed, Sept. 6) John H. Cochrane presents a persuasive case for eliminating America's current dysfunctional income-tax system and replacing it with a uniform value-added tax (VAT). The benefits of such a move, in higher growth and decreased inefficiency, are manifest. But how do we get there from here?

I suggest that an effort to achieve this restructuring be organized around a campaign to repeal the U.S. Constitution's 16th Amendment, which was ratified in 1913 to enable federal income-tax collections, and without which any federal income tax would be unconstitutional.

A new amendment to repeal the 16th Amendment might also include language to "lock in" important elements of any future VAT, most important, uniformity, but also the structure of any progressivity elements.

Such a campaign to repeal the 16th Amendment would enjoy broad popular support, particularly if progressivity benefits (e.g., a yearly check for \$10,000) were limited to U.S. citizens. The right repeal text would reassure those of us concerned about the possibility (or likelihood) of ending up with the most monstrous of possible outcomes: a baroque VAT system, with exemptions for every rent-seeker with the wherewithal to employ a lobbyist, layered on top of the 10-million-plus words of our existing tax code.

The U.S. voter will take great delight in throwing sand in the gears of the K Street lobbying machine and the politician-corporation revolving door. The wise politician will recognize this fact and get ahead of the crowd.

JAMES K. HOWEY

Seattle

Substituting a VAT for America's present tax code would eliminate the currency of the career politician—the ability to manipulate the tax code in return for election contributions.

Ain't happening.

MARK A. DiGIOVANNI

Boston

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.

STEVEN MARTIN  
Retired DEA supervisor

Richardson, Texas

The U.S. Drug Enforcement Administration essentially enforces federal law against the illicit-drug black market. How is that working out? Can you imagine the DEA times 10,000? There would be undercover buy-busts for chocolate and chewing gum.

## OPINION

# India's Politkovskaya Moment

By Sadanand Dhume

**H**as India just witnessed its Anna Politkovskaya moment, when a journalist's shocking murder marks an authoritarian turn for her country?

It's too early to say whether last week's assassination of crusading journalist Gauri Lankesh outside her Bangalore home suggests for India an inflection point similar to what the 2006 Politkovskaya murder marked for Russia. But it is among the most important questions facing Prime Minister Narendra Modi's three-year-old government.

**Narendra Modi needs to do more to quell fears that his country is sliding toward illiberalism.**

Should Mr. Modi seek to dispel widespread fears that his ruling Bharatiya Janata Party intends to squeeze the space for dissent in India, he will have to display a commitment to democracy that goes beyond just elections. This means engaging with critical journalists, signaling displeasure at abuse by his supporters on social media and curbing his party's increasingly litigious streak. So far, Mr. Modi's record on this front is not inspiring.

Lankesh, an outspoken 55-year-old critic of the Hindu nationalism that has spawned, among other or-

ganizations, the BJP, was shot three times by motorcycle-borne assassins. Though investigators have not arrested anyone for the crime, several commentators have speculated that the journalist's death was linked to her political views.

Since 2013, assassins have murdered at least three other "rationalists," best known for criticizing what they regarded as backward Hindu beliefs and the groups that champion them. Nobody has been convicted for the killings.

Many BJP supporters view allegations of a likely Hindu nationalist angle to Lankesh's murder as a baseless smear. The Rashtriya Swayamsevak Sangh (National Volunteer Corps), which supplies the BJP with much of its leadership, has condemned the murder, as has the BJP.

On Monday, a BJP official threatened a lawsuit against the prominent historian Ramachandra Guha. In an interview, Mr. Guha had declared that it was "very likely" that Lankesh's killers—as well as those of other rationalists—belonged to the "Sangh Parivar," a term loosely used to describe the RSS and its offshoots, including the BJP. The historian also attacked "the ruling dispensation in Delhi" for creating "a climate of hate and intolerance" in India.

Given the creaky state of India's criminal justice system, the truth behind Lankesh's murder may not come to light any time soon. Nonetheless, it raises troubling questions about the direction the country has taken under Mr. Modi.



INDIA TODAY GROUP/GETTY IMAGES

Activists hold a candlelight vigil in New Delhi for murdered journalist Gauri Lankesh.

Despite nationwide protests, the prime minister has not yet condemned Lankesh's murder or condoled with her family. Nor has Mr. Modi visibly distanced himself from those who apparently celebrated it.

"One bitch dies a dog's death and all the puppies start howling in tune," wrote a Gujarat-based businessman named Nikhil Dadhich, one of the 1,800-odd people and organizations Mr. Modi follows on Twitter. Ignoring a flurry of outraged tweets and articles, the prime minister has not unfollowed Mr. Dadhich.

Part of the problem lies with the nature of Mr. Modi's political constituency. He represents both a large chunk of the national mainstream and a fanatical fringe that

provides the BJP with much of its grass-roots passion.

Mr. Modi is by far the most popular politician in India. A Pew Research Center poll last year showed his approval rating at a stratospheric 81%. In March this year, the prime minister led his party to a crushing four-fifths majority in Uttar Pradesh, India's largest state.

For some Modi fans, his elevation to prime minister represents a kind of year zero in Indian politics, or the advent of a completely new era. The conservative columnist Swapna Dasgupta, quoting an unnamed senior BJP official, has written that Mr. Modi "is not there to manage India; he is there to change it."

Some BJP supporters view this mandate for change as a license to

demonize all journalists as corrupt, bully writers with court cases and constantly abuse India's religious minorities on television and social media.

Unlike India's only other BJP prime minister, Atal Bihari Vajpayee (1998-2004), Mr. Modi styles himself as a strongman, not as a consensus-builder. This narrows his room for compromise and makes him prone to ignoring even well-meaning critics. His governing style exacerbates fears that India's democracy is lurching toward the suppression of dissent.

If Mr. Modi wants to correct this impression, he can do so easily enough. Nobody is forcing him to follow people who celebrate murder and threaten women with rape on Twitter. Nobody is forcing him to abjure press conferences or any other interaction with journalists where he may be asked tough questions. Nobody stops him from admonishing ministerial colleagues who use demeaning words like "prostitute" to describe journalists.

Perhaps it makes political sense for Mr. Modi not to alienate a cadre of crass foot soldiers who have stood by him for years. But for India the prime minister's failure to rise above such petty partisanship carries undeniable risks.

Instead of the rapid progress he promised, Mr. Modi appears to be leading his nation toward an illiberal future.

*Mr. Dhume is a resident fellow at the American Enterprise Institute and a columnist for WSJ.com.*

## America's Air Force Needs a Budget That Aims Higher

By Heather Wilson  
And David Goldfein

**W**e recently stood on the tarmac at Bagram Air Base in Afghanistan and watched as the brothers-in-arms of a young Green Beret carried a flag-draped transfer case containing his remains toward the aircraft that would bring him home. He was killed fighting Islamic State.

We visited Afghanistan and Iraq to meet with airmen and assess Air Force operations. We met B-52 crews in Qatar who had launched 573 sorties without once being canceled for maintenance, as well as Air Force surgical teams deployed in a bombed-out bunker to provide trauma care for Iraqi soldiers.

We heard stories from heavy-construction crews keeping wells operating and runways open in 120-degree heat. We watched as combat air controllers choreographed layers of air support over Tal Afar, Iraq, and Raqqa, Syria.

Americans should be proud of the

U.S. airmen and their brethren in all of the services. They are competent citizens of character. But lingering in our minds at every stop was a question: Will these men and women get the support they need to remain ready when called?

The American military has surged to the fight in Afghanistan and Iraq, but surges aren't sustainable. The Air Force as currently constituted is too small to do what the nation expects of it.

In 1991, when the U.S. went to war to drive Saddam Hussein out of Kuwait, the Air Force had 134 fighter squadrons, which typically have 18 to 24 aircraft each. Today, the Air Force has only 55 fighter squadrons, and 1,500 fewer pilots than it needs.

We have been doing too much, with too little, for too long.

On an average sortie protecting ground forces in Iraq and Syria, an American fighter aircraft refuels eight times. It takes about 60 tanker sorties a day to support U.S. operations in Afghanistan, Iraq and Syria.

As a result, tanker pilots today have six months in a combat theater and six months at home. And when they are home, they are not really home. They have to cram in the training they weren't able to accomplish while "in the desert."

### A return to sequester-level funding would inhibit the U.S. ability to fly, fight and win wars.

U.S.-based remotely piloted aircraft crews work 12-hour shifts—six days on with one day off. And the cycle doesn't end. Despite their dedication and that of their families, going six, seven or eight years at this rate leaves people exhausted. They become increasingly likely to try a different career that will afford them a more normal life. As a result, we lose the skilled people we need to continue the fight.

The readiness of those who stay is also compromised by an operating tempo too high for a force of our size. Those B-52 crews that have done 573 straight missions against Islamic State will return home soon. Ten days after arriving at home base, they will undergo inspection to make sure they are ready for their mission carrying nuclear weapons, for which they won't have practiced in at least four months.

In addition to the risk posed by the enemy, the lack of a defense budget puts U.S. forces at risk. The Air Force has requested \$132.4 billion for fiscal 2018. We cannot continue on last year's funding level of \$123.8 billion indefinitely.

Much worse would be a return to sequester. A budget this year at sequester levels—while we take the fight to Islamic State, deter aggression in the Pacific and support emergency responders at home—would almost certainly result in significant cuts in flying hours. Squadrons deployed or preparing to deploy would get to fly, but we

would likely be forced to ground entire squadrons at home.

During sequestration in 2013, the Air Force grounded 13 squadrons of combat aircraft, rendering them ineffective. No training and no flying today would worsen the exodus of pilots and other skilled airmen. Airlines are eager to hire them.

The effects of a sequester-level budget on weapons purchases and munitions would also reduce readiness and lethality. We worry most about the effect on our airmen. Their skills are vital to our success, and, once gone, they cannot be quickly replaced.

On the ramp at Bagram, hundreds of airmen saluted a fallen soldier. They are the best our nation has and are committed to its defense.

America must commit to them. With a reasonable budget, they can continue to take the fight to our adversaries.

*Ms. Wilson is secretary of the Air Force. Gen. Goldfein is Air Force chief of staff.*

## How Do Palestinians Define 'Terrorism'?

By Jonathan Schanzer  
And Grant Rumley

**T**he Taylor Force Act is gathering momentum in U.S. Congress. Named for a West Point graduate who was stabbed to death by a Palestinian during a 2016 trip to Israel, the bill would cut American aid to the Palestinian Authority until it takes "credible steps to end acts of violence" and stops paying stipends to convicted terrorists.

The legislation recently passed the Senate Foreign Relations Committee with rare bipartisan support, and last week Sen. Lindsey Graham attached it to the 2018 Foreign Operations budget, all but guaranteeing it will go into effect next year.

That means the clock is now ticking for the Palestinian Authority, which receives around \$350 million from the U.S. each year. The Taylor Force Act wouldn't block humanitarian or security aid, meaning U.S. funds wouldn't be zeroed out, but our sources say the total could fall as low as \$120 million, depending

on how far Congress and the Trump administration want to go.

At the same time, the Palestinian Authority's support from other donors is dropping, putting further strain already on the government in Ramallah.

Palestinian Authority President Mahmoud Abbas and his coterie say they cannot roll back the practice of paying convicted terrorists, which dates to 1964. They say failing to

pay the salaries—estimated at around \$350 million a year—would create an opening for the terror group Hamas or even Iran.

They further argue that pulling the funding would deprive thousands of families of their livelihoods, which could spark protests and threaten the Palestinian Authority's rule.

Congress will rightly reject these arguments. The Palestinian Authority's obstinacy is the reason the Taylor Force Act is so close to becoming law. Lawmakers and the White House signaled for months that a cutoff was coming, yet Mr. Abbas refused to take action.

There is one step Mr. Abbas could take to demonstrate that he is taking Congress seriously: He could issue a definition of terrorism to his own people. Remarkably, the Palestinian Authority's "Basic Law" doesn't mention terrorism. The U.S. State Department says that although the Palestinian Authority has criminalized acts of terror, it lacks legislation "specifically tailored to counterterrorism."

The Palestinian Authority's security forces do regularly raid terror cells and detain operatives across the West Bank. In late July, for example, they nabbed Hamas members in four major cities.

But the Palestinian Authority typically justifies such actions under presidential decrees, such as one that prohibits "harming public security."

In the past, Palestinian Authority forces also claimed jurisdiction under a combination of legal parameters, including the Palestine Liberation Organization's Revolutionary Penal Code of 1979 and a set of Jordanian military codes.

But since Mr. Abbas's election in 2005, and especially after the

2006 elections and the devastating 2007 civil war with Hamas, he has governed almost exclusively by executive decree.

A law passed by the Palestinian Authority's parliament that defines and criminalizes terrorism would

### As the U.S. moves to cut aid, setting out a clear legal meaning would be a good step.

carry greater weight and almost certainly garner more respect from the Palestinian people. But interne-cine conflict has rendered the parliament defunct, making a new law all but impossible to pass.

Mr. Abbas's decrees provide the Palestinian security forces with a broad mandate for arresting terror operatives who plot attacks against Israel or the Palestinian Authority. Mr. Abbas issued an order in 2007 that states "all armed militias and military formations... are banned in all their forms."

At times, he has condemned acts of terror, such as last month after three Arab-Israelis killed two police officers in Jerusalem. The Palestinian Authority's news agency reported that Mr. Abbas called Israeli Prime Minister Benjamin Netanyahu and "expressed his strong rejection and condemnation of the incident."

Yet the Palestinian Authority continues to pay stipends to people convicted of such attacks.

The Palestinians could buy considerable goodwill merely by defining what the Palestinian Authority considers terrorism. Setting out such a definition wouldn't change Congress's demands or prevent the Taylor Force Act from passing. But it would signal the Palestinian Authority is taking steps to address the problem.

From there, the Palestinian Authority's next step would be to cut off money to convicted terrorists, pursuant to its new definition.

The Taylor Force Act's current language demands that the U.S. State Department certify every 180 days that the Palestinian Authority is "taking credible and verifiable steps to end acts of violence against Israeli citizens and United States citizens." Defining terrorism would be a credible and verifiable step, even if a limited one.

If Mr. Abbas were to do this, the world would closely watch his next move. If Palestinian leaders continued to condemn American lawmakers for considering cuts to aid, and if the Palestinian Authority kept paying prisoners convicted of terrorism, then the exercise would mean little. Congress would have every right to withhold funds, and the Taylor Force Act could be merely the beginning.

But if Mr. Abbas truly wants to take an alternative path, defining terrorism would be a start.

*Mr. Schanzer is a senior vice president at the Foundation for Defense of Democracies, where Mr. Rumley is a research fellow.*

## THE WALL STREET JOURNAL

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## LIFE & ARTS

### ART REVIEW

# Lusting After Beauty

An aesthetic journey through the life and times of that most famous Lothario, Casanova

BY LANCE ESLUND

Fort Worth, Texas

**WHO KNEW** the American Modernist architect Louis Kahn had Rococo tendencies? How else do you explain the seamless integration of "Casanova: The Seduction of Europe"—a lavish romp through the Rococo—with the monumental minimalism of Kahn's Kimbell Art Museum? This exhibition's nearly 200 mostly 18th-century European artworks—boasting an abundance of shimmering surfaces, flushed bare flesh and roiling curves—feel right at home (if not dutifully tamed) among the broad arcs and neutral planes of the Kimbell's spare, concrete-vaulted galleries.

