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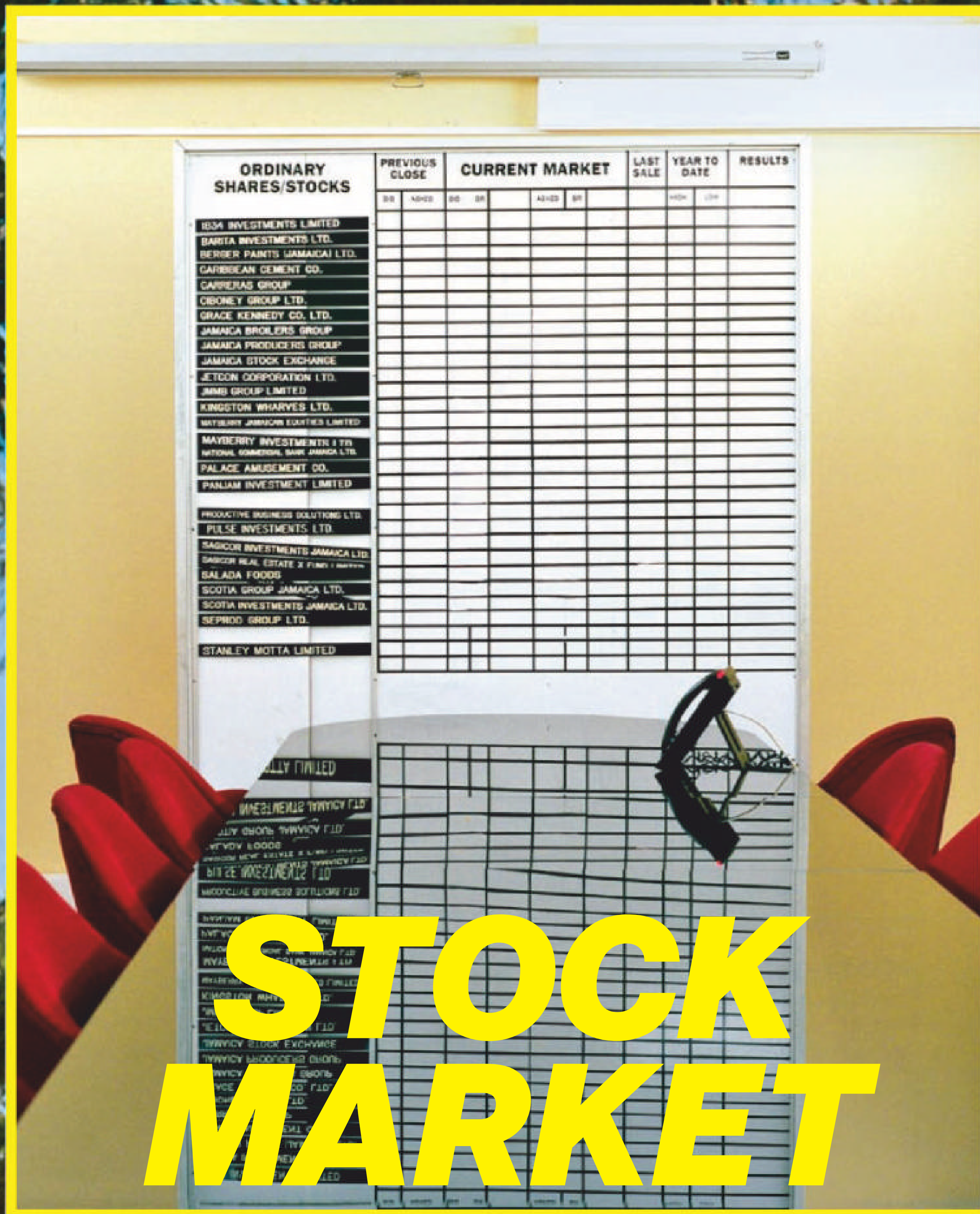

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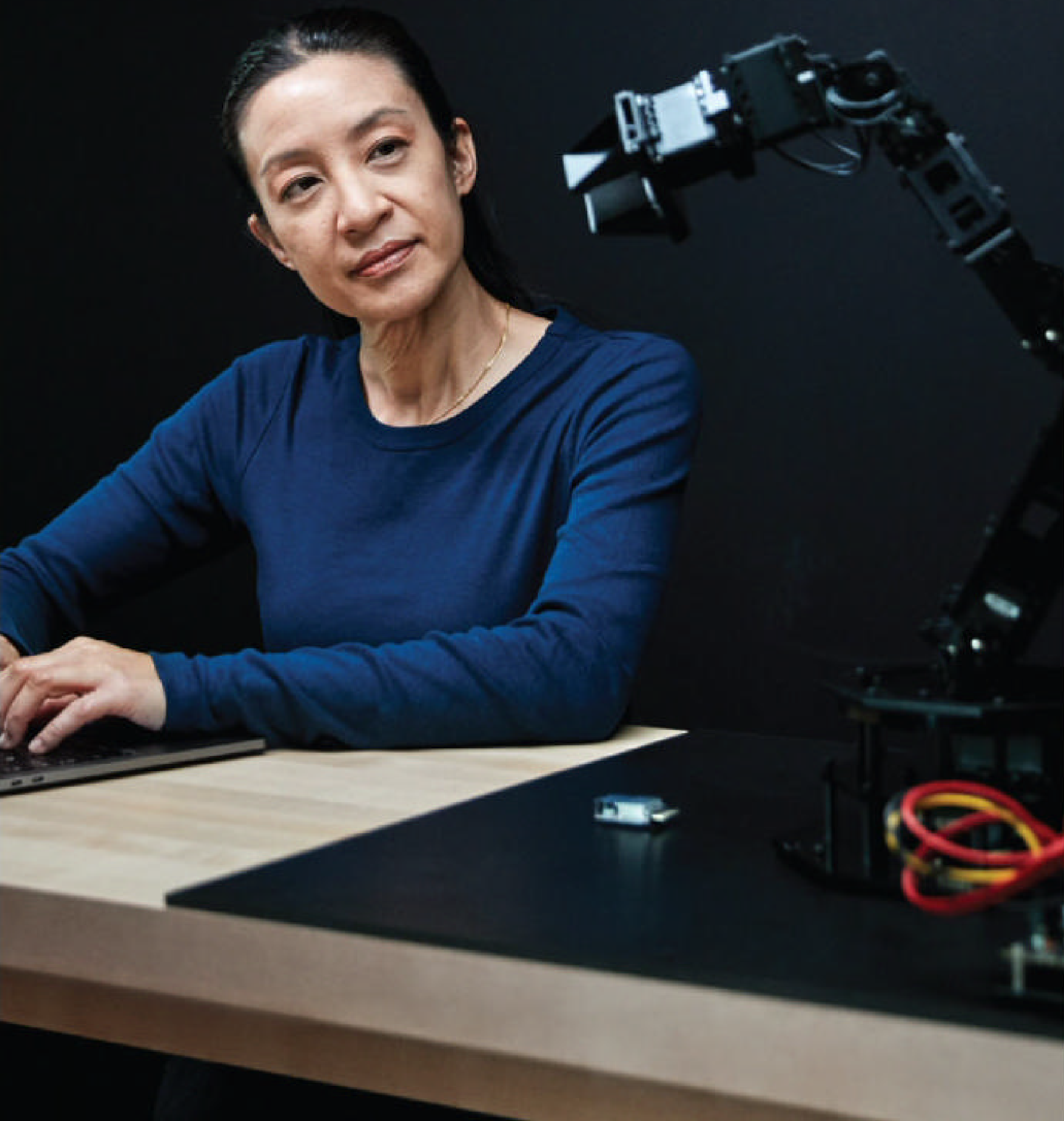

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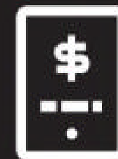

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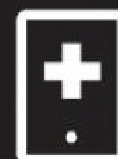

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Bloomberg Businessweek

January 21, 2019

◀ Marlene Street Forrest, the managing director of the Jamaica Stock Exchange

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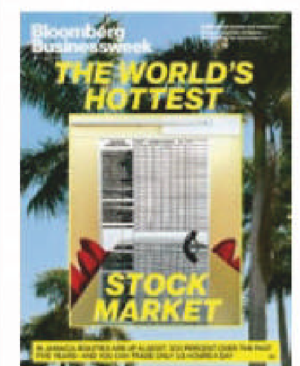

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From Risk to Opportunity: Amundi's Commitment to Responsible Investment Strategies

The world of responsible investment is in the midst of a major shift, as world leaders increasingly emphasize the critical role of finance in achieving a sustainable global economy that creates value for present and future generations.

Amundi's three-year action plan through 2021 details the company's intention to lead by example, by broadening the scope of ESG investment analysis and increasing the range of specialized ESG offerings available to institutional and private investors.

Deep roots and forward thinking

While one might be forgiven for thinking that this is a response to current events, the action plan is a well thought-out and carefully prepared expression of the company's DNA that will increase investor access.

Yves Perrier, Chief Executive Officer, Amundi, says: "Since its creation, Amundi has chosen to make responsible investment one of the company's founding pillars. This was based on two convictions: the responsibility companies and investors have to society, and that this is a guarantee of long term financial performance. This three-year plan extends our commitment to responsible investment and anticipates the expectations of our clients."

Knowledge is power

The company has developed and continues to refine its proprietary methodology for ESG analysis that involves 36 ESG criteria, and aims to cover 100 percent of the more than 8,000 issuers in its investment universe by 2021.

Amundi has taken the innovative step of "ESG benchmarking": the 2021 action plan calls for each fund's benchmark index to be scored for ESG based on its weighted holdings. All actively managed funds—representing close to €1.4 trillion in assets—will be required to outperform the ESG score of their benchmark index.

Alongside this transparent and systematic process, Amundi is committed to promoting positive change in the marketplace through shareholder voting and engagement; as Europe's largest asset manager,* Amundi is in a position to bring considerable weight as a shareholder.

The three-year plan calls for 100 percent of voting activity to integrate ESG issues. Given that Amundi voted at over 2,500 general meetings in 2018, this represents an enormous commitment.

> "Amundi has confirmed its founding principle as a responsible investor"

Investing in sustainable change

Amundi continues to develop new vehicles that allow investors to bring their investments in line with their most important values. The company will concentrate on three broad areas.

In the context of international pressures to combat the global climate crisis, Amundi favors instruments that stimulate supply as well as demand, such as green bonds. Social-impact investing is another area in which Amundi is increasing its focus, and capitalizing on its experience and pipeline as a leading investor in European green funds to expand geographically, so international clients can make an impact in their own backyard.

The company is also committed to doubling its footprint of passively managed ESG funds.

Amundi also contributes to the public square, publishing research by its in-house team of ESG analysts and sponsoring the Medici Committee, a think tank devoted to addressing major societal challenges through the lens of finance. More directly, the company works hand in hand with clients to help them identify their values and provide tailored investment solutions.

With its 2021 Action Plan, Amundi has confirmed its founding principle as a responsible investor, committed to aligning its fiduciary and social responsibilities and to meeting its clients' expectations.

**Source IPE "Top 400 asset managers" published in June 2018 and based on AUM as of end December 2017.*

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IN BRIEF

By Benedikt Kammel

● Bank of America, Citigroup, Goldman Sachs, JPMorgan, and Wells Fargo reported

$111b

in annual profits for 2018, the largest in U.S. banking history. The final tally will be larger—Morgan Stanley had yet to report at press time.

● U.K. Prime Minister Theresa May lost her Brexit vote in Parliament by 230 votes, a defeat as resounding as it was unsurprising, given the monthslong opposition to her proposal. She survived a confidence vote called by the opposition Labour Party the next day, 325 to 306. ▷ 39

● More than 30,000 teachers went on strike in Los Angeles, the first time since 1989, as they demanded better conditions for students and higher wages.

● The mayor of Danzig, Pawel Adamowicz, was fatally stabbed in the heart at a charity event on Jan. 14.

He's the first high-ranking politician to be assassinated in Poland since the fall of communism in 1989. The assailant, a convicted bank robber released from jail just last month, was apprehended at the scene of the crime.

● Banco Santander SA reneged on its offer to make UBS investment banking head Andrea Orcel its next CEO. It balked at absorbing tens of millions of dollars in deferred pay for the executive. For now,

José Antonio Alvarez will stay on as chief of the largest bank in Spain.

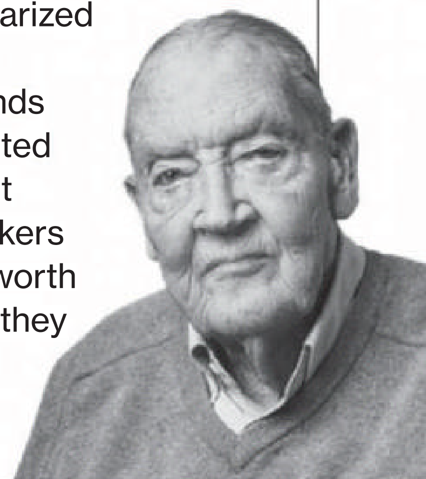
● Federal authorities in Seattle are investigating Huawei Technologies Co. for allegedly stealing trade secrets from U.S. companies such as T-Mobile US Inc., according to a person familiar with the matter. A spokeswoman for the U.S. Attorney's office in Seattle declined to comment, as did a spokesman for Huawei.

● President Donald Trump warned Turkey by tweet that it faces economic devastation if it attacks Kurdish forces in Syria after a planned U.S. pullout. A subsequent phone call with Turkish President Recep Tayyip Erdogan calmed the waters somewhat.

● Riots erupted in Zimbabwe, spreading from the capital of Harare to other towns.

The protests were stirred by a hike in fuel prices, already considered the highest in the world. President Emmerson Mnangagwa was out of the country, touring Russia and neighboring states in search of financial aid.

● John Bogle, patron saint of small investors and scourge of high-priced money managers, died at 89. As founder of Vanguard Group Inc., he popularized low-cost index funds and insisted that most stockpickers weren't worth the fees they charged.



● The economy of Germany, the world's third-largest exporter, narrowly avoided a recession at the end of 2018.

● A powerful explosion, apparently caused by a gas leak, blew apart a Paris bakery, leaving at least 4 dead and 50 injured.

● Kenya blamed Islamist militants for an attack on a Nairobi hotel and business complex that left 14 dead.

● McDonald's lost its trademark on the Big Mac in Europe in a long dispute with Irish chain Supermacs. It plans to appeal.

STRIKE: ALEX WELSH; ALVAREZ: ANTONIO HEREDIA/BLOOMBERG; BOGLE: SALLY MONTANA/REDUX

▶ Ford Is First out of the Gate

The company reports earnings for the fourth quarter on Jan. 23, the first U.S. carmaker to give an indication of consumer appetite. Ride-hailing, car-sharing, millennial auto-ownership fatigue, and parking restrictions may all be contributing to slipping global demand.

▶ The World Economic Forum starts its annual meeting in Davos on Jan. 22 (page 41). The presidents of the U.S. and China won't be present, however.

▶ China releases fourth-quarter GDP data on Jan. 21. Economists will look for signs that the trade war with the U.S. is hurting its growth.

▶ UBS reports fourth-quarter earnings on Jan. 22. Switzerland's biggest bank has begun looking for a successor to CEO Sergio Ermotti.

▶ The European Central Bank announces its interest-rate decision on Jan. 24, amid growing concern about a global economic slowdown.

▶ Norway makes its next move on rates on Jan. 24. The central bank said in December it will "most likely" raise interest rates again in March.

▶ St. Moritz stages its annual snow-polo tournament on Jan. 26, a spectacle of fur coats, Champagne, and private jets. Also, a few ponies.

■ BLOOMBERG OPINION

May's Crushing Loss

● Her Brexit catastrophe leaves only two options: Leave with no deal or don't leave at all

"Defeat" is too small a word for the rebuke Britain's Parliament handed Prime Minister Theresa May. Her Brexit deal, laboriously negotiated over months, was voted down by a massive 230 votes—a far bigger margin than expected and the worst loss of any British government in modern times.

Yet if this brutal rejection has caused May to think again, she didn't let on. She promised talks, meetings, and yet more conferring with the European Union. It's as though she thinks she can extract some ornamental changes to the bargain and get the House of Commons to come around to her way of thinking. In this she is almost certainly wrong.

Parliament rejected the deal with good reason: Leaving on May's terms would have made the country poorer for a generation, inhibited its independence, clobbered its businesses, and battered its public finances. It would solve no problems, settle no questions. No semantic reshuffling can salvage it.

May managed to survive a confidence vote moved by Labour Party opposition. The Tories who defected on Brexit preferred to retain her as leader and avoid a general election for the time being. But a reckoning is coming. With 72 days to go before Brexit, the country is stockpiling food and medicine. Businesses face escalating costs and worsening uncertainty. Immigrants are in limbo. Troops are on standby. Stasis prevails even as the sense of crisis intensifies.

There's no realistic hope of coming to an agreement that both Europe and the U.K. Parliament will accept, and of making plans to implement it, before the March 29 deadline. A chaotic Brexit is the default. To avoid it, Britain must withdraw its Article 50 notice to quit or ask for an extension.

An extension would require the unanimous consent of other EU countries, which cannot be taken for granted. And unless the government has a realistic plan for using the extra time, this course would mean a few more months of yelling and uncertainty before the next cliff edge looms.

The better course would be to revoke Article 50, which the U.K. can do unilaterally. To be sure, this would be a grave step, and one that May has promised not to take—because it would in effect overturn the choice British voters made in 2016. It would be a declaration the Brexit project has failed—but to admit this would simply be to recognize reality. Britain hasn't been able to design an exit. Its government is paralyzed.

In either case, extension or revocation, a second referendum should follow. This one, unlike the first, would be conducted in the light of information about what Brexit actually entails. If voters again chose to quit, despite all they've learned since 2016, there'd be no more excuses.

Before the disastrous vote, May said: "The time has now come for all of us in this House to make a decision." She's right, but she won't follow her own instruction. The clock is running, and all she has to offer is more dithering. Ⓑ

Written by the Bloomberg Opinion editorial board

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Too Big To Fail?

● Even if the trade war is resolved, China is mired in a deep and distinct financial crisis

● By Michael Schuman

Once again, the world's investors are turning their worried gaze toward China. And for good reason. Economic growth in the third quarter sank to 6.5 percent, the slowest pace since the depths of the global financial crisis in 2009. Car purchases fell last year for the first time in more than two decades. Apple Inc.'s warning in early January that iPhone sales in China were sagging alerted the world to how a slowing Middle Kingdom would drag down global growth and corporate profits. But the locals figured that out a while ago. Even after a recent uptick, the stock market in Shanghai has still plunged by more than a quarter from its 2018 high. The outlook isn't any rosier. Tariffs on Chinese exports to the U.S. imposed by President Donald Trump are starting to pinch the country's factories. A steep and unexpected plunge in imports in December signaled just how sharply the economy is decelerating. That's led Beijing to turn the volume

ILLUSTRATION BY PETER CROWTHER ASSOCIATES LTD.

down on its bravado and negotiate with Washington to defuse the conflict.

A trade pact, if it happens, may soothe investors, and perhaps even juice economic growth—at least temporarily. But it won't bring an end to China's woes. While tariffs are a nuisance, the real problems run deeper, embedded in China's financial structure.

What goes widely unnoticed is that China is already in crisis. No, it's not the sort of hold-on-for-dear-life collapse the U.S. had in 2008 or the surprising, ferocious meltdowns the Asian Tiger economies experienced in 1997. Nonetheless, it's a crisis, complete with gutted banks, bankrupt companies, and state bailouts. Since the Chinese distinguish their model of state capitalism as "socialism with Chinese characteristics," let's call this a "financial crisis with Chinese attributes."

This crisis is not merely about the current slowdown in growth. It's been going on for a while, and by the looks of it, isn't going away anytime soon. How it's resolved—or isn't—will have repercussions much bigger than a few quarters of poor growth performance. This crisis is about China's economic future and whether or not it can manage the structural transformation necessary to propel the economy into the ranks of the world's most advanced. And it also will determine if China will be a pillar of global growth—or a threat to the world's financial stability.

On the surface, the whole idea that China is in a crisis may sound ridiculous. Growth has tapered off, but it remains relatively strong—assuming you believe the government's figures. Banks and companies aren't tumbling into insolvency on a massive scale. The yuan has even shown signs of strength in recent days. While anxiety over the state of the economy has mounted—thus the pullback by Chinese shoppers—the mood in China hasn't degenerated into the gloom that usually accompanies financial upheavals.

Crisis? What crisis?

True, China may never suffer the panicked fiasco that emanated from Wall Street in 2008. This financial crisis with Chinese attributes isn't taking the same course as most others. Rather than a sudden explosion that destroys banks and jobs, China's version is protracted, moving so slowly that it can be hard to notice. Ultimately, though, the cost and pain will be similar to—perhaps even worse than—that of the traditional crises we've come to expect.

A few years ago, some China watchers (this writer included) predicted the economy could tumble into a 2008-like collapse. All the warning signs for catastrophe were flashing bright red: a housing bubble, excess capacity in industries from steel to solar panels, and most worrisome of all, a debt buildup of gargantuan proportions. Total debt relative to national output surged to 253 percent in mid-2018, from only 140 percent a decade earlier, according to the Bank for International Settlements. No emerging economy since the 1990s has had such an outsize debt expansion and escaped some sort of financial calamity. China would have to defy history to dodge a debt disaster.

We've been watching and waiting for China's Lehman Brothers moment—then waiting some more. It never arrived. Some analysts have come to figure it never will—that, indeed, China is too big to fail. The Chinese government, the new argument goes, has so many levers of control—over banks, big corporations, and capital flows—that it can suppress the sort of crisis a more liberal economy can't prevent. This superpower was on display in 2015 after a stock market bubble burst, fueled by shifty lending and bureaucratic ineptitude. Money flooded out of the country as the currency staggered. What would likely have laid other emerging markets low was just another day's work for China's powerful mandarins. The government organized a stock bailout and clamped down on capital outflows. Crisis averted.

That approach is representative of Beijing's overall strategy toward its debt problem. The government—obsessed with social stability—isn't allowing the debt bomb to detonate. But the financial crisis with Chinese attributes is inflicting the same damage on the economy anyway.

As in any debt crisis, the health of China's banks is being dangerously eroded. Although nonperforming loans officially reached the highest level in a decade at the end of 2018, they remain at less than 2 percent of the total outstanding, according to the government. Hardly anyone believes that statistic. Charlene Chu, a senior partner at Autonomous Research and one of the foremost experts on China's credit woes, estimates that 24 percent of total credit, worth some $8.5 trillion, has gone sour. That may sound outrageous, but in the 1997 meltdown, nonperforming loans in Indonesia, South Korea, and Thailand reached about a third of their total loans.

As is often the case in crises, the true extent of the debt and the damage is probably higher than anyone can guess. In an October study, S&P Global Ratings noted that the amount of local government debt in China remains a mystery, since so much of it is held off balance sheets. That "hidden" debt could be "multiples of the publicly disclosed amount"—as high as $6 trillion. S&P calls that sum "a debt iceberg with ▶

◀ titanic credit risks." Local governments have often done the heavy lifting on growth-stimulating infrastructure spending, but with so much debt, that role is reaching its limits.

China is dealing with another feature of a financial crisis: capital flight. Because of strict controls, money can't gush out as it probably would under a less restrictive regime. But it ends up overseas anyway. Chinese have topped the list of foreign buyers of U.S. residential real estate for six consecutive years, according to the National Association of Realtors. In the 12 months to the end of March, they snapped up more than $30 billion worth of American homes. Canadians purchased only a third as much; Brits and Indians, a quarter each.

In theory, the Chinese-style financial crisis has advantages over the run-of-the-mill sort. By maintaining growth and employment, Beijing is buying time to fix the system. Regulators are attempting some sort of cleanup: Corporate defaults were up sharply last year. In reality, the government is perpetuating the crisis by taking out the financial garbage much too slowly. What's probably required is a massive overhaul of bloated state-owned enterprises. Even worse, policymakers keep adding refuse to the pile. They remain fixated on achieving growth targets impossible to reach without infusions of more credit. China is a debt junkie, and like any addict, it needs a fix–of credit–to keep going. When that short-term relief wears off, the economy begins to slow down again. Chinese leaders get the shakes, lose their determination to tackle the debt, and inject another hit of credit.

They're trying it again. Much of the recent slowdown results from government efforts to constrain debt. So policymakers are, as usual, turning the credit spigot back on. In early January the central bank reduced the amount of cash it mandates banks hold in reserve, allowing them to lend more. Inevitably, that means more bad loans. "More debt is generated, and that debt is used to create all the things that have caused the problem over the past decade," says Dinny McMahon, author of the book *China's Great Wall of Debt*.

In that sense, the government is making the financial crisis with Chinese attributes worse than a standard crisis. Lehman moments might be terrifying, but they're also cleansing, an opportunity for the market to scrub out the bad stuff and clear room for new, good stuff. Beijing, by stopping that from happening, is allowing the waste to rot and fester, likely enlarging the costs of the unavoidable cleanup.

Eventually the state will have to step in and fix the mess, just as the U.S. government did in 2008. China's banking repair will likely require the mother of all Troubled Asset Relief Programs. We can get a rough idea from past crises of how big the bill might be. South Korea's government spent the equivalent of 31 percent of national output repairing its financial system in the wake of the 1997 crisis. Applying that as a guide, China's tab could reach $3.8 trillion. It could be even higher. Indonesia coughed up 57 percent of its gross domestic product in its post-1997 restructuring.

Meanwhile, the economy is weighed down. Too much of China's debt has been amassed in unproductive ways–unnecessary factories, insolvent "zombie" companies–and that gross misallocation of resources is eating away at key drivers of growth. The New York-based Conference Board, a research association, figures total productivity growth in China has been negative since 2012.

All this leads to a downward spiral. With the nation already buried in debt, each attempt to stimulate the economy with fresh credit has a smaller and smaller payoff. As research firm Fathom Consulting explained in an October study, China's old economic model "is exhibiting diminishing marginal returns." There are signs of that happening. Despite months of prodding lenders, credit growth has not picked up steam as policymakers have wished. Heightened anxiety over the economy combined with the already staggering level of debt is making it more difficult for the government to rely on additional credit to keep China growing.

Perhaps there will come a point where even Chinese policymakers recognize that the debt is so dangerous that controlling it must take precedence over growth. It's difficult, though, to imagine what will wake them. Higher inflation could be a game changer, since that would make it more challenging for the central bank to keep pumping in the cash the system needs to stay afloat. But that isn't in the cards, at least in the short term. A sharp drop in inflation is raising concerns that China might enter a deflationary period that would make its debt an even heavier burden to bear.

The only real solution, as McMahon notes, is "changing the way the economy grows." Economists and policy wonks have argued for eons about China's need to "rebalance"–shift its growth engine from investment to consumption. That's not happening quickly enough. Each time the government uses debt to prop up growth, it's a setback for reform of the economic system. Beijing, according to London-based Fathom, is "avoiding the economic realities of rebalancing while storing up problems for the future."

The underlying issue is that the liberalizing reforms that could set the economy on a healthier track have all but evaporated, and there's no revival on the horizon. President Xi Jinping's top priority is imposing Communist Party control on everything, so he's kept the state-led, investment-heavy economic agenda that's at the heart of this characteristically Chinese financial crisis. His latest industrial policies may aspire to fancier products–robots, microchips, electric cars–but they could create the same old mess: too many factories, too much debt, too much waste.

Even if Xi's approach gives birth to new sectors and growth, that won't necessarily undo the harm already done. The bad loans won't magically transform into gold. The only real difference between a regular financial crisis and a financial crisis with Chinese attributes is the duration. Most normal financial upheavals last months; China's may drag on for years. As the world's premier emerging economy, the People's Republic should be a source of succor to a slipping world economy. But until it finally resolves its financial crisis, China will instead remain a source of global stress. Ⓑ

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Sears's Long

● Eddie Lampert, who's controlled the retailer since 2005, wins a last-ditch bid to try to save it—again

More than 100 years ago, retailer Sears, Roebuck & Co. leveraged what was then the latest technology—the U.S. postal system—to become the Amazon.com of the 20th century. Its catalog and mail-order business revolutionized American shopping, and as recently as 30 years ago, the sales of Sears topped those of Walmart Inc. Since then the advance of discounters, specialty retailers, and online sellers, along with plenty of self-inflicted wounds, has sent Sears Holdings Corp. plodding toward extinction, going from about 3,900 stores at the end of 2009 to 766 at the time of its bankruptcy last year. Today, Walmart is America's No. 1 retailer, and in recent years key pieces of once-dominant Sears have slowly been sold off.