The opulent show was inspired by the life and times of that most famous Lothario, Casanova, whom we know from his 3,500-page memoirs as the man who seduced more than 100 partners, including virgins, married women, men, family members and at least one nun—an act that landed him in prison. But Giacomo Casanova (1725-1798) was much more than a Casanova.

The self-professed hedonist traveled 40,000 miles throughout Europe in search of fame, fortune and, certainly, sex. "Despite an excellent moral foundation, the inevitable fruit of the divine principles which were rooted in my heart," Casanova wrote in his memoirs, "I was all my life the victim of my senses."

Yet, he was also a man of letters and a true actor on the world stage. Casanova met or knew seemingly everyone: Voltaire, Rousseau, Samuel Johnson, Benjamin Franklin, King George III, Pope Clement XIII, Catherine the Great, King Louis XV and his paramour Madame de Pompadour—all represented here in portraits by Joshua Reynolds, Jean-Antoine Houdon and Anton Raphael Mengs, among others. Casanova was a lawyer, priest, medic, diplomat, violinist, gambler, gourmand, con man and spy. He wrote numerous works of fiction and nonfiction. He trans-



François Boucher's 'Juno Asking Aeolus to Release the Winds' (1769), above, and a portrait of Giacomo Casanova (c. 1750), by Francesco Giuseppe Casanova, right.

lated Homer's "Iliad" into its earliest version of modern Italian and may have contributed to the libretto for Mozart's "Don Giovanni." In France, he created the world's first national lottery.

A grand European tour, "Casanova" comprises paintings, sculptures, drawings, prints, furnishings, books and decorative arts, and chronologically and geographically follows Casanova's exploits in Venice (his birthplace), France and London. The show combines his

story, games, silver, Sèvres porcelain, animal-headed tureens and a luxurious sedan chair, as well as life-size tableaus with mannequins dressed in glamorous period costumes. As much about the era and circles of Casanova as it is about the man, the exhibition explores the tastes, mores and philosophy of the Rococo period.

"Casanova" begins vividly with

an intimate gallery devoted to Canaletto's crystalline Venetian panoramas of the Grand Canal, the

Rialto Bridge, the Ducal Palace, the bay of San Marco. The canvases share the same palette of rose, turquoise and greenish-cream, yet each conveys unique qualities of twinkling light and water.

Next, we move indoors. Here are lovely interiors by Pietro Longhi and mythological and religious paintings featuring tumbling, bare-breasted nymphs and chubby, nude putti by Giovanni Battista Tiepolo. These hang above flamboyant tables and are flanked by jaunty gilded sconces and luxurious Venetian armchairs. No sooner have we begun, however, than we are thrust into the section "Amorous Pursuits."

Casanova, we learn, was perpetually torn between chivalry and lust." No wonder that the French painters

François Boucher, Jean-Honoré Fragonard and Jean-Baptiste Greuze dominate these galleries. Little is subtle. In Fragonard's "Two Girls Playing on a Bed With Their Dogs" (c. 1770), their nightshirts are provocatively raised. And in his "The Desired Moment" (c. 1770), two women make love as if on a bed of fire. Want more? A sexually explicit side gallery with magnifying glasses displays 12 tiny, erotic watercolor-and-gouache gems by Claude-Louis Desrais, which illustrate in encyclopedic scope various forms of sexual relations.

Following are galleries devoted to Casanova's dalliances with mysticism, numerology and the occult; his visits to Venetian convents (holding pens that were supposed to protect wealthy girls' chastity, but which were actually "sexual playgrounds"); and his imprisonment and escape from the Doge's Palace, fleshed out here with Giovanni Battista Piranesi's fantastical etchings of prisons.



Casanova fled to France, the next focus of the show, whose centerpiece is a large gallery that reunites six monumental mythologies Boucher painted for a Parisian residence in 1769. After encountering the heated, nuanced intimacy of Fragonard, I found Boucher's big pictures of gods and flesh at once overstuffed and rote. And, frankly, by then I felt I had overdosed on nude maidens and pink-cheeked putti. A little Rococo goes a long way. And this sprawling show, which travels on to the Legion of Honor in San Francisco and the Museum of Fine Arts, Boston, also includes sections devoted to London, "The Theater of Identity," "In the Company of Great Minds," "Casanova as Author" and "The Delights of the Table."

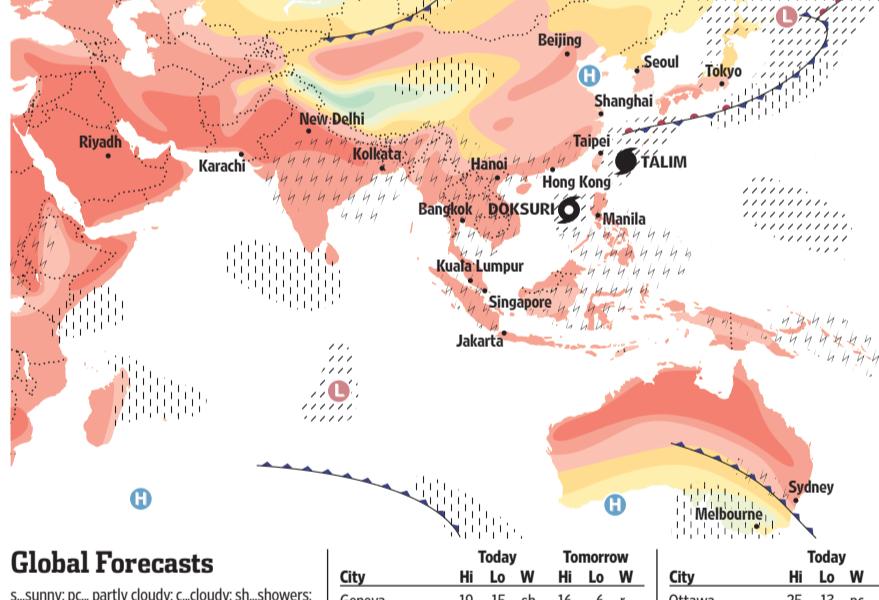
This exhibition was a bit of a gamble for its organizers, all former or current curators at the three museums presenting "Casanova." They include C.D. Dickerson, George T.M. Shackelford, Esther Bell, Virginia Brilliant, Kirk Nickel, Martin Chapman, Frederick Ilchman, Thomas Michie and Pamela Parmal. How do you sell Rococo extravagance to a contemporary audience brought up on the no-frills decor of Ikea and the design minimalism of the smartphone? Why, with sex, of course, but also the cult of the personality: Enter Casanova. This informative, seductive show has it all and then some. Just pace yourself.

#### Casanova: The Seduction of Europe

Kimbell Art Museum, through Dec. 31

Mr. Esplund writes about art for the Journal.

#### Weather



#### Global Forecasts

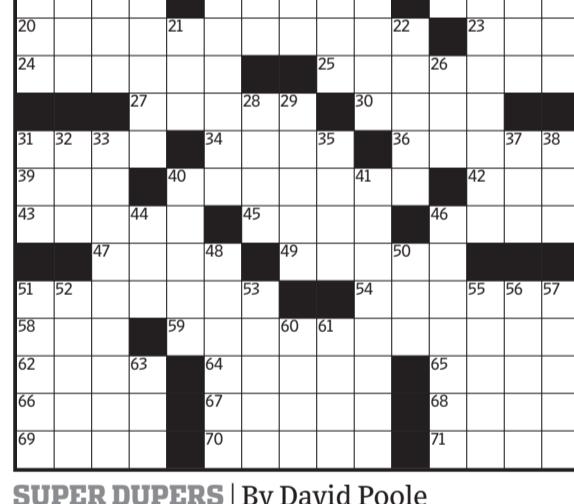
s...sunny; pc...partly cloudy; c...cloudy; sh...showers;

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	17	10	sh	14	10	t
Anchorage	13	10	r	13	10	r
Athens	32	24	s	32	22	s
Atlanta	25	16	pc	27	18	s
Baghdad	46	25	s	43	24	s
Baltimore	26	18	pc	27	18	t
Bangkok	34	26	t	35	26	t
Beijing	30	19	pc	30	20	pc
Berlin	18	11	sh	15	9	sh
Bogota	19	9	r	20	9	r
Boise	30	13	pc	20	7	pc
Boston	27	18	pc	27	19	pc
Brussels	17	10	sh	14	8	s
Buenos Aires	17	9	pc	20	8	s
Cairo	37	24	s	34	23	s
Calgary	11	2	r	8	1	r
Caracas	31	26	pc	32	25	pc
Charlotte	26	17	pc	27	17	pc
Chicago	23	15	pc	26	15	pc
Dallas	33	21	s	36	23	s
Denver	32	15	pc	30	14	pc
Detroit	24	15	sh	23	15	pc
Dubai	40	30	s	41	31	s
Dublin	14	8	t	15	8	p
Edinburgh	13	7	r	14	7	sh
Frankfurt	19	11	sh	15	8	sh

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	19	15	sh	16	6	s
Hanoi	32	25	pc	31	25	t
Havana	31	22	pc	31	23	pc
Hong Kong	33	27	t	33	26	pc
Honolulu	31	23	pc	31	24	pc
Istanbul	29	22	s	28	21	s
Jakarta	33	23	pc	34	25	pc
Johannesburg	28	12	s	30	11	s
Kansas City	29	16	pc	31	18	s
Las Vegas	35	22	pc	32	19	pc
Lima	19	15	pc	19	15	c
London	17	9	pc	17	8	s
Los Angeles	27	18	pc	23	18	pc
Madrid	31	16	s	30	13	pc
Manila	31	26	t	32	26	t
Mexico City	15	6	sh	13	10	sh
Miami	33	26	pc	33	26	t
Milan	24	14	pc	23	10	t
Minneapolis	30	19	s	31	19	pc
Monterrey	37	18	s	37	19	s
Montreal	25	14	pc	25	14	s
Moscow	23	11	t	17	14	pc
Mumbai	33	26	sh	32	27	t
New Delhi	37	27	s	37	26	s
New Orleans	29	20	s	31	23	pc
New York City	27	20	p	26	19	t
Washington, D.C.	27	20	pc	26	19	t
Zurich	18	14	sh	15	5	r

#### The WSJ Daily Crossword | Edited by Mike Shenk



#### SUPER DUPERS | By David Poole

Across	Down
1 Flexible blackjack cards	37 Wood that's resistant to splitting
5 Gala	38 "Dancing With the Stars" judge Goodman
10 Bonkers	40 "My Fair Lady" lady
14 "U'L8R," e.g.	41 Cabinet department that oversees the National Park Service
15 Extra charge	44 McShane of "American Gods"
16 Way off	46 Household hints columnist
17 Lion's place	48 Stonewashed pants
18 Lion's warnings	50 Kitten comment
19 "McMillan & Wife" org.	51 Encouraging cheer
20 Superhero whose power is putting together IKEA furniture?	52 Letter carrier in "Game of Thrones"
21 Pesto herb	53 "Get lost!"
22 Abbr. on a business letter	55 Spur
23 Furious feeling	56 Like Bob Dylan's singing
24 Parlor piece	57 Oft-stolen garden figurine
25 Miniature racer	60 More than dislike
27 Pacifies	61 Top draft classification
30 Spooky-sounding lake	63 "Here's a thought..."

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

Down
1 Bearer of the heavens
2 Stop
3 Live and breathe
4 Pre-race ritual
5 Pressing needs?
6 Revered figure
7 Brisbane greeting
8 Baylor buildings
9 Reduced
10 Cruces, New Mexico
11 Superhero whose power is getting a Microsoft suite to run?

# BUSINESS & FINANCE

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Wednesday, September 13, 2017 | B1

**Yen vs. Dollar** 110.0440 ▲ 0.60%

**Hang Seng** 27972.24 ▲ 0.06%

**Gold** 1326.40 ▼ 0.35%

**WTI crude** 48.41 ▲ 0.71%

**10-Year JGB yield** 0.020%

**10-Year Treasury yield** 2.166%

## States Take Up Investor Defense

Governors, treasurers step in as federal rule on brokers' fiduciary obligations hangs fire

By LISA BEILFUSS

The controversy over a rule restricting conflicted retirement advice is shifting to states, which are moving to bolster investor protections out of concern the Trump administration will weaken the federal provision.

In recent months, the governors of Nevada and Connecticut signed bills to expand or amplify "fiduciary" require-

ments for brokers. Legislators in New York, New Jersey and Massachusetts have introduced similar bills. And several other states, including California, have indicated interest in exploring such requirements.

Unveiled last year, the Labor Department's fiduciary rule requires brokers to act in the best interests of retirement savers rather than sell products that are merely suitable and potentially more lucrative for the brokers. Financial-industry leaders have fought against the Obama-era regulation, saying it would limit investment options, elevate costs and potentially cut

off low-balance customers from some forms of professional advice.

The states' efforts come as the fate of the federal rule, which partially went into effect in June, remains in question. President Donald Trump shortly after taking office ordered the Labor Department to re-evaluate the economic impact of the rule with an eye toward repeal or revision. The states in many cases are looking to go beyond the federal rule, which only governs advice on tax-advantaged retirement savings, and instead require that brokers uphold a fiduciary standard across all accounts.

The piecemeal legislative efforts have galvanized the industry just months after many in it had cheered Mr. Trump's election as a chance to roll back regulations perceived as arduous and costly to comply with. Industry executives and trade groups said they are watching the states' actions and beginning to lobby at the state level to prevent a scenario where state laws mushroom as the federal fiduciary rule dwindles.

"The states are...picking up the pieces," said John Grady, an attorney who also leads the Alternative and Direct Investment Securities Association. "People feel there's a vacuum

they have to fill."

While the industry has decried the federal rule, it has turned out to be a boon for Wall Street as firms push customers into the fiduciary-friendly—and typically more-lucrative—accounts that charge an annual fee. At the same time, the more onerous elements of the regulation, including client disclosures and a contract that would increase litigation risk, have been delayed until July 1, 2019, and are likely to be significantly revised or eliminated.

"We have been concerned that there is momentum under way on the issue" at the state level, said Mr. Grady. "Please see STATES page B2

## SoFi's CEO Is Stepping Down

By PETER RUDEGEAR

Social Finance Inc., one of the most highly valued private financial-technology startups in the U.S., said on Monday night that Chairman and Chief Executive Mike Cagney would step down by the end of the year.

Mr. Cagney said in a note to employees that recent litigation brought against the company and "negative press have become a distraction from the company's core mission." The company said he would remain in the role until SoFi's board chooses a successor, a process that it has already started.

On Sunday, The Wall Street Journal reported that Mr. Cagney had previously been involved in a dispute with a lower-level employee that resulted in a settlement approved by the board.