That grim history didn't keep billionaire hedge fund manager Eddie Lampert, Sears's current chairman and former chief executive officer, from swooping in on Jan. 16 with a last-ditch, $5 billion plan to buy the company's assets during a bankruptcy auction, days after Sears and its advisers rejected his earlier offer.

Allies say Lampert saved an American icon and the jobs of its almost 50,000 workers. Others say he simply delayed its inevitable death. Still others say he had a compelling personal motive to stay involved after creditors threatened legal actions over Sears's asset sales during the years he led it.

Besides having to offer more than $150 million over his earlier bid, Lampert had to give up a key bargaining chip to win the bidding. He'd been asking unsecured creditors to indemnify him from possible legal action over what the creditors allege were conflicts of interest in the stripping of assets from a failing company. Lampert has said the deals were properly crafted and kept the chain alive. Sears declined to comment. ESL Investments Inc., Lampert's fund, didn't immediately respond to requests for comment.

Lampert is "not a regular buyer," Eric Snyder, chairman of the bankruptcy practice at Wilk Auslander, which represents some Sears landlords, says. That's because the retailer owes its chairman and his fund more than $1 billion.

Whatever the deal does to eliminate some of Lampert's legal liabilities, it does little to improve

Edited by
James E. Ellis

Sears's prospects. The chairman crafted the winning bid by converting into equity some of the money owed him by the retailer. Yet the U.S. consumer landscape hasn't changed much since October, when the company filed for Chapter 11 protection with liabilities of about $11 billion. Millennial shoppers continue to favor clicking on retail websites over heading to the Sears store at their local mall. And Amazon is still eating the metaphorical breakfast, lunch, and dinner of many retailers. "Is this big-box chain a viable business?" asks David Wander, a bankruptcy attorney at Davidoff Hutcher & Citron who represents two Sears vendors, echoing the skepticism of many creditors. "If Mr. Lampert is successful in restructuring the company with a deleveraged balance sheet and the supposed profitable stores, will it make money in this challenged environment where everyone's getting hammered by Amazon?"

Middle-market department-store chains haven't had a good decade. Macy's Inc. and Kohl's Corp. recently reported disappointing sales even as Americans spent like crazy this holiday season. But plenty of Sears's wounds were self-inflicted. The retailer did pump money into expanding its online capabilities and sublet some of its overly large mall stores. Yet store upkeep languished under Lampert, with the company spending significantly less than its peers on keeping its outlets spiffy and well-staffed—something consumers increasingly expect from brick-and-mortar merchants.

"As T.J.Maxx and Target have shown, there are still opportunities to grow underlying sales with strong in-store value offerings," says Deborah Weinswig, founder and CEO of Coresight Research, a global retail think tank. Not so at Sears. From 2011 to 2016, Sears's sales densities, the revenue generated by a given area of sales space, fell 25 percent, more than any other major retailer, she says.

The company's stretched finances also became an ever-greater handicap as management repeatedly borrowed to fund operations and multiple turnaround attempts. "You can't load debt on a business that's shrinking," says Greg Portell, lead partner in consulting firm A.T. Kearney's consumer and retail practice.

But that's exactly what Sears did. From the time Lampert took over as CEO, after a staggering $3.1 billion annual loss in 2012, until the October bankruptcy filing, total debt soared while revenue plunged. Same-store sales, a key metric that tracks changes in annual sales at stores open at least 12 months, have dropped every year since the 2005 merger of Sears and Kmart—despite the closing of many underperforming locations.

Lampert promoted that retail match-up as one that could compete with Walmart, but the sibling chains suffered from unsuccessful ideas and shifting strategies, such as the ultimately scrapped plan to put grocery sections called Sears Essentials into hundreds of Kmart outlets.

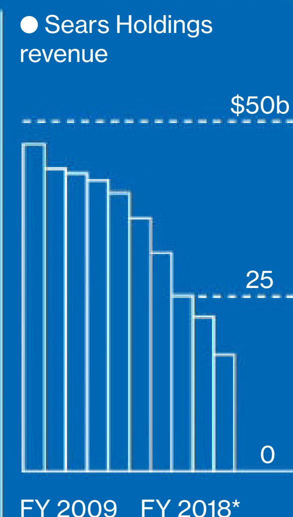
That left creditors to watch as the company burned through cash that many now argue could have been used to pay off debt in a liquidation. Others are miffed that Lampert or ESL Investments were related parties in some transactions involving assets pulled out of Sears over the years.

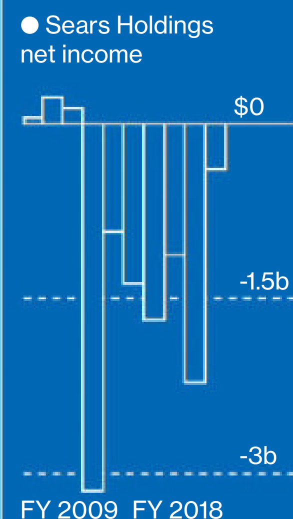
When Sears spun off Lands' End in 2014, Lampert became the biggest shareholder. He and his affiliates now own two-thirds of the lagging but still-profitable apparel company. In 2015, Sears sold Sears and Kmart brand stores worth $2.7 billion to Seritage Growth Properties, a real estate investment trust. Lampert and ESL Investments owned about 2.7 percent of the REIT's shares on Sept. 30. "Mr. Lampert, he giveth and he taketh away," says Wander, the bankruptcy attorney. "He says, 'Here's a dollar in cash,' and he takes $1.10 in assets."

One of the few options remaining for creditors would be to challenge the bankruptcy auction results in court. Such a move would come with political risks, because the alternative would probably be a liquidation of Sears that would put thousands of people out of work. Job losses in a bankruptcy are often an afterthought for negotiators trying to squeeze as much money as they can out of a dying enterprise. But times could be changing. Last year former employees of Toys "R" Us Inc. protested their mass firing after the retailer's liquidation, attracting the support of Democratic presidential hopefuls Elizabeth Warren and Cory Booker. The toy seller's private equity sponsors ended up creating a $20 million hardship fund for the more than 30,000 workers.

Now Wall Street is increasingly conscious of contributing to a decision to liquidate. "For many lenders, it's not just about narrowly mitigating losses on a particular investment," says Steve Wilamowsky, a bankruptcy and restructuring partner at Chapman & Cutler. "There are reputational and institutional concerns at play that in the long run are probably more important than an extra few cents on the dollar on any one loan." *—Lauren Coleman-Lochner, Josh Saul, and Eliza Ronalds-Hannon*

THE BOTTOM LINE Despite years of decline, Sears got a lifeline when its chairman won the retailer at a bankruptcy auction. But he may still face legal challenges over asset sales.





1/11/2019
$44.9m

Slide

● Store locations at yearend, Sears and Kmart

FY 2009	3,918
FY 2012	4,010
FY 2015	1,725
FY 2018	1,002

*SEARS'S FISCAL YEAR ENDS ON THE FOURTH OR FIFTH WEEK OF THE CALENDAR YEAR. DATA: BLOOMBERG

Streaming's Homegrown Superstars

● Spotify, Deezer, and similar services are helping domestic acts broaden their reach

The list of the 10 best-paid women in music is dominated by American superstars such as Katy Perry, Lady Gaga, and Taylor Swift. But nestled at No. 8 is a German singer named Helene Fischer.

Although she's little known outside her home country, Fischer has shattered virtually every chart record in Europe's biggest music market since her 2013 hit *Atemlos durch die Nacht* ("Breathless Through the Night")—the most downloaded song by a German artist ever. Last year she sold 900,000 tickets to her stadium concerts featuring multiple costume changes, a dress that appears to be made of water, and Cirque-du-Soleil-style acrobatics, topping the Rolling Stones, Phil Collins, and Drake in ticket sales. "Helene Fischer is living proof of what you can achieve with music in Germany," says Frank Briegmann, who heads the central European operations of the singer's label, Universal Music. "Her ideas often push the boundaries of what's possible."

Fischer, 34, is one of a growing number of local-market musicians chipping away at the dominance of English-language pop. Warner's Spanish pop star Pablo Alborán topped his country's album charts last year, followed by Sony's singer-songwriter Rozalén and seven other domestic artists in the Top 10. In France, Johnny Hallyday is atop the charts more than a year after his death. In Brazil, the local version of country—*sertanejo*—is the most popular music on Deezer.

The growth of services such as Spotify, Apple Music, Deezer, and Pandora was supposed to turn the world into one giant music marketplace, with Adele, Beyoncé, and Celine Dion winning fans from Boise to Bangkok. But just as streaming has breathed new life into the music industry, helping expand sales by more than 20 percent since 2014 after a decade of painful declines, it's propelling previously unknown acts into the mainstream. Locals from places that once largely followed global trends can instantly reach a worldwide audience by uploading songs to Apple Music, Spotify, or YouTube. While record labels are still important in developing talent, "streaming has leveled the playing field," says David Price, global director of insight at IFPI, the music recording industry's global association.

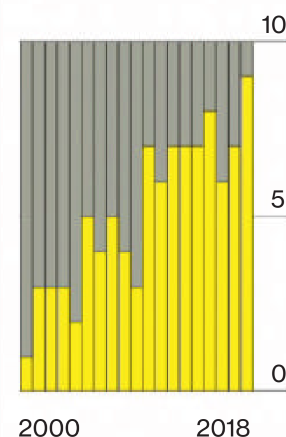
Three years ago, Spotify hired editors in the Netherlands to work with local talent and create playlists dedicated to Dutch music. That attention paid off for rapper Boef, who in 2017 logged 150 million streams in the Benelux countries, breaking records previously held by Britain's Ed Sheeran. In Germany and Italy, 8 of last year's 10 most streamed musicians on Deezer were domestic. In France it was 10 out of 10 as the Paris-based company curated playlists for fans of various genres. "In each market, we try to drill down into acts that are making an impact," says Junior Foster, who manages artist marketing for the service.

Fischer's success—she's sold more than 15 million records and had Germany's top-selling album in five of the past six years—has encouraged music companies to invest more in local talent. Bausa, a German rapper on the Warner label, last year sold more than 1 million copies of his single *Was du Liebe Nennst* ("What You Call Love"), achieving rare diamond status. Rock band AnnenMayKantereit played on the streets of Cologne until they signed with Universal and shot to fame with a hit titled *Pocahontas*. Even acts that got their start in the 1970s, such as Herbert Groenemeyer and Peter Maffay, have released big-selling albums over the past year.

While German stars have had limited success outside of their home market, a few foreign artists are breaking into the English-speaking world: Puerto Rican singer Luis Fonsi and reggaeton rapper Daddy Yankee had a global hit with their song *Despacito*, which became a meme and inspired a slew of remixes and spoofs. Brazilian singer Anitta

● Top 10 albums in Germany

■ In German
■ In a foreign language



● Highest-paid women in music, globally, in 2018

Katy Perry	$83m
Taylor Swift	80
Beyoncé	60
Pink	52
Lady Gaga	50
Jennifer Lopez	47
Rihanna	38
Helene Fischer	32
Celine Dion	31
Britney Spears	30

▼ Fischer in her water dress

FROM LEFT: CNW GROUP/45 DEGREES; PHOTOGRAPH BY GIULIA MARCHI FOR BLOOMBERG BUSINESSWEEK; DATA: OFFIZIELLE DEUTSCHE CHARTS; DATA: FORBES

has cracked Spotify's worldwide charts and is getting her own Netflix show. And *Love Yourself: Tear* by South Korea's BTS last year debuted at No. 1 on the U.S. Billboard 200. Universal says it's willing to back Fischer, already popular in neighboring countries such as Austria and the Netherlands, if she chooses to bring her acrobatic spectacles to farther-flung markets. Will Peoria, Paris, or Perth embrace a German superchanteuse in a water dress? —*Stefan Nicola and Angelina Rascouet*

THE BOTTOM LINE With a boost from streaming platforms, domestic artists are topping the charts across Europe and beyond, challenging the record industry's grip on hitmaking.

China's Fakes Get Harder to Spot

● After a crackdown, counterfeiters try selling through messaging apps to avoid detection

China has come down hard on its world-renowned counterfeit industry in recent years. Bazaars lined with fake watches, shoes, and bags have been demolished. And a new law that went into effect on Jan. 1 promises to slap online retailers with fines of up to 2 million yuan ($295,504) if bogus goods are sold on their platforms.

But Chinese counterfeiters—still considered the most prolific in the world—have already reshaped their businesses by retreating to even more private spaces online. Many of the best fakers are now hawking their wares via social messaging networks such as Tencent Holdings Ltd.'s WeChat and ByteDance Ltd.'s Tik Tok. Buyers order what they want and pay through private messages. Such transactions are arguably "friend-to-friend" and not e-commerce as defined by the new law.

Counterfeiters are also getting better at making their fakes look real. These days a knockoff black Dior saddle bag can go for about 1,750 yuan ($255) on a Chinese social media network. That's less than a 10th of the $3,250 price for the real thing. It looks and feels authentic—a smooth, buttery leather with the heft of a true luxury bag. And it arrives in just a day or two, with what are purportedly Dior's engraved box, red ribbon, and certificate of authenticity. China's Ministry of Commerce, Dior, ByteDance, and Tencent didn't respond to requests for comment.

"The income disparity across China's diverse population—coastal vs. inland, urban elites vs. migrant workers—means that lower-priced goods, including those accused of being fake, will unlikely lose their market in China anytime soon," says Fan Yang, an assistant professor at the University of Maryland who wrote a book on Chinese counterfeits.

The global trade in counterfeits will balloon to $991 billion by 2022, from $461 billion in 2013, according to research firm Frontier Economics. China and Hong Kong are by far the biggest source of exported counterfeits, according to the Organization for Economic Cooperation and Development. Many of China's counterfeiters aren't shy about marketing their pricier fakes overseas, even offering free shipping. On Instagram they often post a picture of the bag they're hawking without specifying if it's fake or authentic. They include contact details on WeChat and other messaging services for buyers to follow up to make a purchase. The hashtag used is often that of a real brand—say, #Hermes or #Birkin—so shoppers can find them. An Instagram spokesperson said the company has systems to catch counterfeit content before a purchase is made, and buyers can report purchases they are unhappy with.

While China's new law should help, gaining ground against fakes will take time. "For the platforms to step up efforts to clear counterfeit products, they have to find effective ways of identifying sellers and then collecting evidence to prove that they are indeed selling fakes," says Pedro Yip, a partner at consultancy Oliver Wyman.

In recent years, global luxury houses have gone from being enraged at Chinese internet platforms to being willing to work with them, especially as they rely on the portals to reach Chinese consumers, who now account for a third of all global luxury demand. In 2015, Kering SA, which owns the Gucci and Saint Laurent brands, sued Alibaba Group Holding Ltd. over counterfeits it said were being sold on Alibaba's e-commerce platform. It dropped the suit two years later when it set up a "joint task force" to fight fakes with the internet giant.

Alibaba, meanwhile, says it's made a sustained effort to rid Taobao, its flagship e-commerce platform, of fakes. In 2017 it launched an Intellectual Property Protection platform where brands can file complaints and receive a response within 24 hours. It's also devoted resources to identifying and proactively taking down listings, according to a company spokesperson. —*Bloomberg News*

THE BOTTOM LINE As Chinese officials crack down on sales of bogus luxury goods, counterfeiters are using "friend-to-friend" transactions on the internet to sidestep new fraud laws.

● A genuine Dior saddle bag sells for $3,250. The above counterfeit was only

$255

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An Alzheimer's Vaccine Hints of Promise

United Neuroscience's small Phase II trial appears to have cleared a decades-old hurdle

PHOTOGRAPH BY BOBBY SCHEIDEMANN FOR BLOOMBERG BUSINESSWEEK

Edited by Jeff Muskus

◀ Hu and Reese have spent about $100 million for their vaccine R&D over four years and are looking for more funds

For two decades, biotech companies trying to tackle Alzheimer's disease have had little success. While vaccines have often shown promise for certain patients, they've come with devastating side effects for others—brain swelling, for example—because researchers haven't been able to reliably keep patients' immune systems from kicking into overdrive when exposed to the vaccines. Now, a four-year-old Dublin startup believes it may be on to something.

To be clear, United Neuroscience Inc. hasn't solved Alzheimer's yet, nor has it claimed to. But previously unreported results from a small, recent United clinical trial show that 96 percent of patients responded, without serious side effects, to the Alzheimer's vaccine the company calls UB-311. The patients seemed to demonstrate improved brain function and showed a reduction in the protein plaque gumming up their neurons, the company's report says. "We are doing better than the placebo on all these things," says Chief Executive Officer Mei Mei Hu. "We can't make any claims yet, but we're pointing in all the right directions."

While scientists aren't sure what causes or exacerbates Alzheimer's, there are several prime suspects: amyloid, proteins that build up in the body over time and clump together in ways that wreak havoc on the brain; tau, another family of proteins with similar issues; and inflammation in general. United's vaccine stimulates the patient's own immune system to attack amyloid, which some researchers believe to be the leading cause. The vaccine's job is to slow the proteins' clumping and, if possible, reverse some damage and restore brain function.

United's clinical trial, a Phase II study completed last year, tested the vaccine with a group of 42 patients who had mild cognitive impairment and appeared to be in the early stages of Alzheimer's. One set of patients was in the control group and received a placebo, while two other groups received three shots of the vaccine and then boosters either every three or six months over the course of a year and a half.

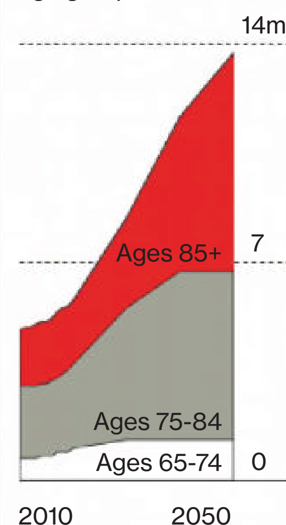
Although the small number of patients prevents United from drawing any major statistical conclusions, the company has been encouraged enough to move ahead with development of the vaccine, possibly with a larger partner, according to Hu.

"They claim to get around the immune response, and it looks like they have been successful," says Frank Longo, chairman of Stanford's neurology department and co-founder of Pharmatrophix Inc., which is also trying to cure Alzheimer's. "So that's good." United says it's spent $100 million so far on vaccine research and development.

Hu, 35, has a résumé that reads part Ivy League all-star and part industrious hippie. She's a Harvard-trained lawyer who practiced at Cravath, Swaine & Moore, consulted for McKinsey & Co., then left to start an organic farm and solar power company in Hawaii with her husband, Lou Reese, a 37-year-old real estate developer. They ran the farm for a couple of years, watching YouTube videos to figure out how to, say, slaughter chickens, before expanding the family circle with their latest venture.

Hu's mother, Chang Yi Wang, is United's chief scientific officer and was the inspiration for starting the company. Wang has spent decades developing medical treatments and vaccines, including an affordable blood-screening kit for people in developing countries, as well as a vaccine that protects animals against foot-and-mouth disease and another that chemically castrates male pigs to keep their meat tasty and marketable. The vaccines have proved so effective at keeping pigs healthier

● Estimated number of people in the U.S. with Alzheimer's disease by age group



PHOTOGRAPH BY BOBBY SCHEIDEMANN FOR BLOOMBERG BUSINESSWEEK. DATA: AMERICAN ACADEMY OF NEUROLOGY

that they've been used on billions of animals in China, Mexico, Brazil, and Russia. "My mother-in-law actually invented something that Harry Potters your balls and makes them disappear," says Reese, who's prone to gesticulate and toss his hair while Hu remains measured and direct. "The intensity of that as a son-in-law is unbelievable."

The family's big realization was that the same technology breakthroughs that made the animal vaccines work so well could likely be applied to humans. Hu and Reese persuaded Wang to give the research a go and lent their business expertise to taking her ideas out of the lab and into the field.

Yet targeting amyloid alone, without trying to control tau or inflammation, remains controversial, says Stanford's Longo. "Any therapy centered on going after amyloids is dependent on how accurate the amyloid hypothesis is, and that hypothesis continues to be questioned," he says. Also in the minus column: People using UB-311 would ideally start treatment before they showed symptoms and then receive a dose every six months. It's not a one-shot deal, and physicians can't confidently predict who will get Alzheimer's and dementia.

For now, United says it's focused on raising capital to fund a more conclusive UB-311 study and to keep refining its widening range of vaccines. The 35-person company is gearing up to start trials of UB-312, aimed at Parkinson's disease, and a second Alzheimer's vaccine meant to combat tau. "They have taken thoughtful initial steps with this very promising technology," says Eric Reiman, a leading Alzheimer's researcher and an adviser to United Neuroscience. "But this is still the beginning of the beginning." —*Ashlee Vance*

THE BOTTOM LINE United needs a bigger sample size for its next Alzheimer's study, but the latest one appears to have successfully targeted suspect proteins without any serious side effects.

"My mother-in-law actually invented something that Harry Potters your balls and makes them disappear"

D.C. Isn't Uber's Biggest Problem

● Turbulent markets and the federal shutdown complicate gig companies' IPO plans, but not as much as new state rules could

For companies like Uber and Lyft, the biggest 2019 headlines will come when they go public, as long as the federal shutdown ends and the U.S. Securities and Exchange Commission gets back to work. But the more important news may be 3,000 miles away in Sacramento, where lawmakers will have to deal with the fallout from a sweeping 2018 state Supreme Court verdict. The decision made it much tougher for companies to label workers independent contractors rather than employees–a direct threat to the business model of ride-hailing companies, among others.

"We cannot just put our heads in the sand with respect to the future of work," says Evan Low, a member of the California Assembly who co-chairs the legislature's tech caucus. "Status quo is unacceptable, and you will start to lose money."

Now that millions of Americans have experimented with work in the so-called gig economy, there's been a lot of talk about how much old laws and new startups should bend to accommodate each other. This year you can expect some action. Empowered by voters, squeezed by lobbyists, and provoked by judges, Democrats in states around the country will have to take sides. Although prospects for passing legislation in a divided Congress remain dim, California is one of several states poised to consider rules that could reshape the debate at the national level. Uber spokesman Nathan Hambley said in a statement that the company is committed to working with labor, government, and other businesses to ensure workers "have access to the social safety net" and that it sees "an opportunity to make real progress at the state level, including in California and Washington." Lyft declined to comment.

In a case involving courier Dynamex Operations West Inc., California's high court ruled unanimously that staff can't be considered contractors under state wage law unless they're doing "work that is outside the usual course" of their boss's business. The ruling reshapes how judges must consider whether Uber drivers or Amazon.com couriers, say, are entitled to a minimum wage and overtime. It's left local labor advocates with unprecedented leverage, though companies that rely on gig work are widely expected to secure at least some concessions from new Governor Gavin Newsom and the state legislature.

Newsom has been pulling together labor and business representatives when he spots them at events and urging them to hash out a deal, union and tech leaders say. The governor, who declined to comment for this story, told reporters on Jan. 14 that he wanted "to work to see if there is common ground" on the Dynamex issue. ▶

◀ Compromise could mean weakening the Dynamex standard in exchange for extending non-discrimination protections to contractors, setting up a benefits system that lets workers accumulate perks such as paid sick days, or establishing some sort of negotiating arm short of a full-fledged union. Uber cut a deal in New York in 2016 to provide funds for a guild that's affiliated with a national union and can raise workplace issues but can't call a strike.

In California, companies including Uber have been discussing similar ideas with the Teamsters and the Service Employees International Union, say people familiar with the matter. Bob Schoonover, the president of a California SEIU chapter, acknowledged meeting with gig companies but said, "I don't think there should be any compromise about workers' rights." Doug Bloch, political director for a Teamsters affiliate, says, "We need to look at every single model that's out there."

Labor also has fresh leverage in Washington state, where this year Democratic legislators have larger majorities. Lawmakers plan to introduce legislation there in the coming weeks that would tighten the definition of who can be called an independent contractor, require companies to help fund benefits, and create "sectoral bargaining" meetings in which contractors, management, and government hash out standards for wages and benefits. Such a system could offer a less legally vulnerable alternative to the Seattle City Council's ordinance that tried to establish collective bargaining rights for app-based drivers, which a federal appeals court signaled last year would likely be struck down on antitrust grounds.

Here, too, there's a chance of further compromise. Last year, Uber and an SEIU local in Washington state said they were discussing a portable benefits proposal. Uber has said it would want such a deal to concede its drivers aren't employees.

Democratic election wins have also boosted labor advocates' efforts in New York, where Governor Andrew Cuomo pledged in December to "ensure workers have labor rights in the gig economy," and in New Jersey, where Governor Phil Murphy has created a commission to recommend ways to crack down on employee misclassification. Other big states, including Republican-controlled Florida and Texas, have recently moved in the opposite direction, but this year gig companies are on the defensive, says Bradley Tusk, a consultant who's advised Uber and managed the last mayoral campaign of Michael Bloomberg, majority owner of *Bloomberg Businessweek*'s parent.

Labor and business leaders expect the coming slew of laws to set the terms of the debate in more of the country and, eventually, at the federal level. That's especially true of the debate in California. An employment standard mirroring Dynamex's has already been included in an overhaul of federal labor law proposed by Vermont Senator Bernie Sanders and co-sponsored by many Democratic presidential contenders. Business leaders, meanwhile, have been lobbying against the Dynamex standard in the nation's capital. "Democrats have a choice here," says University of California Hastings College of the Law professor Veena Dubal. "They can either take a stance against growing economic inequality, or they can be seduced by shiny technologies and the political capital of venture capitalists." —*Josh Eidelson*

● Newsom

THE BOTTOM LINE Gig companies have been lobbying hard to weaken or defang stronger standards for labor rights that threaten them in California and elsewhere.

Locking Up Secrets With Quantum Keys

● Banks and governments are testing next-level encryption to protect their dearest treasures

Commuters inching through rush-hour traffic in the Holland Tunnel between Lower Manhattan and New Jersey don't know it, but a technology likely to be the future of communication is being tested right outside their car windows. Running through the tunnel is a fiber-optic cable that harnesses the power of quantum mechanics to protect critical banking data from potential spies.

The cable's trick is a technology called quantum key distribution, or QKD. Any half-decent intelligence agency can physically tap normal fiber optics and intercept whatever messages the networks are carrying: They bend the cable with a small clamp, then use a specialized piece of hardware to split the beam of light that carries digital ones and zeros through the line. The people communicating have no way of knowing someone is eavesdropping, because they're still getting their messages without any perceptible delay.

QKD solves this problem by taking advantage of the quantum physics notion that light—normally thought of as a wave—can also behave like a particle. At each end of the fiber-optic line, QKD systems, which from the outside look like the generic black-box servers you might find in any data center, use lasers to fire data in weak pulses of light, each just a little bigger than a single photon. If any of the pulses' paths are interrupted and they don't arrive at the endpoint at the expected nanosecond, the sender and receiver know their communication has been compromised.

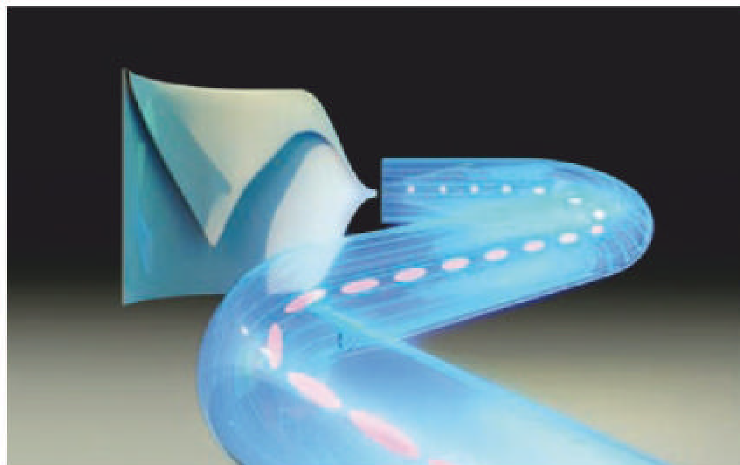
"Financial firms see this as a differentiator," says John Prisco, chief executive officer of Quantum Xchange, the company that's been operating the cable in the Holland Tunnel since the fall. Prisco says several large banks and asset management firms are testing his gear, but he declined to name them, citing nondisclosure agreements. The companies are considering using QKD to guard their most sensitive secrets, he says, including trading algorithms and customer settlement accounts. Quantum Xchange, based in Bethesda, Md., says it hopes to stretch its cables from Boston to Washington, D.C., and is also promoting them to U.S. government agencies.