SoFi said Mr. Cagney was stepping down as chairman effective immediately. Tom Hutton, managing director of an insurance-focused venture-capital firm called XL Innovate, will take over as executive chairman, effective immediately. Steve Freiburg, a SoFi board member and former CEO of E\*Trade Financial Corp., will become vice chairman.

A former derivatives trader and hedge-fund manager, Mr. Cagney co-founded SoFi in 2011 with an eye toward shaking up the student-loan market. Since then, he plotted SoFi on a course to move into more traditional banking businesses, such as mortgages, wealth management, life insurance and smartphone apps for bank accounts.

SoFi has raised nearly \$2 billion in equity and was valued in a fundraising round earlier this year at more than \$4 billion, the Journal has reported. The company has extended more than \$20 billion in loans to more than 350,000 borrowers in its six-year history.

In recent months, however, it has run into workplace and business challenges. Earlier this month, the company launched an outside investigation into claims that current and former employees were sexually harassed at work.

That investigation followed a lawsuit from a former employee who said he was wrongfully terminated after he reported that another manager had made sexual or inappropriate comments about women who worked at SoFi.

The San Francisco-based company has also missed targets for its new initiatives in wealth-management and international expansion.

## INSIDE



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EQUIFAX PUSHED TO EASE RULES

FINANCE & MARKETS, B5

## STREETWISE

By James Mackintosh

## Amazon's New Digs Should Be Warning



The list of warning signals for shareholders includes diversification into new industries, changes of business model, large-scale hiring programs, unfettered CEO power, distractred management and high capital spending. But at the top of the list for many is the construction of a new headquarters. Hubris, meet [Amazon.com](#).

Amazon has achieved extraordinary feats, most notably in speed of expansion. It hired more than 30,000 people in the latest quarter alone, and in the past three years has tripled its head count to 382,400.

It appears to have managed this without a hitch, even as it spent billions of dollars on Hollywood productions, launched a hit gadget and ramped up its spending on research and development.

Investors are betting that CEO Jeff Bezos will keep his magic touch and that money plowed into expansion today represents big profits in the future.

History and human nature are against Mr. Bezos.

The lesson from the long term is that companies with high capital spending tend to underperform. Kenneth French, a professor at the Tuck School of Business at Dartmouth College, calculates that shares of the 30% of U.S. companies with the lowest investment returned six times as much as those with the highest investment since 1963.

Human nature provides a story to back up the findings. CEOs like to expand, chase new ideas and like to do what shareholders want. The three come together when a company or sector

Please see STREET page B2

## Ferrari Still Wants to 'Win on Sunday, Sell on Monday'



IN RACE FOR SALES: Ferrari driver Sebastian Vettel during a pit stop at a Formula One race in Monza, Italy, earlier this month. B2

## INDUSTRY FOCUS

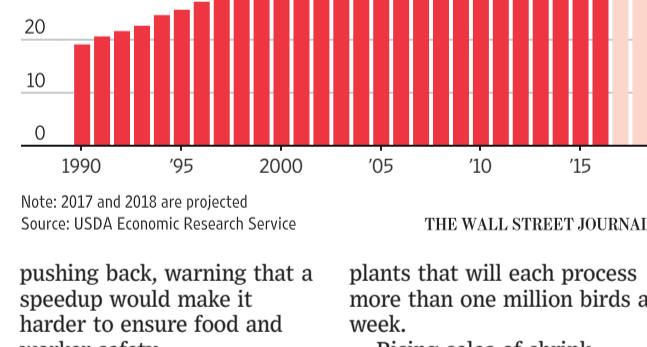
## Chicken Processors Seek Speedup

By JACOB BUNGE

### Poultry Push

Companies have been stepping up their chicken production, but say restrictions make it hard to meet demand. U.S. broiler chicken output:

50 billion pounds of ready-to-cook chicken



Note: 2017 and 2018 are projected  
Source: USDA Economic Research Service

pushing back, warning that a speedup would make it harder to ensure food and worker safety.

The petition comes as companies, including [Tyson Foods](#) Inc. and [Sanderson Farms](#) Inc., are planning new

record 91.3 pounds this year, with the U.S. meat industry expected to process 41 billion pounds of poultry meat.

"This change will not affect food safety—if anything, it will enhance it," wrote Michael Brown, the National Chicken Council's president. He suggested that poultry plants could hire more workers, automate more tasks and change plant layouts to ensure employees' safety. USDA officials said they are considering the petition.

Consumer groups and meat-worker unions warn that moving carcasses more rapidly through processing lines will add risk to jobs already prone to cuts, infection and repetitive-motion injuries.

Meat-worker injury and illness rates run about 64% above the national average, according to the Bureau of Labor Statistics, outpacing

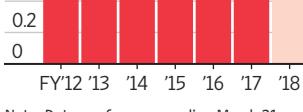
Please see MEAT page B2

## Buyer of Sony Battery Business Sets Sights High

### Powering Up

The spread of smartphones has helped boost revenue for Murata Manufacturing.

\$1.4 trillion



Note: Data are for years ending March 31; 2018 figure is a forecast.

\$1 trillion = \$9.14 billion

Source: The company

THE WALL STREET JOURNAL

tomer," a phrase often used by Japanese suppliers in the sector when referring to Apple.

Tiny parts from Murata that control electricity flow, among other functions, are already found in most smartphones, including Apple's. In its annual supplier report, the iPhone maker lists 24 Murata factories, including 14 in Japan.

Murata Manufacturing Co. on Sept. 1 completed its roughly \$160 million acquisition of Sony Corp.'s battery division, which introduced the first commercial lithium-ion battery a quarter-century ago. The parts maker's president, Tsuneo Murata, said he plans to boost capacity in hopes of luring "a North American cus-

Murata has said it will spend more than ¥50 billion (\$457 million) over the next few years to beef up the newly acquired battery unit, with about half of the sum going toward increasing production capacity for batteries used in smartphones and tablets.

Batteries can make or break a smartphone based on safety and their ability to pack a lot of charging power in a small space. Samsung had to pull its Galaxy Note 7 smartphone last year after consumer complaints that the phones caught fire.

The former Sony unit now owned by Murata is known for using a gel instead of a liquid

in the part of the battery where charged particles flow. Mr. Murata said the battery drew greater interest from smartphone makers after the Samsung incidents because the gel is viewed as safer, although it tends to reduce charging speed.

The industry is paying more attention to the safety aspect of the battery instead of focusing on storing more energy in the same space," said Mr. Murata, the 66-year-old son of the company's founder.

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◆ Heard: How the iPhone will affect parts makers..... B10

By TAKASHI MOCHIZUKI

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## BUSINESS & FINANCE

# Ferrari Bets Racing Leads to Sales

BY ERIC SYLVERS

MILAN—In the world of elite sports car manufacturing, it is an article of faith that victory on the racetrack translates into sales in the showroom. "Win on Sunday, sell on Monday," goes the old saw.

So for Italian sports car maker Ferrari NV, the end of a decadeslong losing streak on Formula One racetracks is a great relief, more so as it comes just when the company—the biggest spender on Formula One racing—is stretching its brand by removing a longstanding ceiling on the number of cars it sells and expanding into other products.

All that provides a backdrop for Tuesday's unveiling of the Portofino model at Germany's Frankfurt auto show. Like its predecessors, Ferrari's newest road car will benefit from technology developed for the

racetrack.

That technology, which includes new metal alloys for the frame, engine and bodies, and steering wheels decked out with all the controls including the gear shifter, trickles down from the handful of race cars made annually to limited-edition road models costing more than \$1 million. It then makes its way into higher-volume Ferraris like the Portofino, which is expected to start at about \$225,000.

After failing to win a Formula One racing title for almost a decade and closing out the 2016 season without a single victory, Ferrari's Sebastian Vettel has won four of this year's 13 races and is close on the tail of Mercedes' Lewis Hamilton with seven races to go, including the U.S. Grand Prix on Oct. 22 in Austin.

Ferrari is expected to battle Mercedes for the win in the

next Formula One stop in Singapore this weekend.

"Ferrari Chief Executive Sergio Marchionne, who also is CEO of Fiat Chrysler Automobiles NV, has called winning in Formula One 'non-negotiable,' reflecting the belief that victory on the racetrack is critical in luring weekend enthusiasts to shell out huge amounts for the road cars."

Ferrari's financial success over the past 15 years has "been achieved on the back of Formula One," the CEO said in March, though he added that the company couldn't afford many more losing seasons without suffering financially.

But there is little empirical evidence that winning races translates into increased sales. AllianceBernstein, a wealth manager, argues Ferrari doesn't need Formula One.

"There can't be a soul on earth who doesn't know that

Ferrari makes fast red cars, with excellent technology and that it has a motor sport heritage," AllianceBernstein wrote in a report last month, adding that Lamborghini, Porsche and other high-end brands have no trouble selling cars despite being absent from Formula One for many years.

Mr. Marchionne, who personally owns more than 10 Ferraris and follows most races from inside the paddock, berates his team when it loses. The CEO's impatience with losing stems in part from the huge investment Ferrari is believed to sink into Formula One racing each year, which some outsiders estimate at hundreds of millions of dollars.

Defying hopes that after its 2015 stock market listing Ferrari would begin disclosing how much it spends, and loses, on racing, the company still reveals virtually nothing.

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## STATES

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level, said a spokesman for the American Council of Life Insurers, an industry group that has opposed the federal rule. Some executives and trade groups said state efforts make it more critical that the Securities and Exchange Commission step in to write its own rule that would supersede the Labor Department's and require a fiduciary standard on both retirement and nonretirement accounts.

SEC Chairman Jay Clayton has expressed interest in such a standard. In June, the SEC said it would consider strengthening rules on how brokers advise individual investors, seeking public feedback on its plans. The SEC didn't respond to a request for comment.

Meanwhile, many states remain steadfast in wanting to preserve the goals of the fiduciary rule. A bipartisan group of 13 state treasurers, in a letter to Labor Secretary Alexander Acosta dated June 7, said:

"We are committed to protecting the financial interests of our constituents—in particular, ensuring that retirement planning and investment advice is not conflicted." The treasurers, including those from Pennsylvania, Oregon and Iowa, asked Mr. Acosta to preserve the "common-sense measure."

States' efforts may have taken on new urgency in recent weeks after Mr. Acosta moved to delay the rule's final compliance deadline by 18 months, a signal that the rule's re-evaluation will result in changes. As well, the Labor Department recently suggested it intends to eliminate the rule's main enforcement mechanism, a provision that allows investors to bring class action suits against advisers they say violated their fiduciary duty.

"This is a mobilization based on concerns that the DOL rule may be unhelpful," said Erin Sweeney, an attorney at Miller & Chevalier Char-

tered who counsels firms on fiduciary obligations.

Nevada is emerging as a test case, observers said, because its rule could expand the reach of fiduciary obligations to all investment assets and not just tax-advantaged retirement assets. The state's securities regulator is writing the regulation and details aren't yet clear.

Experts say states' actions could face legal challenges. The National Securities Markets Improvement Act of 1996 limits what states can do on their own and aims to prevent patchwork regulation. Potentially inconsistent state regulations could raise compliance costs more than a single federal rule would have, experts said, with consulting firm AT Kearney estimating that the federal rule would result in as much as \$20 billion in lost industry revenue through 2020.

"This could become a bit like Frankenstein," said George Gerstein, an attorney at Stradley Ronon Stevens & Young LLP who represents financial-services firms. "If states go their own way on this, it could become a nightmare."

New York state Assemblyman Jeffrey Dinowitz, a Democrat, said he began working on a fiduciary bill several years ago and dropped the effort after the Obama administration took it on to protect the \$17 billion it said consumers lose annually to conflicted advice. "But under the Trump administration, the regulation that would have been in effect this year isn't," he said, referring to the delay in the final compliance deadline. "We're back to square one."

Mr. Dinowitz reintroduced a fiduciary bill on Jan. 20.

Meanwhile, industry executives are watching California, where a Senate resolution introduced in June "has telegraphed to [regulators] that they shouldn't tinker too much with the DOL rule," Mr. Gerstein said.

California's securities regulator said it is separately watching what happens in Washington and could act independently of the state's legislature.

## MEAT

*Continued from the prior page*

profitably and saving money for the USDA's meat inspection division. Overall, the industry's illness and injury rate has fallen 81% from 1994 to 2015, and many sped-up functions would be performed by machines, the National Chicken Council said in its petition to the USDA.

The Washington-based trade group said boosting processing plant speeds aligns with President Donald Trump's regulatory overhaul agenda and his goal of expanding domestic manufacturing.

Meat-industry officials argue that poultry plants already running at the higher speeds—under a pilot program that started in 1999—have shown fewer instances of carcass contamination, while helping plants run more

port sales.

The USDA in 2014 revamped its process for inspecting U.S. poultry plants, aiming to ensure the safety of about nine billion chickens processed for food annually.

That plan entailed new steps for processors to prevent contamination, requiring companies to test products multiple times—though it drew criticism for pulling some USDA inspectors away from directly supervising processing lines. While an initial proposal would have allowed faster processing lines, the agency stuck with the 140-bird cap after public pushback.

Last June, the USDA submitted for internal review what is anticipated to be a similar revamp to pork-plant oversight. Pork-industry offi-

cials expect updated rules to allow pork plants to operate at faster speeds—as much as 1,300 hogs per hour, versus about 1,100 currently—that have already been tested at some U.S. plants.

Daniel Kovich, deputy director of science and technology for the National Pork Producers Council, said the meat industry wouldn't speed up plants without first taking steps to ensure food and worker safety, and animal-welfare laws would still apply.

Union officials, academics and some USDA inspectors plan to oppose potential speed increases. "No one benefits but industry," said Stan Painter, a USDA meat inspector for more than 30 years and chairman of a food-inspectors' union.

## STREET

*Continued from the prior page*

### Investment Trumps Hunt for Yield

Shares in companies spending a lot on capital projects and R&D have been rising faster recently than those with fat dividends and share buybacks.

Total return since 2014\*



THE WALL STREET JOURNAL.

Goldman Sachs's chief U.S. equity strategist David Kotzin suggests shareholders have shifted again in the past 18 months, rewarding capital spending with bigger share-price gains than for dividends and share buybacks. If it continues, CEOs will respond and corporate investment will pick up.

Amazon shareholders might argue that the company won't fall victim to misplaced capital spending because it is exploiting disruptive technology, investing in growth and spending heavily on R&D.

If the past is any indication, these offer only a glimmer of hope. History offers plenty of examples of disruptive technologies

leading to investment booms, but those caught up in the spending spree usually lose out horribly. The British "railway mania" of the 1840s is a classic example: Money poured in from excited shareholders, railroad companies found ways to spend it and were rewarded with ever-higher share prices, until investors discovered just how much of the capital had been wasted. The winners were the broader economy and those who entered early or sold out in time. But much capital had to be written down as profits were competed away or overestimated.

Investing in growth is more plausible. Academics have shown that higher R&D spending

well be underestimating future products, but might equally be extrapolating the past successes of the web-hosting division or the voice-controlled Echo device to unknown future products.