Estimates of the annual QKD market range from $50 million to $500 million, but market researcher Global Industry Analysts Inc. says demand for QKD and related technologies may reach $2 billion by 2024. The Chinese government has created a 1,240-mile QKD-protected link between Beijing and Shanghai. It's also demonstrated the ability to use QKD to transmit and receive messages from a satellite. And a half-dozen QKD startups are pitching other kinds of clients. Qubitekk Inc., a startup in Southern California, has a U.S. Department of Energy contract for a pilot project to secure the communications that help operate power stations. Telecommunications giants including the U.K.'s BT Group Plc and Japan's NTT Corp. say they're considering whether to build the protection into their network infrastructure.

Why bother when most network traffic is already encrypted? Encryption is worthless if an attacker manages to get the digital keys used to encode and decode messages. Each key is usually extra-encrypted, but documents disclosed by former National Security Agency contractor Edward Snowden in 2013 showed that the U.S. government, which hoovers up most of the world's internet traffic, can also break those tougher codes. Exactly how the NSA accomplishes this isn't widely known. (One suspicion is that while keys are supposed to be based on multiplying two random large prime numbers together, many systems use a relatively small subset of primes, making it much easier for a computer to guess the key.)

Quantum computers are another potential threat to conventional encryption. Like QKD systems, these machines use quantum physics principles to process information and may one day achieve processing power far beyond that of conventional computers. When that happens—in the next 3 to 15 years, depending on whose estimate is right—quantum computers will give almost any user the code-breaking powers of today's NSA. In 2016 the NSA warned companies that do business with the U.S. government that their next generation of encryption systems would have to be resistant to attacks by quantum computers.

QKD has limits. It can protect data only in transit, not when it's at rest, stored in data centers or on hard drives. And because fiber-optic cabling itself absorbs some light, a single photon can travel only so far. Scientists have pushed the boundary ever outward, as far as 260 miles in lab experiments. Yet for high-speed transmissions under real-world conditions, the record is just 60 miles. Farther transmissions require a series of "trusted nodes," relays that are themselves vulnerable to hackers or physical tapping. China uses armed guards to secure the nodes in its 1,240-mile QKD network, says Anthony Lawrence, a former NSA network security expert and briefing officer who now runs cybersecurity startup Vor Technology LLC.



One sure way to avoid these security and distance issues is simply to cut the cord. British startup Kets Quantum Security Ltd. is working with Airbus SE on using QKD to secure communications between a drone and its operator on the ground. And satellite relays will eventually be able to transmit quantum-encrypted signals almost anywhere on Earth, predicts Lawrence, who's working to commercialize QKD. For the moment, though, the signals are stuck in the Holland Tunnel. —*Jeremy Kahn*

THE BOTTOM LINE While mass adoption of QKD technology remains a long way off, developers are racing to commercialize it before superpowerful quantum computers become more reliable.

● One estimate puts demand for QKD and related technologies by 2024 as high as

$2b

FROM LEFT: DAVID PAUL MORRIS/BLOOMBERG; ILLUSTRATION BY BUTT STUDIO

Edited by
Pat Regnier and
Eric Gelman

An Investing Prophet Takes on Climate Change

● Jeremy Grantham wants to devote $1 billion to help the world avoid calamity

Terrifying an audience is one of Jeremy Grantham's specialties. The legendary investor, co-founder of Grantham Mayo Van Otterloo (GMO), is famous for predicting doom. And he's famous for being right, with a remarkable record of spotting investment bubbles before they pop, notably the 2000 tech crash and 2008 financial crisis.

These days, the topic of Grantham's warnings is not financial markets but the environment. At universities and investor conferences, gardening clubs and local environmental groups, he gives a talk titled "Race of Our Lives"—the one between the Earth's rapidly warming temperature and the human beings coming up with ways to fight and adapt to climate change.

Green technologies, like batteries and solar and wind power, are improving far faster than many realize, he says. Decarbonizing the economy will be an investing bonanza for those who know it's coming—"the biggest reshuffling of the economy since the Industrial Revolution." Despite these gains, people are losing the race: Climate change is also accelerating, with consequences so dire that they're almost impossible to imagine.

Grantham says he'll devote 98 percent of his net worth, or about $1 billion, to help humans win the race. Currently he and his wife, Hanne, are giving more than $30 million a year to eight large nonprofits and about 30 smaller ones. Beneficiaries include three academic institutes in the U.K. named after him, at Imperial College London, the London School of Economics, and his alma mater, the University of Sheffield.

While the donations fund a variety of climate research and policy projects, Grantham focuses his presentations on overpopulation. Forget the flooding of oceanfront cities such as Miami or his adopted hometown of Boston. "Agriculture is in fact the real underlying problem produced by climate change," he says. With topsoil disappearing at a rate of 1 percent a year and "only 30 to 70 good harvest years left depending on your location," he says, farmers will struggle to feed the planet. Higher sea levels will inundate the world's great rice-producing river deltas.

"Even without climate change," he says, "it would be somewhere between hard and impossible to feed 11.2 billion" people, the United Nations' median population estimate for 2100. Every other animal species on Earth lives with "recurrent waves of famine," Grantham says, with population rising and falling based on their food supply. Why not us? He brings up a chart showing the tripling of the world's population since he was born, more than 80 years ago. "If that's the curve in the stock market," he says, "you know what to do: panic and go short." Translation: When something goes up that far for that long, it's almost certain to plummet. The only question is when. The next bubble, he seems to be implying, is humans. "The presentation is so severe and raw," says Morningstar Inc. Chief Marketing Officer Rob Pinkerton, who watched almost 1,300 financial advisers take in Grantham's keynote speech at the Morningstar Investment Conference in Chicago in May. "It really rattled them."

Grantham's discussion of overpopulation makes some people uneasy. "Population is a delicate issue," says Jonathan Foley, a climate scientist who focuses on agriculture and is executive director of Project Drawdown, a group working on responses to climate change. On the one hand, the decision to have children is "one of the most fundamental of human rights," he says. "Naturally it's a sensitive topic to bring up, especially coming from the West." Still, Foley agrees the issue needs to be discussed. "We can't pretend there are no limits to the planet," he says. "You need to address the seriousness of this without triggering people to become fatalistic."

Grantham delights in being provocative, making statements that seem especially outrageous considering the source, a longtime denizen of Wall Street. The investment business is a "vastly overpaid industry," he tells a roomful of financial advisers. He lambastes economists, the Federal Reserve, and the flaws of capitalism. "On income inequality, I am left of Karl Marx," he declares. A father of three and grandfather of six, he applauds the falling fertility rate in most of the developed world. "We have discovered at long last that children are both expensive and incredibly inconvenient," he says. And as for his perceived adversaries—climate skeptics, oil and chemical company executives, and politicians who fail to take climate change seriously—"perhaps they hate their grandchildren." ▶

PHOTOGRAPH BY TONY LUONG FOR BLOOMBERG BUSINESSWEEK

◀ Born north of London in 1938, Grantham never met his father, a major in the Royal Engineers who fought in World War II and died in North Africa in 1941. Grantham and his three older sisters were abruptly sent north to Yorkshire to live with their grandparents after a bomb landed, unexploded, dangerously near their home. After graduating from the University of Sheffield, he was frustrated to find Oxford and Cambridge graduates—"the typical, upper-class chinless wonders"—dominating the best jobs in London. Nonetheless, he says, he "talked his way" into a position at the oil company Royal Dutch Shell, then won admission to Harvard Business School.

For a billionaire, he's comically thrifty. He and Hanne have lived in the same Beacon Hill townhouse since 1974. A rare bit of self-indulgence is his recently arrived Tesla Model 3. Colleagues tell stories of Grantham insisting on flying coach and of helping him carry luggage down into the London Tube because he didn't want to pay for a car out to the airport. "He's cheap, and he's funny about it," says Peg McGetrick, a longtime friend and a director at GMO. "He really wants to put every dime into this foundation."

At first, Grantham and his wife were relatively conventional environmentalists. Their philanthropy was inspired by their travel, including a family trip deep into the jungles of Borneo when their children were young. By 2011, though, Grantham was protesting the Keystone XL pipeline outside the White House. His daughter was among dozens of climate change activists taken to jail. Earlier he had been "apolitical," or, if anything, an "old, late-lamented liberal Republican," he says. The 2000 U.S. election was a turning point. "Suddenly, politics and climate became mixed up," he says. "I began to realize that there were major-league deficiencies in capitalism which had not been on my radar screen." And "I had no idea how deeply the propaganda machine of the right wing went and how well-funded it was, how smart it was, and how far ahead of the curve it was. The left were ignorant in comparison."

Climate change, politics, and capitalism became frequent topics of Grantham's quarterly letters. In his view, the U.S. has been pushed into the grip of an unhealthy version of capitalism, one in which corporations put profits way ahead of all other considerations. "The social contract of 1964, when I arrived here, has been totally torn up," he says. "Anything that happens to a corporation over 25 years out doesn't exist for them. Therefore, grandchildren have no value."

While capitalism "does a million things better than any other system," he says, it fails completely on long-term threats such as climate change. "You must not expect unnecessary good behavior from capitalists," he says. The answer, he adds, is strong regulations: "I'm sorry, libertarians, it is the only way."

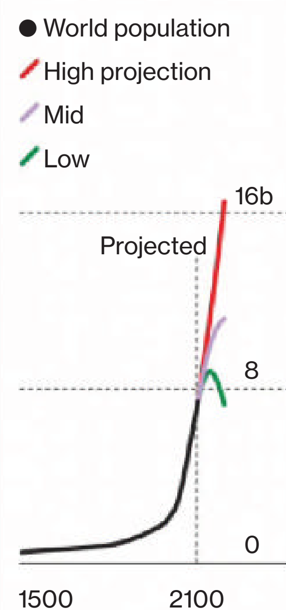
The election of Donald Trump was, he hopes, the "final flowering of corporatism. It seems that every conceivable advantage that you could give to corporations has been given, and every conceivable advantage has been taken away from the man in the street." He laments that the Republican administration has led to a "lopsided" tax law, more pressure on unions and workers, and a rollback of environmental regulations. Especially galling is Trump's withdrawal from the Paris Agreement, a move that he says makes the U.S. a "rogue state."

While giving away $1 billion, Grantham's planning to make even more money, and he's hoping climate change offers the opportunity. In April 2017, GMO, which manages about $70 billion, launched a Climate Change Fund—"after eight years of nagging," he says. It invests in companies and commodities expected to benefit from decarbonization—clean energy, agriculture, water, energy efficiency, and commodities such as copper that are used heavily in green technology such as batteries. "So quite a lot of stuff that I do is no longer blatantly off-topic," he says.

Grantham doesn't directly manage the fund, but he offers advice to the manager and plugs it during speeches and meetings with the large institutional investors that make up most of GMO's client base. He says he badly wants it to succeed so that other managers will copy its strategies. The fund's criteria are limited to the climate. Unlike many other socially responsible investments, it doesn't get into other social, labor, or governance issues. "This is so critical, I'm into triage," Grantham says. "I'm willing to compromise on every issue" to focus on climate.

Pitching the fund to investors and financial advisers, he champions the idea of selling off fossil fuel stocks. He assures notoriously conservative investment committees that it won't hurt performance: His analysis of returns over the past 30, 60, and 90 years shows divesting any one sector of the market barely affects overall performance. In the next several decades, he argues, oil stocks represent a huge risk for investors who don't recognize the threat of climate change. "They're operating in a biased world," Grantham says, one with a "systematically biased output of data" and obfuscation on climate change. "In that world, it is not surprising that investors have been slow on the uptake." Expect investors to recognize their

"On income inequality, I am left of Karl Marx"



DATA: UNITED NATIONS

mistake "very slowly, very slowly," then "all at once," he says. "The dangers are much greater than you think."

Grantham is also making climate investments with his own money. About a fifth of his total investment portfolio is "mission-driven"—mostly startups with technologies that could fight climate change. There are investments in companies working on fusion power, an ultra-efficient car, "next-gen" agriculture, and a battery that could be much cheaper, smaller, and lighter than anything on the market. Overall, about half his personal assets are in venture capital and other private investments, an unusually high amount to put in risky, illiquid assets. "We are trying to actually blow away everybody's return," he says.

A small, nondescript room in GMO's main offices on Boston Harbor serves as headquarters for all the Granthams' philanthropic and investing work. It's the office of Ramsay Ravenel, the foundation's executive director and one of two full-time staff members. With Ravenel right down the hall from Grantham's office, they can be in constant touch. "We can move fast. We answer to nobody," Grantham says. In one day, for example, they committed to funding a scientist's last-minute trip to Greenland to study the ice cap before the season changed. The strategy is constantly changing, Grantham said, sitting in Ravenel's office in May. "On at least a monthly basis, including yesterday, we sit down and say, basically: 'Wipe your mind clean, what are we trying to do here?' "

On climate science, the future of agriculture, and his other obsessions, Grantham risks looking like another billionaire dilettante weighing into topics he doesn't understand. But he sees his lack of training as a plus. "It's a wonderful advantage when you come in fresh as a daisy and question everything," he says, free of not just preconceived ideas but also any career risk that might make him less daring or original. He's spent years urging scientists to raise more of an alarm about climate change—to trumpet the data suggesting it's actually accelerating. Grantham turned 80 on Oct. 6. Asked how this milestone shifted his perspective, he pauses. "There's no quick one-liner on aging," he says. "We know this is an urgent topic, and I know I don't have that long to do it." —*Ben Steverman, with Annie Massa and Eric Roston*

THE BOTTOM LINE The legendary investor is going big with one last bet: Using 98 percent of his net worth in the battle to save the Earth from the ravages of climate change.

Turning Food Courts Into Office Space

● A dying mall in Los Angeles gets a makeover as Google plans to move in

Three decades ago, Tom Petty strummed his guitar while riding the escalator at Westside Pavilion in his *Free Fallin'* music video. He couldn't have picked a more iconic scene for 1980s Los Angeles or that era's mall culture. Every weekend, teenagers hung around the bright atrium and wandered the three floors. Over the years, the mall faded. Then this month, something surprising happened: Westside Pavilion's owners, Hudson Pacific Properties Inc. and Macerich Co., said they'd found a tenant to lease the building—Google.

The deal is the result of an ambitious half-billion-dollar plan to turn the indoor mall into 584,000 square feet of "creative" office space called One Westside. It's also a chapter in a much bigger tale about the places Americans go to shop. For all the talk about a "retail apocalypse" sparked by Amazon.com Inc., developers are finding ways to reinvent hollowed-out malls and strip centers. For properties near public transit and in cities that need more housing, hotels, or offices, redeveloping the hulking retail space of a bygone era can be profitable. But it takes imagination. "People drove by and didn't know what it could be," Hudson Pacific Chief Executive Officer Victor Coleman says of the mall. Still, he says, "you can't replicate this in urban environments everywhere."

The idea of redeveloping retail real estate is picking up steam as owners search for ways to expand and turn around struggling properties. Landlords are transforming a Sears store in Santa Monica, Calif., into offices and adding a hotel ▶

◀ to what used to be a mall parking lot in Seattle. In Dearborn, Mich., Ford Motor Co. employees moved into a shopping center that once housed Lord & Taylor. Empty stores are also attracting pop-ups, hospitals, and co-working providers such as WeWork. The real estate services company Jones Lang LaSalle Inc. predicts that flexible office space in retail properties will increase 25 percent per year through 2023, reaching about 3.4 million square feet.

Converting a giant mall into offices for one company isn't common, says Ami Ziff, director for national retail at Time Equities Inc. Hudson Pacific and Macerich had a unique opportunity. "Any landlord would probably kill to have that sort of tenant," says Ziff, whose company buys and renovates outdated shopping centers. But while leasing to Google may have been easier than trying to rescue the mall, it's "a major statement to the market that it's over-retailed."

The U.S. has the most shopping space in the world, 23.6 square feet per capita, or about five times that of the U.K. and other European countries, according to brokerage company Newmark Knight Frank. Redeveloping this space is expensive and comes with risks. Landlords often have to gut and chop up stores and then install new interiors and appliances, which eats into returns. In many locations, the benefits don't justify the costs. Another snag: Existing tenants can create obstacles for mall makeovers, because landlords are often locked into long-term leases. At Westside Pavilion, everyone has to be out by the end of January.

The fate of the mall was far from certain only a few years ago. It lost Nordstrom Inc., one of its anchor tenants, in 2017. Macy's Inc. bailed last March. What the property did have was a highly desirable location near one of L.A.'s new light-rail lines, freeways, and neighborhoods such as Santa Monica and Westwood. Rather than sell the mall, Macerich's then-CEO, Arthur Coppola, approached Hudson Pacific's Coleman about a possible joint venture. Hudson Pacific had undertaken other redevelopment projects and had a record of attracting companies such as Netflix, Uber Technologies, and Google as tenants.

"We knew, given the location, there'd probably be pretty strong demand for creative office space" from tech and media companies because there's not much inventory, says Macerich CEO Thomas O'Hern. One sign of that was Google's willingness to lease the space three years before it's scheduled to be finished, in 2022. The amount the tech giant will pay over the approximately 14-year lease wasn't disclosed, but Coleman says it's the highest total

rent in L.A.'s history. Google declined to comment.

In terms of square footage, the transaction is also the largest the city has seen in more than a decade. Macerich expects an initial-year return of more than 7.5 percent once the project is finished, O'Hern says. "It's a best possible result for the owners," says Jeff Langbaum, an analyst with Bloomberg Intelligence. "Macerich was looking at a nightmare, and they end up with a decent return." For Hudson Pacific, "it's a good return for a new development" in a market where there aren't many opportunities, he says.

Before the checks start rolling in, Westside Pavilion needs to close. There are about 20 stores left, down from more than 100 at its peak. Walking the mall's empty corridors feels like you're the last one at a party. The food court is abandoned, and on a recent afternoon, the only people seen walking around were two janitors in light-blue shirts. A sign in front of the Gap Kids store on the third level reads, "Fixtures, Furniture and Equipment For Sale."

"I'm going to miss the mall," says Rod Erick, manager of Hot Topic, one of the few stores still open. "I used to come here a lot when I was younger." Erick, who was folding clothes to be packed away for relocation, says the death throes of Westside Pavilion have been evident since July, when he started working at the store. Across the street from the mall, a popular burger joint called the Apple Pan has seen a drop in business as Westside Pavilion has emptied. "That has been a dead space for a while," says Sunny Sherman, the restaurant's owner. She's excited about the arrival of what could be around 3,000 highly paid workers, some of whom might wander over for a meal. Of course, Google is famous for its cafeterias, stocked with free food. *—Noah Buhayar and Lily Katz, with Matthew Leising*

THE BOTTOM LINE Redeveloping retail space into corporate offices can be expensive, but landlords in dense cities with little inventory are willing to take the risk.

● Retail space per capita in the U.S., in square feet

23.6

ILLUSTRATION BY JOSH FREYDKIS

PIERRE HUYGHE
UUMWELT

3 OCTOBER 2018 – 10 FEBRUARY 2019

Pierre Huyghe, *UUmwelt*, Installation view, Serpentine Gallery, London, (3 October 2018 – 10 February 2019). Photograph © Ola Rindal. Courtesy of the artist and Serpentine Galleries.

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Tax Breakla

Large swaths of Portland now qualify for a suite of federal incentives. Developers are circling

On a wet December evening, Mark Goodman steers a black Mercedes SUV into an open-air parking lot, one of dozens of development sites his family owns across downtown Portland, Ore. This one, he says, will be a $206 million tower with ground-floor retail, six floors of offices, and more than 200 luxury apartments. Amenities will include a yoga studio and roof deck. But the centerpiece will be a swimming pool that cantilevers out of the eighth floor. "The one thing I can say absolutely with certainty–it'll be the finest for-rent product in the city," Goodman says. It's also eligible for a U.S. tax break meant to help the poor.

Portland is about to see a flurry of construction because of a provision in the 2017 tax overhaul that led to the creation of more than 8,700 "opportunity zones" across the country–areas that, in theory, have been ignored by investors and need generous tax breaks to catch up. But Oregon did an audacious thing: It selected the entire downtown of its largest city to be eligible for the law's suite of benefits, as well as neighborhoods such as the Pearl District, where new high-rises loom over old industrial spaces converted into "creative" offices and

Edited by Cristina Lindblad

ndia

◀ Portland's Central Eastside is one of several neighborhoods designated as an opportunity zone

PHOTOGRAPHS BY CLAYTON COTTERELL FOR BLOOMBERG BUSINESSWEEK

boutique furniture stores sit near juice bars serving açai bowls. The Central Eastside, an area that Portland's alt weekly crowned the city's "best food neighborhood," is also included.

That's turning this city of about 650,000 into a microcosm of what critics see as one of the biggest problems with opportunity zones: Among a nationwide patchwork of struggling areas, there are a small number of thriving communities that may draw an outsize share of investors' cash. In some cases, the law may boost returns on investments that would've happened anyway. Some projects "could get more money than entire states," says Brett Theodos, a senior researcher at the Urban Institute who has studied the policy.

Goodman and his brother, Greg, are canny investors. But this time they just got lucky. Their grandfather started a parking lot business in Portland in the 1950s that they and their dad expanded over the years to include roughly 200 sites around the area. Portland's famed food-truck scene owes much to their decision some years back to turn over a few lots to the vehicles. In 2013 the family sold the business but kept the land. Their Downtown Development Group now has more than two dozen properties in the city that they hope to build on themselves or with partners.

At first the Goodmans didn't know about the incentives, which allow investors to defer and reduce taxes on capital gains they've already earned if they reinvest the money in the zones. (New investments in these low-income areas are exempt from capital-gains taxes if held for more than a decade.) Once the maps were set, though, the brothers realized their windfall: All but one of their development sites were in areas eligible for the breaks. They'd been thinking about bringing in a financial partner on the luxury tower and decided to market it to investment funds hoping to claim the benefits. "We're getting fantastic interest," says Goodman.

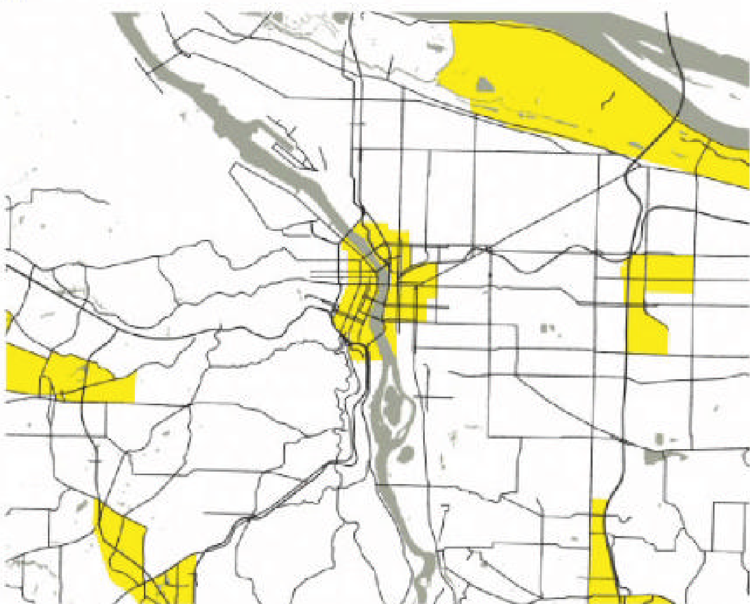
To qualify for inclusion, almost all opportunity zones had to have poverty rates above 20 percent or family incomes that are no more than 80 percent of the area median. A handful—such as swaths of Oakland, Calif., and New York City—are generating buzz because they're already in the path of development. Yet even among these sought-after areas, Portland stands out. More than 40 percent of commercial real estate investment there during the past three years fell within areas now zoned for the tax breaks, a far higher percentage than in any other major U.S. city, according to a recent analysis by Real Capital Analytics Inc.

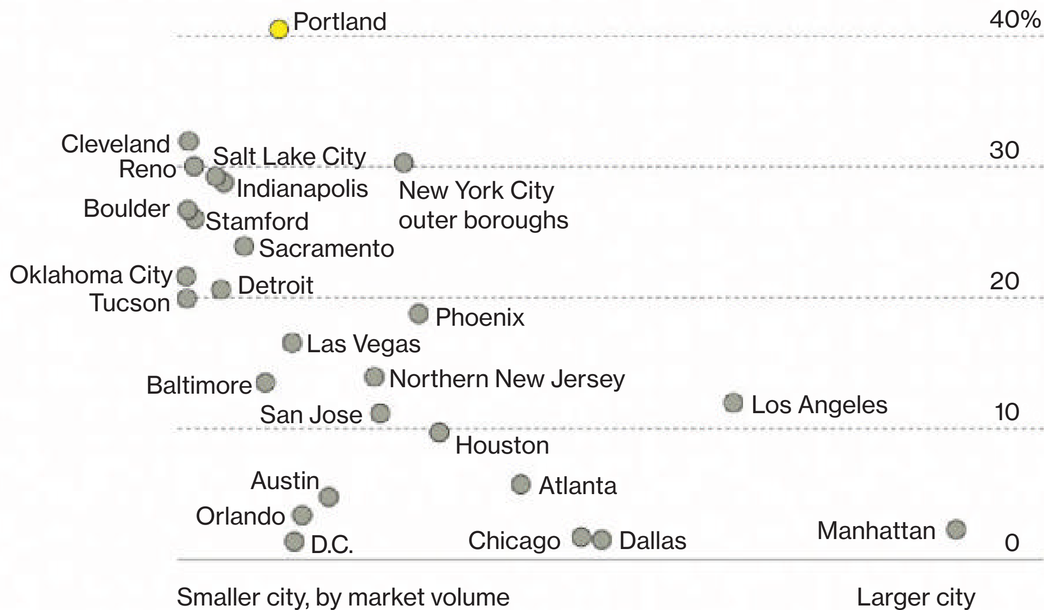
Portland's zones are so atypical that Barry Sternlicht, the real estate investor and founder of the Starwood hotel chain, used the city as a punchline when he criticized Congress for passing the tax breaks. "That's not a blighted district," he scoffed on a recent conference call. "Only in Washington would they say this helps the poor."

"Now everybody's running around like a chicken with their head cut off trying to tie up real estate"

Portland is in many ways a study in contrasts. The city long ago became a magnet for new-economy workers drawn to its indie music and food scenes, as well as a cheaper cost of living than in New York and San Francisco. As the former lumber town grew, real estate developers rushed to sand over its grittier edges for these new arrivals, ▶

Tax Breaks to Encourage Development





DATA: U.S. CENSUS BUREAU, REAL CAPITAL ANALYTICS

◀ who've pushed up rents by 43 percent since 2010. Nevertheless, the poverty rate remains stubbornly high—a product of the fact that downtown, with its Nordstrom and Apple Store, also includes low-income housing. In neighborhoods such as Old Town Chinatown, it's not uncommon to see homeless sleeping in tents near a new food hall.

That such areas were picked for the incentives has something to do with the rushed and imperfect process for designating zones. After the tax law passed in the final days of 2017, governors were given 90 days to select the areas they wanted to nominate from a list of low-income census tracts in their states. Officials in Oregon pulled employment data for each eligible zone to figure out where growth was strongest, on the theory that the best predictor of future investment was past economic activity. They also sought input from local leaders, American Indian tribes, housing advocates, businesses, philanthropies, and community organizations.

"We were looking for zones that had some kind of a mix between a real ability to attract investment as well as a real need," Jason Lewis-Berry, an economic adviser to Oregon Governor Kate Brown, told state legislators in May. Surprisingly, some of the people most likely to benefit from the incentives barely took notice of the process. Early on, officials invited real estate developers to one of their meetings, says Nick Batz, government affairs and policy manager for Business Oregon, the state's economic development agency. "I don't think many came," he says. "If I recall, it was one or two."

The level of interest shot up when the selections were made. Like the Goodmans, Todd Gooding, the president of Portland developer ScanlanKemperBard, recognized the potential. "I said, 'Holy crap, we've got to put some time and energy into this,'" he says. About a dozen blocks on either side of the Willamette River, which bisects the city, would be eligible for the breaks. "That's probably the best set of options on the entire West Coast," he says. "Now everybody's running around like a chicken with their head cut off trying to tie up real estate."