Amazon expects to hire another 50,000 staff earning on average above \$100,000 a year at its second HQ over a decade and a half, adding \$5 billion a year of pay to the more than \$5 billion capital cost of "HQ2."

Amazon shareholders betting on it bucking history have to hope that by the time HQ2 is completed, the company has both grown enough to justify its vast scale and found a way to profit from all of its capital and R&D spending.



Labor Secretary Alexander Acosta has moved to delay the deadline for full compliance with the fiduciary rule by 18 months.

## TECHNOLOGY

**WSJ.com/Tech**

# Owner Sizes Up Vivint For IPO

By DANA MATTIOLI

**Blackstone Group LP** is preparing for an initial public offering or sale of smart-home technology company **Vivint**.

Blackstone recently invited investment banks to pitch for a dual-track process that could lead to an IPO or sale of Vivint, people familiar with the matter said. A deal could value Vivint at more than \$3 billion, or \$6 billion including debt, some of them said. The latter would be about three times what Blackstone paid for the company five years ago.

Vivint sells smart locks, security cameras, burglar-detection systems and other such items and services. Demand for connected homes, cars and other gadgets is rising as the functionality of hand-held devices improves and consumers spend more time on them.

Last year, **Qualcomm Inc.** agreed to buy rival **NXP Semiconductors NV** for about \$40 billion, a deal that would give the tech company more exposure to the automotive industry, a major area of growth for chip and software providers.

Home security has been a lucrative niche for private-equity firms lately.

**Apollo Global Management LLC** last year bought Vivint competitor **ADT Corp.** in a nearly \$7 billion deal, and is already preparing an IPO that could value the company at well over \$15 billion, including debt, *The Wall Street Journal* has reported.

Two years after it bought Vivint in 2012, Blackstone took sister company **Vivint Solar** public.

Last year, the maker of solar panels terminated a planned merger with **SunEdison Inc.** after SunEdison's board began investigating claims from both a former and a current employee challenging the accuracy of SunEdison's financial disclosures.

Private-equity firms often run a dual-track process when they are ready to exit an investment, in part because it can give them more leverage with potential acquirers. Their preference is usually to sell the entire company, if they can get the right price, an outcome that might be more desirable now given recent volatility in the IPO market.



Commuters with their phones in New York. Aggressive marketing has changed the U.S. wireless industry, which had gone through a period of consolidation.

## U.S. Wireless Competition Revives

Federal agency labels sector as competitive for first time since 2009, as prices fall

By RYAN KNUTSON

Competition has officially returned to the U.S. wireless sector.

For the first time since 2009, the Federal Communications Commission has concluded there is "effective competition" in the wireless market.

The U.S. agency is required by law to conduct an economic analysis of the sector. Starting

in 2010, after years of major consolidation among wireless carriers, the FCC declined to say whether it believed the industry was competitive.

While the FCC had stopped short of declaring the industry noncompetitive, many industry observers still took it to mean the agency thought the nation's largest carriers, **AT&T Inc.** and **Verizon Communications Inc.**, were too powerful.

In 2011, the government blocked AT&T's attempted buyout of **T-Mobile US Inc.**. Since then, T-Mobile and **Sprint Corp.** have been resurgent, stealing subscribers and transforming the industry by

doing away with two-year contracts and bringing back unlimited data plans. AT&T and Verizon have lost customers and wireless prices have fallen by the largest margins on record, according to government data.

The FCC's finding, which comes days before carriers are expected to duke it out with promotions for **Apple Inc.**'s latest iPhone, could have antitrust implications.

If the wireless market is competitive, regulators might believe competition could withstand another large merger. The nation's smaller competitors, Sprint and T-Mobile, have been in talks about combining, peo-

ple familiar with the matter have said.

"A finding of effective competition certainly helps rhetorically for those trying to consolidate or trying to deregulate," Harold Feld, a senior vice president at Public Knowledge, a consumer group.

But the increased competition could also work against a deal's chances. If prices are falling for consumers while network quality is increasing, then that might be a dynamic the FCC doesn't want to upset. The FCC reviews telecom mergers along with the Justice Department.

Mr. Feld says T-Mobile has forced big competitors to drop

data caps and offer unlimited data plans, but "it is not clear that prices have been dropping for lower cost plans that low-income people are dependent upon."

The FCC acknowledges in its 121-page analysis that the "effective competition" determination is subjective and "there is no single definition of effective competition that is generally accepted by economists or competition policy authorities."

FCC commissioners must vote on the report before it becomes final. That vote is scheduled for Sept. 26.

—John D. McKinnon contributed to this article.

## AT&T to Give Free HBO to More Cell Users

By DREW FITZGERALD

**AT&T Inc.** said it would offer free **HBO** service to more of its wireless subscribers, as video-streaming giveaways become the latest front in the fight for cellular customers.

On Tuesday, the cellphone giant said customers on its midmarket Unlimited Choice wireless plans will get HBO free starting Friday. The company has offered free HBO to

dall Stephenson said at an industry conference, adding that any plan that keeps communications customers from leaving makes the overall business more profitable.

Rival **T-Mobile US Inc.** recently said it would provide free **Netflix Inc.** accounts to subscribers on its unlimited family data plans.

AT&T is promoting HBO content even as it awaits regulatory approval for its proposed takeover of **Time Warner Inc.**, which owns HBO as well as CNN, sports-heavy Turner channels and movies from the Warner Bros. studio.

Mr. Stephenson said AT&T will run Time Warner's media business as a "self contained" unit insulated from the needs of its new corporate parent.

*AT&T earlier this year offered the deal for more expensive wireless plans.*

Goldman Sachs conference in New York.

Still, the AT&T chief executive said he expects the deal to yield a meaningful amount of new revenue from advertising. The merged businesses should also be able to cut costs by combining information-technology operations and using data on viewing habits to choose what shows and movies to invest in next, he added.

AT&T's takeover of Time Warner, valued at \$85 billion when it was launched last year, still needs approval from the U.S. Justice Department and regulators in Brazil. Mr.

Stephenson said the company has so far run into no surprises and still expects the transaction to close by the end of this year.

Mr. Stephenson also said he expects the company to be "well down the path" of building a new advertising platform in the coming months. AT&T has said it can earn several times above going rates by selling video ads tailored to specific groups of customers based on demographic information and what they watch.

"We have placed a high value on this data," Mr. Stephenson said.

## Tesla's Autopilot Is Faulted in Crash

By MIKE SPECTOR

U.S. officials said **Tesla Inc.**'s Autopilot feature contributed to a fatal crash, finding the Silicon Valley company's semiautonomous technology allowed a driver to go long periods without his hands on the wheel and to ignore the company's warnings.

The U.S. National Transportation Safety Board's judgment was rendered at a Tuesday meeting in Washington regarding the probable cause of a collision that killed the driver of a Tesla electric car last year. It represented the first official finding that the auto maker shoulders some responsibility in the crash.

Officials found Autopilot could be used on roads for which it wasn't designed, and that a hands-on-the-wheel detection system was a poor substitute for measuring driver alertness. The safety board also found the driver, 40-year-old Joshua Brown, relied too heavily on the technology and didn't understand its limitations, and that Tesla could have done more to prevent Autopilot from being misused.

The driver of an 18-wheel truck that pulled in front of Mr. Brown should have been able to see the Tesla car and didn't "give an adequate safety margin before starting the turn," the safety board found. Mr. Brown also should have been able to see the truck before colliding with it, the agency found.

In the end, the safety board determined the probable cause of the May 2016 crash was shared by the truck driver, Mr. Brown and Autopilot. The findings won't result in any penalties or other immediate consequences.

The safety board approved a series of recommendations, including for auto makers to prevent systems from being used in situations for which they aren't designed.

Separately, the Trump administration on Tuesday was set to introduce new voluntary guidelines for autonomous vehicles in a bid to increase flexibility for car and tech companies and speed the industry's development in the U.S.

A Tesla spokeswoman had no immediate comment on the NTSB judgment. Owners' manuals describe Autopilot as a collection of "driver assistance features" and note that motorists are responsible for staying alert, maintaining control of the vehicle and driving safely.

Still, Tesla's system allowed Mr. Brown to "use the system outside of the environment for which it was designed, and ... gave far too much leeway to the driver to divert his attention to something other than driving," said NTSB Chairman Robert Sumwalt.

Tesla updated Autopilot in September 2016 with enhanced radar that Chief Executive Elon Musk has suggested likely would have prevented the crash.



## Microsoft Executive Joins Rival

By LIZA LIN

SHANGHAI—In a blow to **Microsoft Corp.**, a top cloud-computing executive in China has been hired by **JD.com Inc.**, the Chinese e-commerce company that is ramping up its cloud-services business.

Samuel Shen, a Microsoft veteran of 24 years and the former general manager of its cloud and enterprise business in China, took the job as president of JD.com's cloud unit, the Beijing-based company said in a statement Tuesday.

Cloud platforms, which provide data storage, computing and networking resources over the internet, reduce the need for on-site servers. Foreign companies such as Microsoft and **Amazon.com Inc.** provide services in China through joint ventures with local partners.

China's market for cloud infrastructure as a service rose 68% to \$1.47 billion in 2016, according to industry researcher International Data Corp.

Mr. Shen has led Microsoft's China cloud service, known as Azure, since 2015. He was also chief operating officer at Microsoft's Asia-Pacific Research and Development Group, where he led Microsoft's development strategy in big data and the so-called Internet of Things.

Microsoft didn't immediately respond to a request for comment.

## BATTERY

Continued from page B1

In its push to win more Apple business, Murata faces competition from Amperex Technology Ltd., a Hong Kong-based unit of Japan's TDK Corp., as well as South Korea's LG Chem Ltd. Current iPhones, including those released Tuesday, use batteries from those two companies, people familiar with the supply chain said.

When it was part of Sony, the Murata battery unit occasionally supplied Apple for the iPhone but never became a major supplier, engineers at the unit said.

"When at Sony, the unit wasn't able to do business it

could have done because of the capacity issue," Mr. Murata said. "We won't hesitate in making such investments."

Samsung had been using TDK batteries for some of its products, including the Galaxy Note 7, but switched to those made by the former Sony unit after last year's recall, said people familiar with the supply chain. Samsung said in January that the fire problem was caused by the battery pack and that no issues were found with the handset and its software. A TDK spokesman said the company can't comment on issues related to its customers.

Mr. Murata said capacity would start rising next year and he was willing to accelerate the \$457 million in-

vestment plan depending on market conditions. "Customers are demanding that we boost supply as soon as possible," he said.

The company has plenty of financial muscle: With annual sales of more than \$10 billion, Murata sports a market capitalization of about \$34 billion.

Still, Mr. Murata expressed caution about relying too heavily on smartphones. The company wants to reach new customers such as the makers of connected cars and power tools, he said. The company also says its batteries and systems could help homeowners store and use electricity generated by rooftop solar panels.

## MANAGEMENT

### WORKAROUNDS

#### Optimistic Gen Z Is On the Job Now

As the postmillennial smartphone generation begins joining the workforce, bosses would be wise to prepare for young technophiles with an inclusive view of the workplace and a hunger for employers whose values reflect their own.

That is according to a new survey conducted in July by EY at the International Intern Leadership Conference, the business consultancy's annual gathering of interns. The survey of 1,600 Generation Z respondents, born in the mid-1990s or later, aimed to gauge the group's perspective on the future of work, said Larry Nash, the company's U.S. recruiting leader.

The survey's findings suggest the cohort places a priority on "building something better and leaving something better for future generations," Mr. Nash said. "They want to have a purpose in their work."

Gen Z's optimism has been reflected in other surveys. This year Goldman Sachs Group Inc. surveyed 1,700 of its summer interns and found the vast majority planned to get married or form domestic partnerships and have children. Some 83% also expected to buy a house by the time they were 40 and 63% planned to buy a car by age 30.

*The cohort born in the mid-1990s thinks AI and robotics will enhance their work.*

The consulting firm BridgeWorks estimates that Gen Z accounts for 61 million people in the U.S.

Mr. Nash said managers intent on attracting and retaining these young workers should find ways to take advantage of their talents and understand their career values.

Generation Z's inclusiveness is an asset employers can leverage, Mr. Nash said. More than three-quarters of those surveyed said their ability to work well with people from different backgrounds and cultures set them apart from older workers.

These young workers seek out employers with similar values and opportunities to make a difference in their work, Mr. Nash said.

Mr. Nash suggested providing these young workers with the opportunity to give back to their communities and use their skills in a philanthropic way. Some 27% of respondents assigned priority to devoting time to their communities when looking for an employer, according to the survey.

An affinity for technology is another Generation Z trait. In contrast to fear among older workers that automation will cost them their jobs, Gen Z is excited about artificial intelligence and robotics, with three-quarters of respondents saying they expect new technology to spur an evolution of human work. Two-thirds think it will increase their productivity, and more than half think it will allow them to focus on more-valuable work. "This is a generation that grew up being comfortable with technology right away," Mr. Nash said. —Francesca Fontana

# VW Chief Contends With Scandal

Matthias Müller says he is pushing for accelerated change at auto maker

By WILLIAM BOSTON

WOLFSBURG, Germany—Almost two years after U.S. authorities said Volkswagen AG had been cheating for a decade on emissions tests, Chief Executive Matthias Müller urges workers at a town-hall meeting to be ready for rapid shifts in the auto industry.

"But how can you make sure that the leading executives change?" asks one of the 300-odd employees attending the event.

"You're asking the hardest question," Mr. Müller responds.

Since becoming CEO in September 2015, the former Porsche boss estimates he has spent as much time managing the emissions-cheating crisis as managing the business.

In the U.S. alone, the affair has cost the company nearly \$25 billion in fines, penalties and compensation, and litigation in other countries is expected to drag on for a decade.

The company pleaded guilty to criminal charges in the matter, and two Volkswagen employees in the U.S. have pleaded guilty to conspiracy to defraud the U.S. government and to violate U.S. environmental law.

One has been sentenced to just over three years in prison, and another awaits sentencing.

In an interview, Mr. Müller, 64 years old, talked

about managing the emissions crisis, new competition, and shifting political winds.

Edited excerpts:

**The Wall Street Journal:** It's been two years since the allegations were made public. How would you grade VW's progress so far?

**Mr. Müller:** There is still litigation that hasn't been resolved yet. We've reached agreements with the U.S. We have agreements with England, South Korea, the Germans and Europeans. Overall, I think we managed the process well.

**WSJ:** When it comes to changing VW's corporate culture, how far have you come?

**Mr. Müller:** That's very hard to quantify. We now have board responsibility for legal [compliance] and integrity. We've changed a lot of processes, not just technical but also organizational. I'd like to see an acceleration of the pace of change because such a large organization is sluggish.

**WSJ:** Before the scandal, your name was discussed for the CEO's job. What was your thought process as you were asked to leave Porsche and take up the reins at VW during the company's worst crisis?

**Mr. Müller:** The whole thing happened within 48 hours. But what do you do? You have to decide, and the choice was to remain in my comfort zone at Porsche and enjoy the next five years or try to help this company.

**WSJ:** How do you ensure



ALEXA VACHON FOR THE WALL STREET JOURNAL

**WSJ:** Given how many people were involved in the conspiracy, how have you come to a place where you can trust your executives and employees?

**Mr. Müller:** We could do a better job, but there is really only one answer: We have to engage people more in dialogue. We've made changes. If there is a new board-level position, for example, now there is a compliance check.

This way we can be sure that a candidate is above all suspicion.

**WSJ:** You are a consummate insider, but your job requires that you approach VW as an outsider. How do you do that?

**Mr. Müller:** I'd like to presume that I am a person of integrity. [From my time at] Porsche, I know the company very well. On the other hand, I have enough distance to resolve problems objectively. Revolution carries the big risk that the company goes to the dogs. Evolutionary change may take longer, but the risk of failure is smaller.

**WSJ:** How do you ensure

that your 150 or so top-level executives aren't constantly suspected of wrongdoing?

**Mr. Müller:** This atmosphere of suspicion is something we are going to have to live with for a while. As long as these [investigations] haven't been cleared up, then there is a kind of blanket suspicion, and the public thinks the entire company is criminal.

The company is not criminal as a whole. Parts of the company engaged in criminal behavior.

**WSJ:** Volkswagen is now taking on tech giants. Why does a global auto maker have to run ride-hailing or car-sharing businesses?

**Mr. Müller:** We offer these services to avoid the risk of becoming a Tier 1 supplier for Google and Uber and others. The demand for mobility is changing; many people don't want to buy their own car. We still want them to come to us. If we lose the contact to the customer, that would be the beginning of the end.

**WSJ:** With Brexit and

"America first," is globalization at risk?

**Mr. Müller:** The prosperity that we enjoy, at least in the developed countries, is a result of globalization. The challenge is to ensure that the less-developed countries also benefit.

Going backward into isolation, which is the intention of Brexit, is certainly the wrong way to go.

**WSJ:** Fast forward to the end of your contract in 2020. If you were to leave then, what's the state of the company your successor would inherit?

**Mr. Müller:** It should be a company that has largely dealt with the diesel crisis.

[The scandal involved evasion of emissions requirements for diesel-powered vehicles.] There will still be litigation; that will probably take 10 years or so. The operating issues should be dealt with.

It should be a very successful company in a position to secure its core workforce and play a leading role in the new mobility field.

## BUSINESS WATCH

### ONCE UPON A FARM

#### Investor Named To Lead Startup

The former chief executive of organic food brand Annie's Homegrown is heading into the crowded baby-food business.

John Foraker is taking on the top role at a two-year-old startup, Once Upon a Farm, which is collaborating with actress Jennifer Garner to help market the brand.

Baby food has become boring, Mr. Foraker said, because conventional brands are struggling with a lack of innovation.

Baby-food sales, by volume, have declined an average of 4% a year for the past four years, according to market-research firm Nielsen. Brands, especially the longtime industry leader Gerber, which is owned by Nestlé SA, have lost market share to new ones with organic ingredients that are sold in the increasingly popular pouches.



John Foraker and Jennifer Garner have stakes in the company.

Mr. Foraker, who left Annie's last month, a few years after selling the company to packaged-food giant General Mills Inc., is an investor in Once Upon a Farm, along with Ms. Garner. He plans to expand the company's refrigerated, organic baby food to more stores and add products.

The company, founded by Cassandra Curtis and Ari Raz, has less than \$1 million in annual sales so far and is going up against Gerber and other big brands like Campbell Soup Co.'s Plum Organics and Beech-Nut baby food, as well as many other startups.

—Annie Gasperro

### COMSCORE

#### Board Resignations Prompt a Review

ComScore Inc. said Monday that most of its board members will resign and it would complete a review of the business amid pressure from shareholders over the media-analytics company's management and lack of transparency on finances.

ComScore, which has been dogged by accounting problems that led to it being delisted from the Nasdaq Composite Index in May, named a new finance chief Monday, but it also delayed the time frame on getting current on overdue financial disclosures because of the task's complexity.

Earlier this year, comScore said it expected to be done with revisions to financial statements and releasing new statements this summer. With autumn approaching, the company that measures audience and advertising reach, now expects to be up-

to-date on its filings, at the earliest, by March 2018.

—Ezequiel Minaya

### YELP

#### Reviews Firm Says Google Broke Word

Online-reviews firm Yelp Inc. alleged that Google is breaking a promise it made as part of a 2012 regulatory settlement to not scrape content from certain third-party sites including Yelp, escalating its yearslong battle against the search giant.

Yelp said in a letter late Sunday to Federal Trade Commission Chairwoman Maureen Ohlhausen that Google is using Yelp photos for local-business listings in its search results, despite

Yelp's formal request that Google not pull such content from its site. Google, the core unit of Alphabet Inc., didn't respond to a request for comment. The FTC declined to comment.

—Jack Nicas

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## FINANCE & MARKETS

# Equifax Lobbied to Ease Rules

Company had pressed Congress to limit credit-reporting firms' legal liability

BY MICHAEL RAPORT  
AND ANNAMARIA ANDRIOTIS

Equifax Inc. was lobbying lawmakers and federal regulators to ease up on regulation of credit-reporting companies in the months before its gigantic data breach.

Equifax spent at least \$500,000 on lobbying Congress and federal regulators in the first half of 2017, according to its congressional lobbying-disclosure reports. Among the issues on which it lobbied was limiting the legal liability of credit-reporting companies.

That issue is the subject of a bill that a panel of the House Financial Services Committee, which oversees the industry, discussed the same day Equifax disclosed the cyberattack that exposed personal financial data of as many as 143 million Americans.

Equifax has also lobbied Congress and regulatory agencies on issues around "data security and breach notification" and "cybersecurity threat information sharing," according to its lobbying disclosures.

The amount Equifax spent in the first half of this year appears to be in line with its previous spending.

Equifax's credit-reporting peers, TransUnion and Exper-



Equifax spent at least \$500,000 lobbying Congress and federal regulators in the first half of 2017.

rian PLC, spent at least \$128,000 and \$690,000, respectively on lobbying in the year's first half, disclosure records show. They were lobbying on similar issues as Equifax, including liability.

In a statement Monday night, Equifax said it "works closely" with lawmakers and regulators "to ensure that we are communicating the benefits of credit reporting to the U.S. economy, as well as the effects of certain legislation on the financial system."

The size of the hack at Equifax is second only to the breach of user information disclosed last year by Yahoo Inc. But the Equifax attack is potentially more damaging given

the gatekeeper role it and other credit-reporting companies play in how U.S. consumers receive loans.

The Equifax data breach revealed a slew of personal information—names, addresses, dates of birth, Social Security numbers and in some cases driver's license information—in one swoop.

"This one is a different animal in the sense of the nature of the information that was breached," Capital One Financial Corp. Chief Executive Richard Fairbank said at a financial-services industry conference on Monday.

John Gamble, Equifax's finance chief, was scheduled to speak at the same conference,

but canceled.

He and Equifax chief Richard Smith have spoken in recent days, though, with some analysts and investors, according to people familiar with the matter. In those conversations, the executives said the database that was hacked had retained consumer information going back five to 10 years, the people said.

That, the executives said, was part of the reason so many people were affected. They added that a portion of the affected database included people who had contacted the firm to dispute information in their credit reports, the people familiar with the matter said.

Messrs. Smith and Gamble

also said the hacked database was separate from the credit reports that Equifax sells to consumers and lenders, the people said.

The executives said the company waited more than a month to announce the breach in part because of the need to set up a website for affected consumers and decide on services for them, according to a person familiar with the matter.

Equifax has faced widespread criticism following its disclosure of the hack, both for the breach itself and for perceived flaws in its actions beforehand and response afterward.

Several regulatory agencies have said that they will investigate, and two congressional committees, including the Financial Services Committee, said they would hold hearings.

Equifax's political-action committee made contributions to 13 members of the Financial Services Committee during the 2016 election cycle, according to data from the Center for Responsive Politics.

Among the recipients was Committee Chairman Rep. Jeb Hensarling (R., Texas), who received \$1,000. Last Friday, he called for the Financial Services Committee's hearing into the breach.

Equifax said its political-action committee contributions are in accordance with federal laws and regulations.

Staff for Rep. Hensarling couldn't be reached for comment.

## Ponzi Leaders Get Life Sentences In China

BEIJING—A Beijing court has sentenced two men who led a massive Chinese online-lending scam to life imprisonment, as the government seeks to contain rising risks from a loosely regulated financial segment.

Ding Ning, chairman of Anhui Yucheng Holdings Group, and his brother, Ding Dian, were sentenced Tuesday to life in prison and fined a combined 170 million yuan (\$26 million) for crimes including illegal fundraising, according to the official Xinhua News Agency.

The authorities early last year accused online-financing platform Ezubo, launched by Yucheng in 2014, of bilking investors of more than 50 billion yuan through a Ponzi scheme. Peer-to-peer platforms such as Ezubo—which connect lenders and borrowers—had grown quickly by pitching high-yielding investments to mostly small investors.

Most of the funds raised were used to repay old borrowings and make interest payments, expand sales teams nationwide or squandered by the organizers, Xinhua said Tuesday.

Another 24 people linked to the scam received jail terms of 3 to 15 years, according to Xinhua. Police are still trying to recoup some losses for investors, it said.

China still doesn't have a system to prevent such fund-raising fraud from happening, said Wang Xu, a lawyer at the Beijing-based Help Reaching Law Firm.

"It's normally too late for the victims to get their money back when big cases like this finally catch the authorities' attention," said Mr. Wang, who is representing clients, mostly retirees, in separate civil cases.

Fund managers at Ezubo offered returns of 9.5% to 12% for one-month and one-year investment products, court verdicts in a separate lawsuit against a local manager showed.

As of August, outstanding loans in the person-to-person sector stood at 1.12 trillion yuan, up 67% from a year earlier, according to the data provider Wind Information.

Chinese authorities have sought to curb online lending, capping the amount of credit available for borrowers and limiting the products the platforms can offer.

—Liyan Qi

# Subprime Loan Executive Faces Civil Case

BY REBECCA DAVIS O'BRIEN

Federal prosecutors on Monday accused the former head of subprime mortgage trading at Deutsche Bank AG of misleading investors about loans backing \$1.4 billion in securities issued in 2007, leading to hundreds of millions of dollars in losses, according to a fraud complaint filed in Brooklyn federal court.

The civil claims against Paul Mangione, of Scarsdale, N.Y., come nearly a decade after the financial crisis, and months after Deutsche Bank settled with the U.S. Justice Department for \$7.2 billion to resolve related claims about the bank's use of mortgage-backed securities and its lending practices.

In a 69-page complaint, prosecutors allege that Mr. Mangione schemed to defraud investors and "systematically and intentionally misrepresented key characteristics of the mortgage loans securitized by Deutsche Bank," through two residential mortgage-



Deutsche Bank recently paid \$7.2 billion to settle related claims.

backed securities, worth \$1 billion and \$400 million.

"The decision to sue Paul Mangione for civil penalties in this case is both wrong and unfair," Patrick J. Smith, a lawyer for Mr. Mangione, said in a written statement.

Prosecutors in the Brooklyn U.S. attorney's office's civil unit alleged that "Mangione made and approved representations about the creditworthiness of the borrowers of the mortgages" in the Deutsche Bank securities, "de-

securitization transactions on which numerous other participants had more input and responsibility."

A spokesman for Deutsche Bank declined to comment.

Prosecutors in the Brooklyn U.S. attorney's office's civil unit alleged that "Mangione made and approved representations about the creditworthiness of the borrowers of the mortgages" in the Deutsche Bank securities, "de-

spite knowing that these representations were false" and that the securities had an "escalating likelihood of widespread defaults."

Prosecutors said that Mr. Mangione knew that Chapel Funding LLC, a California-based mortgage originator responsible for the loans in the two securities, had "abandoned any semblance of responsible underwriting practices," according to the complaint. Despite knowing of defects in the loans, he represented that the loans were sound, prosecutors allege. Deutsche Bank bought Chapel Funding in 2006.

The complaint quotes from April 2007 calls and emails, in which a diligence director at the bank allegedly told Mr. Mangione about defects in Chapel's loans. Mr. Mangione admitted that he "knew all that," and later stated that Deutsche Bank should "fire all those guys at Chapel," who "should be arrested," according to the complaint.

Mr. Mangione and the dili-

gence director—who isn't named in the complaint—later agreed to lie to investors about Chapel's loans and the bank's diligence results, prosecutors said.

Ultimately, 80% of the loans in the \$1 billion security defaulted and lost money, while 75% of the loans in the \$400 million security defaulted and lost money, according to the complaint.

Deutsche Bank's \$7.2 billion settlement—reflecting a \$3.1 billion civil penalty and \$4.1 billion in relief to distressed borrowers and underwater homeowners—marked the largest settlement against a single entity related to the meltdown in residential mortgage-backed securities. When the settlement was announced, then-Attorney General Loretta Lynch said the bank didn't merely mislead investors, but "contributed directly to an international financial crisis."

In the case involving Mr. Mangione, prosecutors are seeking a jury trial and a financial penalty.

BY CHRISTOPHER ALESSI

LONDON—OPEC crude-oil production fell last month for the first time since April, a boost to the cartel's halting efforts to reduce output and rein in the global supply glut.

The Organization of the Petroleum Exporting Countries' output declined by 0.24%, to 32.76 million barrels a day in August, down by 79,000 barrels from July. The decline was driven mainly by a precipitous drop in Libyan production, as well as reduced output in Gabon, Venezuela and Iraq, according to OPEC's closely watched monthly market report.

The report comes as Saudi Arabia—OPEC's largest member and the world's biggest crude exporter—has been de-

bating whether to extend the cartel's production-cutting deal after it expires next year.

OPEC and 10 producers outside the cartel including Russia first agreed late last year to cap production at around 1.8 million barrels a day lower than peak October 2016 levels, with the aim of alleviating global oversupply and boosting prices.

But the deal, which was extended in May through March 2018, has failed to have a significant impact on prices, in part due to a continued surge in U.S. shale supply.

Soaring production over the past few months in Libya and Nigeria—two OPEC nations exempt from the deal because their oil industries had been crippled by civil unrest—also has weakened the cartel's ef-

fectiveness in cutting global supply. But Libyan production fell significantly by 112,300 barrels in August, to 890,000 barrels a day, a result of pipeline closures and disruptions at its oil fields, the report showed.

OPEC's Tuesday report also highlighted non-OPEC oil supply, which declined in August, by 32,000 barrels a day, to 57.68 million barrels a day, the cartel said. The decline was driven by disruptions to U.S. oil production in the Gulf of Mexico due to Hurricane Harvey and lower crude output from the North Sea and Kazakhstan on the back of seasonal maintenance.

Commercial inventories in the Organization for Economic Cooperation and Development—a group of industrialized, oil-consuming nations—fell for a third consecutive month in July, to 3.002 million barrels a day. That is 195 million barrels above OPEC's target of the last five-year average.