Graham Taylor, a commercial broker at CBRE Group Inc., says about 50 investors signed confidentiality agreements to look at a property with development potential during the first week he had it listed in December. "Our interest is double what I would have expected a year ago," he says.

◀ Homelessness and new developments coexist in the city's downtown

The kinds of investors are also different. In the past, private real estate companies would have been the main bidders. Now, he says, big institutions such as banks and insurance companies have raised money to spend in opportunity zones. “It’s really creating a lot of buzz in this market.”

Whether this flurry of activity ultimately benefits low-income residents is uncertain. “Take out your crystal ball,” says Justin Douglas, a policy, research, and compliance manager at Prosper Portland, the city’s economic and urban development agency. “It could have extremely positive results. It could have really negative ones.” Efforts are underway to ensure some of the gains go to the needy. Tad Savinar, a former member of Portland’s design commission, says he’s encouraged city officials to expedite permits for “community-oriented” projects, such as low-income housing and job-training centers.

Portland, like several other U.S. cities, has tried to address climbing rents by forcing developers of larger apartment buildings to include affordable units. But the policy, which went into effect in February 2017, is largely seen to have backfired. A surge of projects was proposed before then to avoid the requirement, and now the pipeline of new developments has slowed to a trickle because there’s a glut of supply and builders say the requirements don’t make sense economically.

Some local developers say opportunity-zone tax breaks could make the math work again. “We’re going to have some affordable housing” because of this, says Vanessa Sturgeon, whose Sturgeon Development Partners is raising money to construct a new tower in one of Portland’s zones. “There is really no fail-safe way to implement a policy like this. But I do see it doing a lot more good than harm.”

The Goodmans’ luxury development won’t be required to have any affordable units, because it was proposed before the city requirement went into effect. But other apartment buildings the family is constructing nearby will. Mark Goodman says he understands the criticism of some of Portland’s opportunity zones, especially the one that includes the Pearl, “our toniest district of all.” But there are other areas in the city that were languishing and could use a boost, he says.

On the bright side, the incentives have spurred interest among investors who want to own properties for the long haul, because the biggest potential tax benefits come for investments held for more than a decade. For a family that sees its legacy in finding a higher and better use for parking lots, that sort of patience is important. “We want a multigenerational community feel here, something our kids can be proud of,” Goodman says. “The opportunity zones codified what we wanted to do all along.”

At the end of the day, the blame for projects that don’t fit the spirit of the law rests with Congress for enacting such a flexible set of incentives, says the Urban Institute’s Theodos. “Don’t hate the player, hate the game.” —*Noah Buhayar*

THE BOTTOM LINE The hasty implementation of a federal incentive program to help the poor is making thriving areas of Portland a magnet for investor dollars.

Millennial Women Are Winning the Job Recovery

● Among younger Americans, the male-female gap in labor force participation is the smallest it’s ever been

Young women are participating in the U.S. job market at levels last seen almost two decades ago.

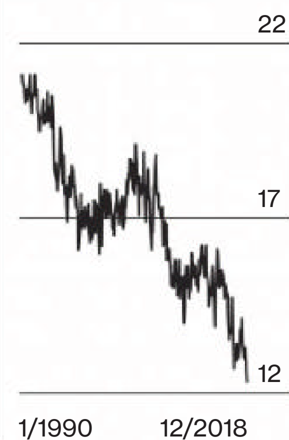
Remya Ravindran is a case in point. The 29-year-old joined Quizlet Inc., a San Francisco-based tech startup, in late 2018, where she’s a software quality-assurance engineer. Ravindran had taken two years off to care for her baby but was drawn back into the workforce by what she describes as a “very, very hot” job market.

Female workers age 25 to 34—a group that falls squarely in the millennial generation—accounted for 86 percent of growth in the workforce of prime-working-age women and for 46 percent of gains in the prime-age labor pool as a whole since December 2015, according to the Bureau of Labor Statistics. (The BLS defines prime age as 25 to 54.)

That’s good news for the U.S. economy, as an injection of workers gives the 10-year-plus expansion more room to run. The phenomenon is also positive for newly employed women, because they may be laying the groundwork for higher wages as their careers progress. But it creates a puzzling contrast with young men, whose labor-market participation rate has yet to recover to prerecession levels. As a result, the gap between young women who are working or looking for work and their male peers has narrowed to 12.3 percentage points, which is the smallest gender divide the age group has ever seen.

Cultural shifts are probably at play. Millennial women are more likely to have a college degree than their male peers, and employment rates climb with education. The age group has also been ▶

● Gap in labor participation* rates in percentage points between U.S. men and women, age 25-34



*PEOPLE WORKING OR APPLYING AS SHARE OF POPULATION; DATA: BUREAU OF LABOR STATISTICS

◀ delaying marriage and kids. That should boost employment for women, who often drop out of work after getting wed.

Here's another notable trend: Single mothers have staged by far the biggest comeback in the labor force of any group of young women since 2016, based on an analysis by Ernie Tedeschi at Evercore ISI, a unit of the investment bank Evercore. Married women without kids come in second.

Still, none of these statistics fully explain why female participation started increasing three years ago. Perhaps it's the uptick in wage growth that tipped the scale, making it easier for mothers to afford child care. Also, the industries doing the most hiring—led by education and health services—include many job categories dominated by women.

Amanda Woodruff-Truog returned to work as a travel nurse last year shortly after giving birth to her third child. Demand for nurses is so high that the 29-year-old has her pick of locations and jobs. Woodruff-Truog's husband sold his company in Florida to move to Illinois, the location of her current gig. He's employed part time and helping to take care of the children while his wife works and pursues a master's degree. "There's definitely not enough hours in the day, but for some reason we make it work," she says.

Laura Rosner, senior economist and partner at Macropolicy Perspectives in New York, says it's "up in the air" whether American women will continue trooping into the labor market at the current rate. Other advanced economies might offer clues.

Prime-age women in the U.S. used to work almost as much or more than their peers in Canada, Germany, and the U.K. In recent decades, however, American labor participation rates slipped behind. Economists at the Federal Reserve Bank of San Francisco have suggested that the U.S.'s comparatively weak parental-leave system could be holding back its female employees vis-a-vis their Canadian counterparts.

Still, the fact that young women in the U.S. are staging a reversal—one driven by mothers—suggests that there may be room for catch-up even absent major policy changes. "The gap that we see with other countries may not just be structural. There may be a cyclical component here, too," Evercore's Tedeschi says.

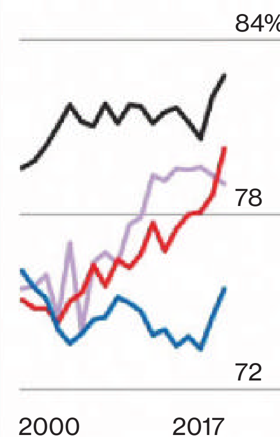
Goldman Sachs Group Inc. economists point out that labor-force participation among women has been a cornerstone of recent progress in the job market. They see room for another "modest increase" of prime-age females in the labor pool this year. Society for Human Resource Management survey data show that U.S. employers are increasingly offering family-related benefits such as paid leave after childbirth and on-site lactation rooms, changes that may be helping more women stay at their jobs. Without more permissive family-work policies, however, the scope for a full catch-up to other advanced economies is limited.

But if you ask Woodruff-Truog, millennial women are poised to stay on the front lines of the labor comeback. She looks around at her peers and sees a cohort that's highly motivated to work, not just for money, but also for fulfillment and financial freedom. "I don't ever remember a time when so many women were like, 'I can do that,'" says the young mother, who attended nursing school while pregnant with her second child. *—Jeanna Smialek, with Alex Tanzi*

THE BOTTOM LINE Young women accounted for 86 percent of growth in the workforce of prime-working-age women since 2015. Rising wages—making child care more affordable—may be key.

● Labor participation rate among women, age 25-34

Canada
Germany
U.K.
U.S.



DATA: OECD

For Whom the Shutdown Tolls

● A prolonged idling of government services would have consequences far beyond federal workers going without pay

What if the partial U.S. government shutdown extends into spring or beyond? That's the scary scenario many businesses and households are having to ponder. An administration official said the White House is drawing up game plans for the shutdown to last at least through February—even as President Trump's economic advisers are warning it's already having a negative impact on growth. "Shutdowns don't get bad linearly; they get bad exponentially," says Sam Berger, a senior adviser at the Center for American Progress, who worked at the Office of Management and Budget under President Barack Obama. Here's what might happen:

● The safety net unravels

The Agriculture Department has said there may not be enough money to keep food assistance benefits flowing to 38 million recipients past February. Joe Brusuelas, chief economist with consultant RSM US LLC, estimates the interruption could strip at least 0.53 percentage points from gross domestic product.

The Department of Housing and Urban Development has said it can't renew 1,150 rental-assistance contracts with private landlords that expired in December or will expire in January, which help some 40,000 low-income households. An additional 550 contracts expire in February, affecting 16,000 more households.

If the shutdown stretches into March, subsidies for the great majority of contracts will end, along with subsidy payments for the largest rental-assistance program, jeopardizing the vouchers used by 2.2 million low-income households, says Sharon Parrott, a senior fellow at the Center on Budget and Policy Priorities. Tenants may be asked to pay the full monthly rent or face eviction.

● The government stops paying rent

The drop in revenue could hit property owners as soon as the end of this month, which is when the General Services Administration usually sends out its January payments, says Darian LeBlanc, director of the government services group at Cushman & Wakefield PLC. The GSA manages leases on more than 190 million square feet spread across almost 7,000 buildings nationwide on behalf of federal agencies. Landlords could be out some $460 million a month if the government stops paying rent. The law prevents them from evicting federal tenants; their only recourse is to sue.

● Workers walk off the job

Transportation Security Administration officers are already calling in sick at twice the usual rate, forcing airports in Miami, Houston, and the D.C. area to consolidate security lanes. Hydrick Thomas, TSA council president for the American Federation of Government Employees, says if the government continues to ask employees to work without pay, "we're risking losing them." If TSA officers leave in large numbers, the exodus would potentially cripple air travel. Given the tight job market, the danger of mass defections extends to other federal personnel considered essential, including border patrol agents, air-traffic controllers, correctional officers at federal prisons, and the firefighters who battled some of California's wildfires last year.

● Sand gets thrown in the wheels of justice

The Administrative Office of the U.S. Courts said in a Jan. 15 statement that it estimates federal courts "can sustain paid operations through Jan. 25." At that point, the courts will run on an "essential work" basis. Individual courts would be responsible for deciding what that means. Appellate, district, and bankruptcy courts would reduce operations, the office said. Criminal cases should proceed. Some courts have already suspended civil cases involving the federal government, in part because so many lawyers have been furloughed. About 30,000 public defenders, court clerks, and people working in probation and pretrial services and in other roles for the federal judiciary will stop receiving paychecks on Feb. 8.

● Intellectual property goes unrecognized

Because it can't collect fees, the Food and Drug Administration isn't accepting applications for new medicines. The agency is running out of funds to review medical products. The Patent and Trademark Office, which has been tapping 2018 user-fee revenue, could run out of money by early to mid-February. If it shuts down, tens of thousands of patent applications and reviews of issued patents would be delayed, which might affect court cases and royalty disputes between companies.

● Initial public offerings are set back

Until the Securities and Exchange Commission reopens, companies that have filed listing plans—including Uber Technologies Inc. and Lyft Inc., whose IPOs are hotly anticipated—aren't getting any feedback to move forward. If that continues beyond Feb. 14, their financial statements will become out of date and will have to be updated and audited for the whole of 2018. "If people aren't able to do their deals by then, there's a chance we could lose a good part of the first quarter for IPOs," says David Goldschmidt, head of capital markets at law firm Skadden Arps Slate Meagher & Flom LLP.

● Business grinds to a halt

Breweries haven't been able to roll out new craft beers because the Treasury Department has to approve labels before products can be sold. Airlines can't move forward with new planes or routes without OKs from the Federal Aviation Administration, which has summoned personnel back to work to relieve the backlog. T-Mobile US Inc.'s $26.5 billion acquisition of Sprint Corp. can't go forward without a signoff from the Federal Communications Commission, which is mostly shut. FCC employees charged with approving technologies and equipment—including that for the 5G wireless upgrade—are furloughed. "We're falling behind the rest of the world," says Jessica Rosenworcel, a Democratic FCC commissioner. —*Christopher Flavelle, Jennifer A. Dlouhy, and Ryan Beene*

THE BOTTOM LINE Trump's main tactic for getting his border barrier is likely to have wide-ranging economic effects—for just about everyone in the country.

● Number of U.S. households that may lose food assistance

38m

The Bitter Angels of Trump's Nature

● Mick Mulvaney and Stephen Miller encourage the president's disruptive instincts

Mick Mulvaney, one of the president's most trusted advisers and his current acting chief of staff, is an avowed skeptic of large-scale government who previously espoused the benefits of shutdowns as the president's budget chief and as a Tea Party member of the House from South Carolina. Stephen Miller, another close adviser and an anti-immigrant true believer, is known for having helped scuttle a previous immigration deal between the president and congressional Democrats, as well as a bipartisan immigration reform bill during the Obama administration when he was a Republican congressional aide.

As turnover within the White House has diminished the number of moderating forces around Donald Trump, these two hard-liners have come to the fore just as their influence could be most explosive. While others in the president's orbit, including Vice President Mike Pence and senior adviser Jared Kushner, have attempted to soften Trump's more confrontational instincts, Mulvaney and Miller have played into them and grown closer to the president as a result.

Trump is "surrounded by the worst possible voices to get out of this mess, and he himself isn't particularly inclined to negotiate," says Princeton University political historian Julian Zelizer. "Ideologically, they will push the president to hold out, and politically, they offer nothing."

Recent days have seen milestone after milestone pass in the ongoing government shutdown, while the president and Democratic lawmakers have gotten no closer to a spending agreement that would reopen shuttered government agencies. The initial group of federal employees, some 800,000, missed their first paychecks on Jan. 11, the day before the shutdown entered a record fourth week. Soon after, polls from *Washington Post*/ABC

Edited by Jillian Goodman

PHOTO ILLUSTRATION BY 731; PHOTOS: BLOOMBERG (2); GETTY IMAGES (3)

and CNN showed that Americans hold Trump accountable for the shutdown by a wide margin over congressional leaders.