The cartel also once again raised its forecast for global oil demand growth this year, by 50,000 barrels a day. OPEC now expects oil demand growth of 1.42 million barrels a day in 2017, helped by "better than expected data" for the OECD region in the second quarter.



A continued surge in U.S. shale supply has put pressure on OPEC.

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FUND NAME GF AT LB DATE CR NAV YTD %RETURN—  
FUND NAME GF AT LB DATE CR NAV YTD %RETURN—  
Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8866

CAM-CF Limited OT MUS 08/31 USD 31.07/96.35 2.9 -3.7 7.1

FUND NAME GF AT LB DATE CR NAV YTD %RETURN—  
VP Class-B Units AS EQ HKG 09/11 USD 155.39 25.6 23.6 16.8

VP Class-C Units AS EQ HKG 09/11 USD 19.49 34.9 22.9 16.5

VP Class-C Units AUD H AS EQ HKG 09/11 AUD 15.98 32.8 25.3 16.7

VP Class-C Units CAD H AS EQ HKG 09/11 CAD 15.66 35.2 23.0 16.7

VP Class-C Units HKD H AS EQ HKG 09/11 HKD 13.31 35.1 22.7 NS

VP Class-C Units NZD H AS EQ HKG 09/11 NZD 16.13 33.7 23.0 16.8

VP Class-C Units RMB H AS EQ HKG 09/11 CNY 12.51 20.1 17.0 NS

VP Multi-Asset Fund C A HKD AS OT HKG 09/11 HKD 13.36 39.0 28.3 NS

VP Multi-Asset Fund C A USD AS OT HKG 09/11 USD 10.77 12.0 7.4 NS

VP Multi-Asset Fund C A USD OT HKG 09/11 USD 10.85 11.1 6.5 NS

VP Multi-Asset Fund C A USD OT HKG 09/11 USD 20.49 22.3 19.1 19.5

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## JOURNAL REPORT | INNOVATIONS IN HEALTH CARE

# The Search to End the Scourge of Misdiagnoses

Researchers are finding new ways to make sure doctors make the right diagnosis

BY LAURA LANDRO

DOCTORS ARE developing novel solutions to make sure they come up with the right diagnoses.

A flood of new initiatives by researchers, physicians, health-care systems, nonprofits and malpractice insurers is yielding new insights and approaches. These include sophisticated computer programs, some that use artificial intelligence to help analyze and diagnose tough cases (see article below), and others that scan records for errors such as missed test results and appointments. Advanced technologies aren't just bringing the processing power of big data and machine learning to bear. They are also allowing more doctors to share their knowledge—including lessons they've learned from their own diagnostic mistakes.

Misdiagnoses are a leading cause of medical malpractice suits in the U.S., and they don't have simple causes or solutions. Most people will experience at least one diagnostic error in their lifetime, sometimes with "devastating consequences," according to a landmark 2015 report by the National Academies of Sciences, Engineering and Medicine.

For decades, inaccurate or delayed diagnosis has been "a blind spot in the delivery of quality care," said the report, which is broadly credited in scientific circles with inspiring the recent multipronged push for improvements.

"There is a huge opportunity to put knowledge and tools into the hands of clinicians to help them make a better or more timely and accurate diagnosis," says Janet Corrigan, head of the patient-care program at the nonprofit Gordon and Betty Moore Foundation, which is funding several projects to improve the accuracy of medical diagnoses.

Here are some of the most promising efforts:

### SPOTTING MISTAKES

A Pennsylvania hospital is experimenting with the first formal computerized program to track, measure and analyze doctors' diagnostic mistakes—sometimes as they are happening. The Safer Dx Learning Lab is being implemented at Geisinger Medical Center, the flagship of Geisinger Health System, based in Danville, Pa.,

which has 13 hospitals, a health plan and a medical school. The project is funded by a Moore Foundation grant and is led by Hardeep Singh, chief of health policy, quality and informatics at the Michael E. DeBakey VA Medical Center and an associate professor at Baylor College of Medicine in Houston.

Once fully installed, the system will scan electronic medical records to identify patients who are experiencing potential or actual diagnostic mistakes or delays, based on certain clinical criteria, such as abnormal chest X-rays or CT scans for which there is no documented follow-up. Flagged records will then be reviewed for confirmation, analysis and further action.

"Knowledge from systematically analyzing missed opportunities in correct or timely diagnosis will inform improvements and create a learning health system for diagnosis," Dr. Singh says.

A 2013 study led by Dr. Singh reviewed 190 diagnostic errors detected by unexpected returns of patients after an initial primary-care visit. A large variety of common diseases such as pneumonia, cancer and urinary-tract infections were missed on the initial visit. Many errors were related to problems with medical history-taking, physical exams, ordering of diagnostic tests for further work-up and failure to review previous records. Other issues included clinicians failing to initiate referrals to specialists and failures in follow-up and tracking of diagnostic tests.

"We could ask the question in every patient diagnosed with cancer, was the appropriate diagnosis made in a timely fashion, or were there opportunities, on review, to have made this correct diagnosis earlier?" says Dennis Torretti, associate chief medical officer at Geisinger Medical Center.

Geisinger also is adding a confidential hotline reporting system where clinicians can call and leave a recorded message. Similarly, Geisinger will ask patients how it can do a better job related to diagnosis.

"We all see patients who had to see doctors several times before a diagnosis was achieved and had a feeling all along that something was being missed, or were discharged from the ER and felt the diagnosis didn't explain their symptoms," says Benjamin Hohmuth,



Dennis Torretti, second from left, Benjamin Hohmuth, second from right, and other Geisinger Medical Center doctors are developing a system that uses electronic records to improve diagnostic accuracy and identify patients who may be experiencing errors.

uth, principal investigator on the Safer Dx project and associate chief medical informatics officer at Geisinger.

### HELP FROM AI

Many online tools have been developed to analyze symptoms and help doctors arrive at a diagnosis—with mixed results. Now a system that uses AI can synthesize opinions from many doctors into a single cohesive perspective.

The Human Diagnosis Project has developed an electronic consulting system that lets participating doctors enter a patient's background, symptoms, test results and other findings, then invites expert doctors to review the case, suggest a diagnosis and recommend next steps. Users can include specific questions, such as, "Does this patient need an MRI?"

As doctors post their responses, the AI-enhanced software combines and analyzes all the input, weighted by each doctor's relative expertise.

More than 6,000 doctors and 40 medical specialties have been building the system since 2014, backed by an alliance that includes medical schools, medical specialty boards and research experts.

The aim is "not only to deliver the best possible diagnosis for the patient at hand, but to form a record that doctors can draw on for similar cases in the future," says Shantanu Nundy, a primary-care doctor at Mary's Center, a community-health center in Washington, D.C., and director of the nonprofit arm of Human Dx.

"Generally, doctors can diagnose better than computers, but doctors supported by technology like this system could help improve the accuracy of clinical decisions across the

### What Went Wrong

The leading causes of diagnostic errors in a sample of 583 physician-reported cases

Failure/delay considering diagnosis	110
Failure/delay ordering needed tests	63
Erroneous lab/radiology test reading	61
Too much weight to competing diagnosis	44
Failed/delayed follow-up of test result	42
Failure eliciting history data	40
Failure eliciting physical-exam data	37
Failure/delay reporting result	30
Clinician error in test interpretation	25
Technical error processing specimen/test	17
Inaccurate interpretation of history data	15
Inaccurate interpretation of physical exam	14

Source: Archives of Internal Medicine, Dr. Gordon Schiff et al.

THE WALL STREET JOURNAL.

board," says David Westfall Bates, professor of health policy and management at Harvard T.H. Chan School of Public Health and chief innovation officer at Brigham and Women's Hospital in Boston.

### SHARING LESSONS

Another effort to improve practices and training, though not necessarily through a single tool, is a network in Massachusetts including Brigham and Women's Hospital; Cricco, a Harvard-owned malpractice insurer; and the Boston-based second-opinion service Best Doctors. The network, known as Pride, short for Primary Care Research in Diagnostic Errors, plans to identify, analyze and classify diagnostic errors and delays with the help of electronic medical records,

to develop and share interventions that can overcome diagnostic errors and delays, especially in primary care.

The network will disseminate insights and lessons to doctors through forums, newsletters, journals and webinars.

Among the advances it hopes to deliver are screening tools to uncover issues related to drugs or exposures that can lead to missed or delayed diagnosis, such as patients who are on multiple drugs, or who may have been exposed to toxins on the job or at home.

It also plans to help doctors avoid ordering unnecessary and wasteful tests by developing "principles of conservative diagnosis," says Gordon Schiff, associate director of Brigham and Women's division of general internal medicine and quality and safety director at Harvard Medical School's Center for Primary Care.

Cricco, meanwhile, is also funding a project overseen by Dr. Schiff to develop five tools to help avoid pitfalls that leave doctors open to malpractice claims. For example, studies have shown that as few as

40% to 50% of orders for colonoscopies result in patients' getting the test. In response, the project plans to develop and test "loop-closing" tools for electronically tracking doctors' recommendations of tests and procedures that aren't carried out.

### BETTER THINKING

Some medical schools are creating programs to overcome pitfalls in thinking that can affect a doctor's diagnostic skills and become ingrained early in medical training.

The University of Pittsburgh Medical Center has developed videos of cases with actors posing as patients. The videos feature expert commentary, animation and Q&As. The aim isn't only to improve the clinical reasoning skills of new doctors, but to make them aware of the prevalence, causes and consequences of diagnostic errors, according to William Follansbee, director of the UPMC Center for Medical Decision Making and a professor of cardiovascular medicine.

In making diagnoses, doctors may rely on shortcuts or simple rules of thumb based on what they've seen in past cases, Dr. Follansbee says. They may also anchor their thinking in an initial impression of a case or prematurely make a diagnosis before pursuing alternative possibilities.

The most important first step in making a diagnosis, Dr. Follansbee says, is to ask good questions.

"These might seem like common, simple questions we all know," he says, "but they are frequently overlooked."

**Ms. Landro is a former Wall Street Journal assistant managing editor. Email her at [reports@wsj.com](mailto:reports@wsj.com).**

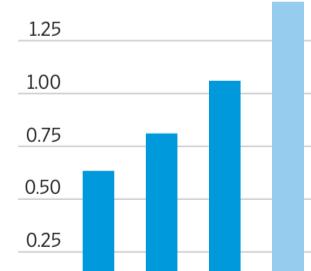
# AI Holds Promise for Improving Diagnoses

With artificial intelligence, machines can see what many humans may have missed

BY NEIL PARMAR

### More Brainpower

Global spending on artificial intelligence and cognitive computing systems in health care



\*Projected

Source: Frost & Sullivan

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RADIOLOGISTS can scrutinize hundreds of images before identifying an area of concern in a patient's body. Mark Michalski likens the process to "playing 'Where's Waldo?' on each of those images."

But a type of artificial intelligence known as deep learning could soon help medical experts pinpoint problems faster and more accurately, says Dr. Michalski, executive director of the Boston-based Center for Clinical Data Science at Massachusetts General Hospital and Brigham and Women's Hospital.

Deep learning includes algorithms, or computer programs, that search for, identify and analyze problems without direction from people, though many humans still guide the algorithms today. For months, Dr. Michalski has used hundreds of thousands of medical images to train a deep-learning system to detect pulmonary nodules and strokes, measure tumors and look for traumatic injury and fractures, among other tasks.

Now he's testing the system in his hospitals. The early results "are promising," he says. "The technology really does work."

More hospitals, universities and tech companies are training and testing systems that use AI, including deep learning, to see how they might be used to improve the medical diagnosis process. Most efforts today are focused on recognizing patterns in medical images

such as CT and MRI scans. IBM Research estimates that, based on file-storage sizes, images account for at least 90% of all medical data.

Some deep-learning systems also incorporate other information, such as medical reports or lab-test results. The more data that gets fed into these systems, experts say, the better they tend to perform as they compare a patient's medical information with data from thousands or sometimes millions of other patients.

This sector has grown in recent years. AI systems within health care brought in \$1.06 billion in revenue globally last year, up from \$811 million in 2015 and \$633 million in 2014, according to Frost & Sullivan.

IBM Watson Health, which launched in 2015, formed such a medical-imaging collabora-

tion last year to help doctors address different types of cancers and other diseases. The network, in which the health-care systems get to see results from tests run by IBM Watson Health, has expanded to 30 members from 15. One tool being worked on is a score indicating how confident the system is that something found is, say, a cyst or a tumor. Another tool would flag areas of concern that a physician might have missed.

"The goal is to scale the expertise of the clinician," says John Smith, manager of multimedia and vision at IBM Thomas J. Watson Research Center. "The computer can see a lot more data than any clinician can ever see."

Both health-care experts

and corporate executives say there is still an important role for people; it is still a person who makes a formal medical diagnosis. "What we're developing is a suite of applications to make them [people] more effective" through better diagnosing and treating patients, says Charles Koontz, chief digital officer of GE Healthcare.

Health-care experts and companies say most AI-assisted tools have helped doctors make faster decisions and consider more possibilities when making diagnoses. "There's no doubt it's more accurate," says Siddharth Saha, vice president of transformational health for Frost & Sullivan.

In December, a study published in the medical journal JAMA presented a deep-learning algorithm capable of interpreting signs in photographs of diabetic retinopathy—an eye condition that can cause blindness. It performed on par with ophthalmologists, according to researchers at Google, who co-wrote the study.

In the future, some experts argue that AI could improve the accuracy of diagnoses at smaller hospitals, including in countries where there may be shortages of doctors. Says Mr. Koontz, "We believe these applications will really improve outcomes in midsize hospitals, and quite frankly, in developing countries."

**Mr. Parmar is a writer in Toronto. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).**



Mark Michalski works on a deep-learning algorithm for making diagnoses at Mass General.

SAM RILEY/MASSACHUSETTS GENERAL HOSPITAL

a market-research firm. That is projected to increase as more AI-driven apps arrive.

"A lot of what we're doing right now is taking what has been proven in the lab and trying to commercialize it," says Steve Tolle, global vice president and chief strategist for IBM Watson Health Imaging.

Some tech companies working in this space are teaming up with health-care systems, academic medical centers and other partners to get access to medical data. Through these partnerships, experts say, deep-learning algorithms can become more accurate and ultimately help more clinicians.

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tive last year to help doctors address different types of cancers and other diseases. The network, in which the health-care systems get to see results from tests run by IBM Watson Health, has expanded to 30 members from 15. One tool being worked on is a score indicating how confident the system is that something found is, say, a cyst or a tumor. Another tool would flag areas of concern that a physician might have missed.

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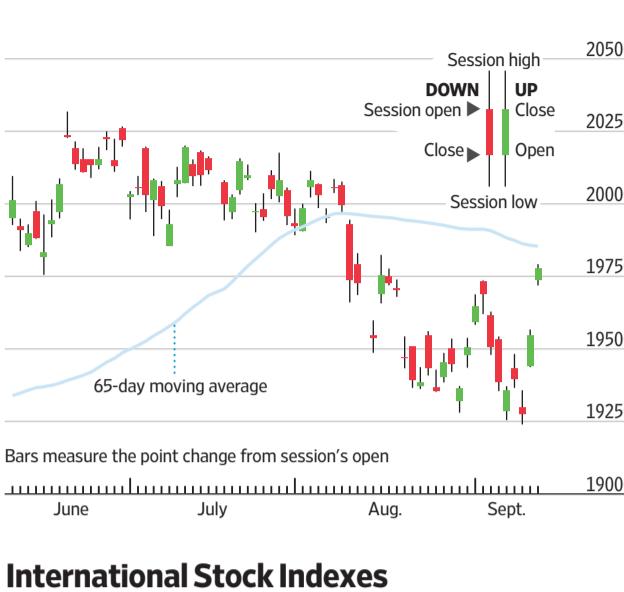
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## MARKETS DIGEST

### Nikkei 225 Index

**19766.62** ▲ 230.85, or 1.18%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

June July Aug. Sept.

### STOXX 600 Index

**381.42** ▲ 1.99, or 0.52%

High, low, open and close for each trading day of the past three months.



### S&P 500 Index

Data as of 12 p.m. New York time

Last 23.82 24.86

P/E estimate 18.83 18.52

Dividend yield 2.00 2.12

All-time high: 2488.11, 09/11/17

**2493.07** ▲ 4.96, or 0.20%

High, low, open and close for each trading day of the past three months.



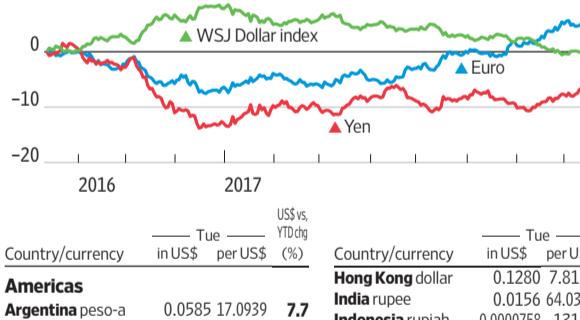
### International Stock Indexes

Data as of 12 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2890.88	9.42	▲ 0.33	2386.93	2891.43	14.3		
	<b>MSCI EAFE</b>	1971.81	6.32	▲ 0.32	1614.17	1973.04	14.9		
	<b>MSCI EM USD</b>	1102.55	3.37	▲ 0.31	838.96	1102.68	38.8		
<b>Americas</b>	<b>DJ Americas</b>	601.77	1.36	▲ 0.23	503.44	602.02	11.4		
Brazil	Sao Paulo Bovespa	75012.20	692.99	▲ 0.93	56459.11	75033.23	24.5		
Canada	S&P/TSX Comp	15125.65	85.35	▲ 0.57	14319.11	15943.09	-1.1		
Mexico	IPC All-Share	50637.09	277.77	▲ 0.55	43998.98	51772.37	10.9		
Chile	Santiago IPSA	3932.81	20.58	▲ 0.53	3120.87	3945.90	22.0		
<b>U.S.</b>	<b>DJIA</b>	22113.90	56.53	▲ 0.26	17883.56	22179.11	11.9		
	Nasdaq Composite	6438.88	6.62	▲ 0.10	5034.41	6460.84	19.6		
	<b>S&amp;P 500</b>	2493.07	4.96	▲ 0.20	2083.79	2495.69	11.4		
	CBOE Volatility	10.73	...	unch.	8.84	23.01	-23.6		
<b>EMEA</b>	<b>Stoxx Europe 600</b>	381.42	1.99	▲ 0.52	328.80	396.45	5.5		
	<b>Stoxx Europe 50</b>	3104.10	14.43	▲ 0.47	2720.66	3279.71	3.1		
France	<b>CAC 40</b>	5209.01	32.30	▲ 0.62	4310.88	5442.10	7.1		
Germany	<b>DAX</b>	12524.77	49.53	▲ 0.40	10174.92	12951.54	9.1		
Greece	<b>ATG</b>	810.75	4.69	▲ 0.58	548.72	859.78	26.0		
Israel	<b>Tel Aviv</b>	1412.60	8.57	▲ 0.61	1346.71	1490.23	-4.0		
Italy	<b>FTSE MIB</b>	22233.40	99.29	▲ 0.45	15923.11	22308.46	15.6		
Netherlands	<b>AEX</b>	526.58	2.62	▲ 0.50	436.28	537.84	9.0		
Russia	<b>RTS Index</b>	1124.23	-2.51	-0.22	953.12	1196.99	-2.4		
Spain	<b>IBEX 35</b>	10336.20	13.60	▲ 0.13	8512.40	11184.40	10.5		
Switzerland	<b>Swiss Market</b>	9053.62	71.39	▲ 0.79	7585.56	9198.45	10.1		
South Africa	<b>Johannesburg All Share</b>	56366.16	357.39	▲ 0.64	48935.90	56869.89	11.3		
Turkey	<b>BIST 100</b>	109129.65	-328.36	-0.30	71792.96	110530.75	39.7		
U.K.	<b>FTSE 100</b>	7400.69	-12.90	-0.17	6654.82	7598.99	3.6		
<b>Asia-Pacific</b>	<b>S&amp;P/ASX 200</b>	5746.40	33.30	▲ 0.58	5156.60	5956.50	1.4		
China	<b>Shanghai Composite</b>	3379.49	3.07	▲ 0.09	2980.43	3385.39	8.9		
Hong Kong	<b>Hang Seng</b>	27972.24	17.11	▲ 0.06	21574.76	28094.61	27.1		
India	<b>S&amp;P BSE Sensex</b>	32158.66	276.50	▲ 0.87	25765.14	32575.17	20.8		
Indonesia	<b>Jakarta Composite</b>	5872.38	0.50	▲ 0.01	5027.70	5915.36	10.9		
Japan	<b>Nikkei Stock Avg</b>	19776.62	230.85	▲ 1.18	16251.54	20230.41	3.5		
Malaysia	<b>Kuala Lumpur Composite</b>	1789.86	7.12	▲ 0.40	1616.64	1792.35	9.0		
New Zealand	<b>S&amp;P/NZX 50</b>	7840.41	-11.34	-0.14	6664.21	7879.46	13.9		
Philippines	<b>PSEI</b>	8049.31	...	closed	6563.67	8072.75	17.7		
Singapore	<b>Straits Times</b>	3235.69	7.18	▲ 0.22	2787.27	3354.71	12.3		
South Korea	<b>Kospi</b>	2365.47	6.39	▲ 0.27	1958.38	2451.53	16.7		
Taiwan	<b>Weighted</b>	10610.35	38.19	▲ 0.36	8902.30	10617.84	14.7		
Thailand	<b>SET</b>	1643.55	6.01	▲ 0.37	1406.18	1643.55	6.5		

### Currencies

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



London close on Sept. 12

Country/currency	in US\$	per US\$	YTD chg (%)
<b>Hong Kong dollar</b>	0.1280	7.8111	0.7
<b>India rupee</b>	0.0156	64.0309	-5.8
<b>Indonesia rupiah</b>	0.0000758	13188	-2.5
<b>Japan yen</b>	0.009087	110.04	-5.9
<b>Kazakhstan tenge</b>	0.02946	339.44	1.7
<b>Macau pataca</b>	0.1237	8.0825	2.1
<b>Malaysia ringgit-c</b>	0.2377	4.2075	-6.2
<b>New Zealand dollar</b>	0.7291	1.3716	-5.0
<b>Pakistan rupee</b>	0.0095	105.300	0.9
<b>Philippines peso</b>	0.0196	50.976	2.8
<b>Singapore dollar</b>	0.7424	1.3470	-6.9
<b>South Korea won</b>	0.0008859	1128.76	-6.6
<b>Sri Lanka rupee</b>	0.065424	152.85	3.0
<b>Taiwan dollar</b>	0.03329	30.039	-7.4
<b>Thailand baht</b>	0.03018	33.130	-7.5

US\$ vs. Country/currency

Tue in US\$ per US\$ (%)

YTD chg (%)

Close in US\$ per US\$ (%)

YTD chg (%)

Open in US\$ per US\$ (%)

YTD chg (%)

High in US\$ per US\$ (%)

Low in US\$ per US\$ (%)

52-wk range in US\$ per US\$ (%)

YTD chg (%)

## THE PROPERTY REPORT

# Cheaper Homes Draw Cash

Investors shift toward sector as building boom in luxury homes pressures rents

BY KEIKO MORRIS

New York developer Jonathan F.P. Rose, founder and president of Jonathan Rose Cos., has raised a \$233 million real-estate fund dedicated to affordable housing, the company's largest such fund in a sector drawing more attention from investors.

The fund, which will acquire, improve and preserve affordable-housing properties, has secured commitments from about 125 investors, including the Ford Foundation, Deutsche Bank AG's Community Development Finance Group and an affiliate of Nuveen, the asset-management arm of financial-services giant TIAA, according to Jonathan Rose Cos. They were joined by other high net-worth individuals and family offices, pension funds, banks and nonprofit foundations, the company said.

One of affordable housing's biggest lures: steady income. After a seven-year luxury-apartment boom across the U.S., a surge in supply has slowed rental growth and pushed landlords to make deep concessions. Enormous demand for low-rent apartments continues to outstrip supply in cities across the country, making these investments low risk, said Mr. Rose. He estimates about 65,000 affordable units are built each year in the U.S., but 150,000 units are lost every year to buyers raising rents. Government programs to preserve housing offer tax subsidies and credits that also help lower costs.

That holds appeal for investors looking to remain invested in real estate without increasing their exposure to assets that might be richly priced. Developers looking to buy affordable properties



Jonathan F.P. Rose says demand for low-income housing continues to outstrip supplies.

without rental restrictions and boost rents also are entering the sector and cranking up competition.

"Real-estate developers are turning from luxury apartments and are eyeing this investment class, buying up a lot of units, repositioning and putting them out as market-rate units," said Rebecca Regan, executive vice president of The Housing Partnership Network, a cooperative of 100 nonprofit, affordable-housing developers, owners and community-development financial institutions.

In the affordable rental-housing market, properties are priced within the range of low-to-moderate-income tenants, real-estate executives in the sector said. Rents at many of these properties are kept affordable for a certain time because of government incentive programs providing tax abatements, tax credits and rental subsidies. Some, however, are affordable without restrictions.

In some markets such as New York City, a supply surge has helped keep a lid on luxury rental prices, pushing some investors toward affordable-housing properties. Luxury condominiums bought as

investments to be rented have exacerbated the situation, adding to the high-end rental supply and putting downward pressure on rents, said Bob Knakal, chairman of investment sales at the real-estate services firm Cushman & Wakefield.

Despite growing rent restrictions, some investors are turning toward affordable-housing investments out of necessity, Mr. Knakal said.

"They can still make some return, and it is the lowest risk of all property types because it's so easy to find people who want to live in those apartments," Mr. Knakal said.

The new fund, called the Rose Housing Preservation Fund IV LP, is well-positioned to compete with those other potential buyers because of the company's decades of experience and deep knowledge of the affordable-housing financial and regulatory world, Mr. Rose said.

As of July, the fund, which closed at the end of August, had made more than \$64 million in equity investments, including stakes in over 3,300 affordable apartment units that were part of a larger \$500 million acquisition the company announced at the be-

ginning of this year.

"We know how to put together preservation financing that helps us outcompete for properties we are trying to buy," Mr. Rose said. "We also have a very strong track record for integrity and for closing at the price that we bid."

The company's approach of using stable housing as a platform for social and health services also has given it a leg up in attracting the growing number of investors looking for measurable social and environmental results, Mr. Rose said. Earlier this year, the Ford Foundation announced it was committing as much as \$1 billion of its endowment to mission-related investments and cited affordable housing as an area of focus. The fund has also attracted banks looking to fulfill federal obligations to invest in the communities in which they do business.

"We view affordable housing initiatives as attractive financial investments offering steady cash flows while meeting the needs of an underserved market," said Rekha Unnithan, impact investment portfolio manager at TIAA Investments, an affiliate of TIAA's asset-management arm.

# CoStar Pushes Ahead in Rentals

BY PETER GRANT

CoStar Group Inc., one of the world's largest internet real-estate data companies, is purchasing ForRent.com in a \$385 million deal that shows the rental apartment listing business is becoming the latest battleground in online property services.

Washington, D.C.-based CoStar is buying ForRent.com as part of its plan to list "every single apartment in the U.S. being marketed, whether it's someone's garage apartment up to the largest institutional property," said Andrew Florence, CoStar's founder and chief executive, in an interview.

CoStar got into the business of hooking up landlords with apartment hunters in 2014 when it purchased Apartments.com for \$585 million. That deal added a new dimension to the company Mr. Florence founded in 1987, whose main business is providing commercial real-estate data services and a marketplace for sales of office buildings, shopping centers and other investment property.

CoStar's purchase of ForRent.com for \$350 million in cash and \$35 million in stock, expected to close later this year, will add scale to its apartment rental business, Mr. Florence said. Norfolk, Va.-based ForRent.com, which began listing apartments in 1982 with paper brochures distributed at supermarket checkout counters and other places, gets roughly 8 million online visits a month and lists about 17,000 apartment communities, according to CoStar.

CoStar's Apartments.com lists more than 1 million apartments, including large rental communities and mom-and-pops who own as few as one rental unit. The Apartments.com network of apartment rental sites get roughly 37 million visits a month, the company says.

The real-estate industry was relatively late to adopt online technology. But in recent years real-estate tech businesses have gotten much more attention. Looking for a home has been transformed by giant listing services like Zillow Inc. and Realtor.com, which is operated by News Corp., owner of The Wall Street Journal.

CoStar dominates commercial real-estate information. Its database has 4 million properties, including more than 450,000 rental apartment buildings.

**Real-estate data firm is acquiring ForRent.com for \$385 million**

Landlords have listed apartments online for more than a decade, partly on sites developed by newspaper owners worried about their loss of traditional print ads. In 1998, a venture of the Times Mirror Co., Tribune Co. and Washington Post Co. purchased the company that went on to build Apartments.com.

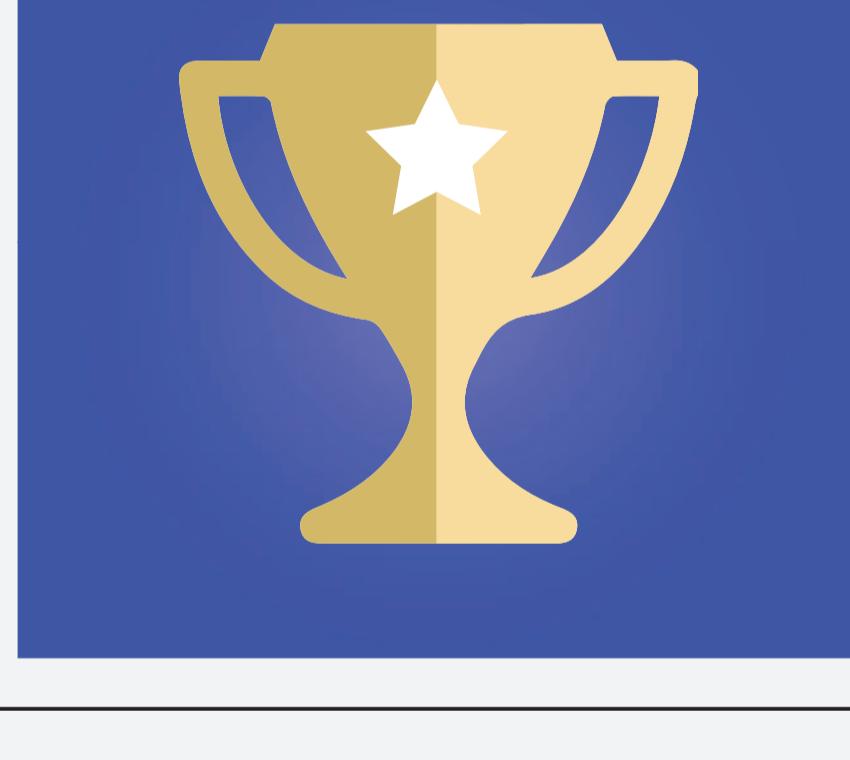
In recent years, large investors such as CoStar and Zillow began to make big bets on the business. Currently there are 46 million rental households, up from 35 million in 2004, according to CoStar.

Competitors also include RentPath Inc., which is owned by private-equity giants TPG and Providence Equity Partners. Major players like Facebook Inc., Google Inc. and Craigslist also get an enormous amount of traffic from people looking for rental apartments.

"Competition is all about traffic," said Ronald Josey, senior analyst with JMP Group LLC. "The site with the most traffic typically wins."

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# MARKETS

## China Tech Bets Pan Out

Some hedge funds' returns exceed 20%; industry as a whole lags far behind

By LAURENCE FLETCHER  
AND EMMA JOHANNINGSMIEIER

Hedge funds betting on China have chalked up some of the biggest profits of 2017 so far, fueled by concentrated bets on the technology sector.

But echoing concerns voiced in the U.S. about the relentless upward surge of the Nasdaq Stock Market, some fund managers are expressing worries about the Chinese tech sector's potential for overheating.

Among the hedge-fund industry's top performers globally this year is **Pinpoint Asset Management**, which runs \$1.9 billion and which gained 23% in its China fund through August. **Greenwoods Asset Management**'s \$1.6 billion Golden China Fund gained 30.4% this year to date. **Zeal Asset Management**, which runs \$1.1 billion, has gained 23% in its China fund through Sept. 8. Hong Kong-based **Oceanwide Asset Management**, which runs \$100 million, had gained around 35% in its Quam China Focus fund through August.

Hedge funds globally are on average up just 3.9% this year through Sept. 8, according to data group HFR. Returns have been lackluster in recent years. Many blame this on central-bank stimulus, which has pushed up stocks across the board and can make it hard for managers to pick between strong and weak companies.

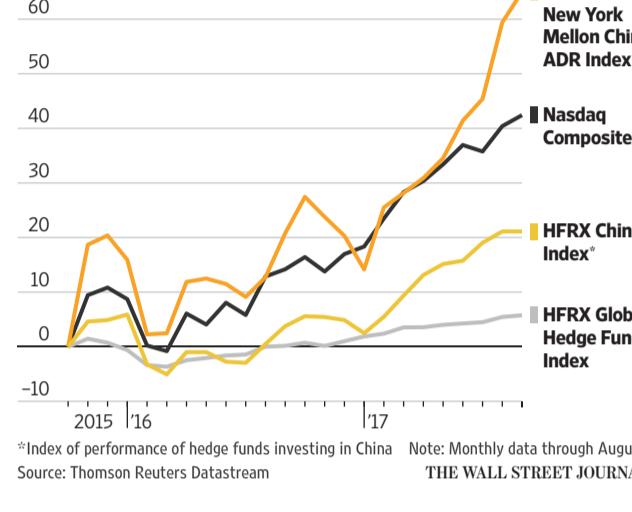
"Our largest exposure is in technology," said Chris Choy, Oceanwide's chief investment officer. Its Quam fund has a big position in the smartphone-components sector, where it owns stocks such as lens maker Sunny Optical and



Makers of smartphone components have performed well.

### Tech Tide

Total returns since September 2015



\*Index of performance of hedge funds investing in China Note: Monthly data through August  
Source: Thomson Reuters Datastream

Qtech, which makes camera parts for phones. It also has a large exposure to internet-platform stocks, with positions in Tencent, the fund's biggest holding, Alibaba and JD.com.

"In three or four years' time, 5G will be launched. People will be upgrading their phones, which is good news for components makers," Mr. Choy said. "Some [stocks] have gone up twofold, but their value will continue to go up."

The huge returns mirror some of the gains seen on the

other side of the Pacific in the U.S., where the Nasdaq Composite is up 19.5% this year and has doubled since early 2013. The tech-heavy Bank of New York Mellon China index has surged 45.7% this year, compared with a more modest 8.9% rise in the broader Shanghai A-share index.

As in the U.S., tech's gains in China have raised concerns among some commentators over whether gains in the sector represent a bubble.

Chinese tech stocks such as

Baidu, Alibaba, Tencent and NetEase are consensus investments that "everyone, Chinese or not, owns," said Joel Werner, founder of Hong Kong-based Solitude Capital Management. His fund is up 57% this year, though he doesn't own such stocks.

He drew a parallel with U.S. stocks Facebook, Amazon.com, Apple, Netflix and Google. "They're consensus trades and driving the market globally," he said. He said that such stocks are expensive and could be vulnerable to a macroeconomic shock.

However, Oceanwide's Mr. Choy, whose fund increased its exposure to tech in the final quarter of last year, said that the internet-platform sector is "very solid and sustainable."

He added: "Some of our peers are concerned about valuations. We do very in-depth analysis, and we think there is still a huge space [the companies] can develop their business." Mr. Choy is instead concerned about sectors such as domestic banks and property developers, which he believes could be hurt if problems develop in China's shadow-banking system.

Technology stocks have also helped drive gains at Pinpoint, which said it has been building a position in Alibaba, and at Zeal.

A tough operating climate for industries including technology has meant that "some clear leaders have emerged while others have left the business," said a Zeal spokesman. These survivors "have grown in market share through industry consolidation. Further need to vastly invest in capital expenditure [has] decreased and so the companies are enjoying much stronger cash flow."

He added that Zeal doesn't believe that a "major bubble" has formed, but said that "there is a risk that some of the largest cap stocks are overheating."

## U.S. Stocks Climb Toward New Highs

By MARINA FORCE  
AND MICHAEL WURSTHORN

Major U.S. stock indexes were on pace for records Tuesday, as investors hinged their optimism on steady economic growth and expectations that threats from Hurricane Irma and North Korea would continue to ebb.

The Dow Jones Industrial Average rose 65 points, or 0.3%, to 22122

**TUESDAY'S MARKETS** around midday. The S&P 500 gained 0.3% and the Nasdaq Composite added 0.2%. All three were trading above their closing highs.

Investors snapped up shares of financial companies as U.S. government bond prices fell, boosting their prospects that banks will earn more money on the difference between what they pay on deposits and what they charge to lend money. The KBW Nasdaq Bank index, a measure of big U.S. banks, rose 1.9% around midday. Shares of Goldman Sachs Group, up 2.8%, added about 42 points to the blue-chip index.

As U.S. government bond prices fell, the yield on the 10-year Treasury rose to 2.166% at midday, according to Tradeweb, from 2.125% Monday. Other assets considered to be havens during times of instability were also down. Gold declined 0.4%.

"The long-term [interest] rate is a reflection of where people think the short-term rate is going," said Tony DeSpirito, co-head and co-portfolio manager of the BlackRock Equity Dividend Fund.

Shares of DowDuPont also contributed to gains among the Dow industrials. The company rose 2.1% after it altered its plan to splinter into three companies.

Shares of Apple were down

0.2% around midday ahead of its much-anticipated product announcement event, which was expected to showcase three new iPhones.

"It's all going to be about consumer acceptance of a higher-priced phone and then Apple's execution on delivering on a lot of those expectations," said Lew Piantedosi, an Eaton Vance portfolio manager.

As bond yields moved higher, investors were debating how far they could continue to rise. "In the long term, we think we are in a world of low bond yield, simply because growth is likely to remain lower and inflation is likely to remain lackluster," said John Stopford, head of multiasset income at Investec Asset Management.

The share of fund managers taking out protection against a stock market correction saw its biggest jump in 14 months, according to a Bank of America Merrill Lynch September survey. Investors also have trimmed their portfolios, sending the share of fund managers who are overweight global equities to its lowest level since December.

Bank of America partly attributed the moves to investors' waning optimism that the global economy will grow at a faster pace.

Looking ahead, investors were awaiting the release of the U.S. Consumer Price Index, due out Thursday, for further clues on core inflation. Subdued inflation has fueled skepticism that the Federal Reserve will raise interest rates again this year, with investors seeing only a 42% chance of an increase by the end of 2017, according to Fed-fund futures tracked by CME Group.

The Stoxx Europe 600 rose 0.5%, led by gains in financial-services shares. Japan's Nikkei Stock Average gained 1.2%.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

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## How iPhone Will Affect Parts Makers

It's the \$1 trillion question in markets: Will **Apple**'s latest iPhone be another hit? No matter the answer, investors might be wise to cool their bets on some of the U.S. tech giant's Asian suppliers: History suggests they don't do so well once the razzmatazz has passed.

On average, iPhone suppliers have outperformed the market by 7.2% in the six months before a launch, only to underperform by 3.9% in the three months after, according to brokerage firm Bernstein.

Prelaunch excitement has fueled the likes of **AAC Technologies**, an iPhone-speaker supplier whose share price is up 46% in the past three months—even though analysts over that period have raised their earnings estimates for next year by only 9%, according to S&P Global Market Intelligence. Around half of AAC's revenue is from Apple, according to Bernstein. The lens maker **Largan** and the microphone supplier **Goertek**, both with AAC-like levels of exposure to Apple, have also run significantly ahead of earnings expectations recently.

A better iPhone bet may be component makers that take a smaller bite from Apple, but are riding the latest trends in smartphones. Take **Sony**, a supplier of iPhone image sensors: It gets less than 5% of its revenue from Apple, but should benefit from the shift toward dual lenses in phone cameras.

Samsung Electronics should benefit as smartphones add more memory and sharper screens.

As the hype around Apple's latest iPhone builds, investors should keep one eye on the likely winners and losers.

—*Jacky Wong*



Large, rapidly expanding companies such as Amazon have been winners this year.

## Why Stocks Are Rallying And What Could End It

The stock market just won't go down, despite geopolitical concerns, stretched valuations and an unpredictable president. Understanding why shares keep rising is one way to gauge how long the rally will last and what happens next.

The good news is there is a logic to the market's behavior, and that at the moment, nothing seems likely to alter its course. The bad news is things can turn quickly, and when they do, the decline could be severe.

Second, many of the big companies leading the rally have been huge, fast-expanding companies such as **Amazon.com**, **Facebook**, **Apple** and Google parent **Alphabet**. So while the S&P 500 has risen 11% this year, the S&P 500 Growth Index, which is concentrated in companies with strong earnings and revenue growth, has risen 17%. In contrast, the S&P 500 Value Index is up just 4%.

The 10 biggest stocks in the growth index have increased 26% this year, according to FactSet, adding about \$900 billion to the S&P 500's market capitalization, which stands at about

\$23 trillion.

The gains for these stocks make sense for two reasons. First, investors tend to favor fast-expanding companies in the latter stages of an economic expansion, which is where the U.S. economy is right now after eight years of growth. That is because it is harder to generate growth late in the cycle after the easy gains have been made, putting a premium on companies that still exhibit strong profit gains.

Second, many of the big companies leading the rally do a large portion of their business abroad, where many countries are experiencing economic upswings. **Microsoft** and Facebook, for example, both draw roughly half their sales from outside the U.S. An added boost is the weaker dollar, which boosts the value of profits earned overseas.

For now, nothing seems likely to disturb this rosy scenario, which makes the gains self-reinforcing. Investors who want to beat the market need to plow cash into the shares of large-cap growth stocks. Passive investors who simply track the in-

dex are seduced by the market's healthy gains and low volatility, and they boost their investments, pulling the whole market higher. Those who chase performance will buy growth-oriented funds, which further drive these trends.

The love affair investors are having with big growth stocks could eventually set them up for big losses. Stocks of large, fast-expanding companies have performed poorly when the economy starts to falter and growth disappears. That was how the growth-stock-driven rally of the late 1990s ended. In the six months that preceded the recession that began in March 2001, the S&P Growth Index fell by third and then fell by another third before hitting bottom in mid-2002. It was a repeat of patterns seen in the 1960s.

What could cause the turn? A run of weak data or any event that makes investors question the U.S. economy's staying power. And if signs build up that an actual recession looms? History says it pays to get out fast.

—*Justin Lahart*

## Gold Is Flashing Inflation Signal

Gold loves inflation while Treasury bonds hate it. So why are both having such a smashing year?

Prices of the precious metal have moderated a bit in the past few days, but remain near a yearly high. The yield on 10-year Treasurys, meanwhile, touched a yearly low late last week. These simultaneous trends are unusual. Gold prices normally rise when investors are worried about inflation; bond prices normally go up when the opposite is the case.

One possible factor in gold's surge is its role as a haven in times of geopolitical trouble. That seems overblown, though: Tensions in North Korea may be ratcheting up but a full-blown conflict remains a low probability. Worries about the region probably only account for about 15% of gold's 10% rise since mid-July, estimates Jeff Currie, head of global commodities at Goldman Sachs Group.

What seems more likely is gold investors are proving more sensitive to signs of global inflationary pressures.

Sure, most analysts expect another weak August inflation reading for the U.S. on Thursday, and continued tepid wage gains may bear that out. But there are plenty of reasons to expect steady, if not scorching, price gains in the West in the next 12 months. The most obvious is the U.S. dollar's decline this year, which has helped push up the price of all commodities, including gold.

A less appreciated factor is China, the world's largest goods exporter and biggest consumer of most industrial commodities. China's currency has risen sharply this summer, boosting the cost of

Chinese goods. Meanwhile, inflation has also remained stubbornly high within China, in part due to Beijing's campaign to shut down excess factory capacity in steel, aluminum and other industrial sectors.

A pricier yuan and costlier goods in yuan terms are a double whammy for foreign buyers of Chinese goods, namely, everyone.

An inflationary blowout remains unlikely. Chinese policy makers are starting to signal discomfort with the pace of the yuan's rise; the nation's central bank eased two-year-old restrictions on betting against the currency over the weekend. And slower growth in China's property market, which drives demand for everything from cement to steel to copper wiring, will likely begin to put a damper on things in the closing months of 2017.

Still, the bubbly sentiment in Treasurys in recent days risks underestimating the chances of higher prices to come. This time around, it's gold bugs whose inflation antennae may be better attuned.



Gold is near a yearly high.