Trump has refused to sign any funding bill unless it includes $5.7 billion for the construction of a wall along the southern border, which Democrats fiercely oppose. Even some Republicans—including Senator Lindsey Graham of South Carolina, Mulvaney's home state—have begun to advocate for compromise. On Jan. 14, Trump rejected a proposal by Graham to reopen the rest of the government while talks continue on the wall. Meetings with other lawmakers later in the week either stalled before they got started, or else showed the futility of attempting to negotiate in an all-or-nothing atmosphere.

Miller and Mulvaney laid the groundwork for Trump's strategy in the crucial days before the shutdown began. In mid-December, Republican leaders on Capitol Hill thought they had struck a deal to put off the fight over the wall for at least another month. Then Miller appeared on Fox News to announce that the administration would take a stand to secure border wall funding—one from which it wouldn't back down. In a subsequent *CBS News* interview, Miller called the wall "a very fundamental issue" and set the stakes of the fight at no less than "whether the United States remains a sovereign country."

Mulvaney has his own long history of encouraging hardball negotiating tactics: While in Congress from 2011 to 2017, he aligned himself with the so-called Shutdown Caucus of House Republicans who said they'd be willing to shutter the government rather than give ground in funding battles with President Barack Obama. Mulvaney spent much of the winter holiday with Trump at the White House and has been among the aides encouraging the president to reject short-term funding bills that would reopen the Department of Homeland Security, *Politico* reported earlier this month.

He and the president, however, haven't always been in agreement. *Axios* reported on Jan. 13 that Trump used profanity to rebuke Mulvaney for suggesting a compromise on wall funding during a meeting with congressional leaders earlier this month, although it wasn't clear if the president was genuinely angry. A White House official told *Axios* the two men joked about the incident afterward.

White House Press Secretary Sarah Sanders says Trump "is talking to a number of people on his team." But those who support a more conciliatory approach have struggled to win the president's ear. Early on in the shutdown, Pence floated a compromise with Democrats that would have netted about $2.5 billion for the wall, according to congressional aides. Democrats were suspicious of Pence's dealmaking authority at the time. Since then the president has repeatedly said that he'll accept nothing less than his full ask.

Mulvaney told ABC News that he's been heavily involved in an effort to fund a wall outside the congressional appropriations process, perhaps by declaring a national emergency. Kushner, who was also part of Pence's talks with congressional leaders, has made clear his reservations about an emergency declaration, according to a person familiar with the matter. The president's son-in-law happens to be one of the few remaining members of the White House team with the ability to make bipartisan deals. Late last year he helped shepherd an overhaul of federal criminal sentencing through Congress, despite opposition in both parties.

"Ideologically, they will push the president to hold out, and politically, they offer nothing"

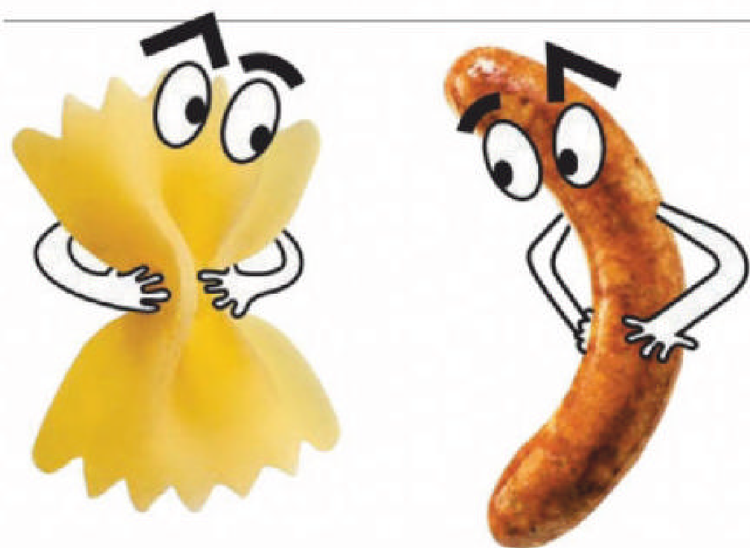
Mulvaney and Miller, by contrast, have never demonstrated much interest in compromise nor any feel for negotiation. Mulvaney, for example, was among administration officials who publicly speculated that Democrats might be more willing to negotiate after Nancy Pelosi's election as House speaker—a notion that was patently false even before Pelosi took up the gavel. As for Miller, Graham may have said it best last January, when he complained about his scuttling a 2017 attempt at compromise with Democrats. "As long as Stephen Miller is in charge of negotiating immigration," Graham said then, "we're going nowhere." *—Justin Sink, with Margaret Talev and Erik Wasson*

THE BOTTOM LINE Two of Trump's most trusted advisers are encouraging him to eschew a compromise on wall funding, while others close to the president see their influence wane.

Italy Invites Poland To the Anti-EU Party

● The League's Matteo Salvini is building a coalition to take on Europe—and Five Star

When Matteo Salvini headed to a snow-clad Warsaw in early January to offer a populist pact to Poland's ruling party, Italy's deputy prime minister had not one but two elections on his mind. As leader of the euroskeptic League, he wanted to forge a grand alliance of nationalist, Brussels-bashing forces ▶



◀ before a European Parliament vote in May. But if his anti-migration party achieves a strong showing there, he may also push for an early general election at home, putting an end to the current coalition government and aiming to secure the office of prime minister for himself.

During his Jan. 9 visit to the Polish capital, Salvini attempted to sell his proposed alliance to Jaroslaw Kaczynski, leader of the governing Law and Justice party, as "a pact for Europe modeled on the one between the League and the Five Star Movement," the anti-establishment party he governs with in Rome. Across the European Union, League officials have courted leaders including France's Marine Le Pen, Germany's Alice Weidel of the AfD party, Sweden Democrats chief Jimmie Akesson, and Geert Wilders in the Netherlands, according to a League government member who declined to be named discussing strategy. Hungarian Prime Minister Viktor Orban, another captain of Europe's resurgent nationalists whom Salvini has met, hailed him as a "hero" after the Warsaw visit and told reporters that the advent of an "Italian-Polish axis" would be "one of the best things to start the year off."

But nationalists put national sovereignty first, and those in Europe aren't ready to fall in line behind Salvini's Trumpian "Italy First" pledge. His Polish hosts gave him a lukewarm reception, with Salvini achieving only what he called the beginning of a dialogue. Russian President Vladimir Putin, whom Salvini regularly praises, is a particular sticking point. Kaczynski blames Russia for the 2010 plane crash that killed his twin brother, Lech, the Polish president at the time.

Even if Salvini achieves only a superficial alliance with such contrasting figures as Kaczynski, Orban, and Le Pen, the mere appearance of such unity in the European parliamentary vote may be enough to help him consolidate Italy's government. "Salvini will be out to capitalize on a big win," says Franco Pavoncello, a political science professor and president of John Cabot University in Rome. "His ambition to become premier will be hard to contain."

Italy's populist experiment has been rocky. Fault lines abound between the pro-business League, whose electoral base is in the wealthy north of Italy, and Five Star, strongest in the depressed south. The coalition partners have yet to deliver increased welfare benefits (a Five Star promise) and a lower retirement age (a League commitment) after allocating money for this year's budget. The duo is also at loggerheads over a $10 billion high-speed rail link with France, which Salvini favors and Five Star's Luigi Di Maio, his fellow deputy prime minister, opposes. As the EU Parliament vote approaches, the infighting will likely increase.

During Salvini's trip to Warsaw, he and Di Maio each made an appeal for nationalizing the troubled, Genoa-based Banca Carige SpA. When they were in opposition to the previous center-left administration, the populists had pilloried bankers and accused the government of wasting taxpayers' money with bank bailouts. In another turnaround, Salvini and Di Maio earlier backed down in a standoff with the European Commission over the 2019 budget, with Finance Minister Giovanni Tria pressing for a lower deficit target. Tria, who denied frequent reports he wanted to resign during the tussle, has backed a market-based solution to the Banca Carige crisis.

Behind the scenes, senior League officials are pressuring Salvini to consider forcing an early general election. The party surged to more than 32 percent support among voters in a survey for Italy's La7 television, published on Jan. 14, close to twice its score of 17.4 percent in the general election last March. Di Maio's Five Star came in at 25.2 percent, compared with 32.7 percent in March.

Any decision on an early election would have to be made by President Sergio Mattarella, who has been trying to temper the populists' more extreme impulses. He's more likely first to seek an alternative administration—possibly an alliance between Salvini and former center-right Prime Minister Silvio Berlusconi—before resorting to a snap vote.

In Warsaw, Salvini didn't bother to hide his frustration at the frequent bickering with Di Maio. "I've come here to get some air," he said as he chatted with Italian business figures at the embassy. "I'll start getting nervous again on the plane back." *—John Follain*

THE BOTTOM LINE The leader of Italy's League is trying a pan-European approach to bolster his standing at home in a quest to take the office of prime minister for himself.

● Salvini's the League has gained almost

15%

in recent polls since the 2018 election

PHOTO ILLUSTRATION BY 731; PHOTOS: GETTY IMAGES (2); BREXIT: BLOOMBERG (1); GETTY IMAGES (5)

Brexit

And Then There Were Six

With the rejection of Theresa May's divorce deal with the European Union, the U.K. must now figure out the way forward: Give May a chance to find the compromise she says she'll seek; stage a fresh referendum; delay Brexit (scheduled for March 29); soften it; or bolt sharply, and chaotically, from the EU. These six politicians could help chart the course. ——*Emma Ross-Thomas*

Dominic Grieve
62, Conservative Party

Grieve is a former attorney general who's waged successful battles to secure a greater role for Parliament in the Brexit process. He's also the reason May has to come back to Parliament with a plan B only three days after her original EU deal was thrown out. Earlier, he'd attached an amendment to May's motion calling for the short timeline—and parliamentary oversight. Grieve wants a second referendum and is using all his experience as a lawyer and politician to make it happen.

Oliver Letwin
62, Conservative Party

A former minister known for his intellectual acumen, Letwin has already brokered deals between the government and pro-EU Conservative rebels in Parliament. He's traditionally been a May loyalist, but earlier this January voted against the government to try to prevent a no-deal Brexit. He says he wants to find a compromise solution in the House of Commons and has spoken in favor of a Norway-style agreement that would keep Britain inside the single market.

Hilary Benn
65, Labour Party

The pro-EU chair of Parliament's Brexit Committee, Benn has gleaned a forensic understanding of how the legal processes of the departure work—and their consequences. He's no ally of Labour leader Jeremy Corbyn, having served in the cabinets of the party's more center-leaning prime ministers, Tony Blair and Gordon Brown. He's fighting to prevent the chaos of a no-deal departure and to maintain closer ties with the EU than May's plan allows.

Yvette Cooper
49, Labour Party

A former Labour cabinet minister under Brown who's been scrutinizing the details of Brexit, Cooper isn't a Corbyn ally either. Still, she's an outspoken critic of the Conservative government's policy, particularly when it comes to the impact leaving the EU could have on national security. With the so-called Cooper amendment, passed on Jan. 8, she inflicted a bruising defeat on the May administration, depriving the Treasury of certain tools in the event of a no-deal split.

John Bercow
55, Speaker, House of Commons

Perhaps the most controversial speaker in recent memory, Bercow has had strained ties with May's office, which has accused him of bias. Formerly a member of the Conservative Party, he renounced the affiliation when he was first elected speaker in 2009 to comply with parliamentary rules. His relations with May reached a nadir in the days before the crucial vote when he made the unprecedented decision to allow the amendment proposed by Grieve—which severely limited May's ability to maneuver after her plan's defeat. Those trying to soften Brexit see Bercow as an ally; those who want a full-on, no-deal divorce see him as the enemy. Benn made the friendly suggestion to take care when crossing roads. Bercow, who voted to remain in the EU in the 2016 referendum, has a reputation for giving rank-and-file members of Parliament time and influence during key debates. It's up to the speaker to select amendments, giving him the power to shape the way votes are taken and debates set up.

Keir Starmer
56, Labour Party

Starmer, once a high-flying lawyer, is the Brexit spokesman for the Labour Party. He represents one of the most "remain"-voting constituencies in Britain, in London's Holborn and St Pancras district, and is more pro-EU than the leader of his own party. He wants to maintain close ties with the bloc and is credited with shifting Corbyn's Brexit policy to a softer position. Starmer was instrumental in forcing the government to publish Brexit documents it wanted to keep private, and has worked with Tory colleagues to try to prevent a cliff-edge, no-deal departure from the EU.

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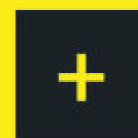

SOLUTIONS

Davos

Globalization Is Surviving Trump

European and Asian countries are doubling down on economic cooperation

Kevin Kester is used to taking the long view—his family has raised cattle on the land his Bear Valley Ranch occupies in California since 1867. But he also can see what looms in the not-too-distant future across the Pacific Ocean.

The 11-country trade deal once known as the Trans-Pacific Partnership has started to come into force, giving his Australian competitors what stands in coming years to be an increasingly valuable leg up in Japan, the U.S.'s most lucrative export market for beef. Thanks to President Trump's withdrawal from the TPP—one of his first acts in office—American ranchers won't get any of the benefits of the reduced tariffs for beef and other farm products U.S. negotiators spent years haggling over with Japan, the pact's biggest remaining economy.

Kester isn't just another bemused bystander to American politics. As the current volunteer president of the powerful National Cattlemen's Beef Association, he serves on committees that advise Trump and his cabinet on agricultural policy and trade. He doesn't see Trump reversing course and joining what's now known as the CPTPP (the "C" stands for comprehensive and the "P" for progressive, a rebranding requested by Canada's Justin Trudeau) anytime soon. His advice to the government: Please hurry up and negotiate with Japan so U.S. beef doesn't become another economic casualty of the president's trade wars. "We're encouraging them to get on the horse and get working on the bilateral with Japan as soon as possible," he says.

Kester's plea echoes an emerging theme among U.S. industries going into 2019. While plenty of corporate angst is focused on tariffs and the president's China battles, many businesses are more concerned about protecting their share of other offshore markets and their international competitiveness. The reason is simple. Trump's election in 2016, amid the advent of an era of protectionist power politics, threatened to bring about the death of globalization—a subject that will consume this month's World Economic Forum in Davos, Switzerland. ▶

ILLUSTRATION BY NEJC PRAH

January 21, 2019

Edited by
Dimitra Kessenides

◀ Yet the rest of the world appears to have decided globalization isn't the enemy after all, and that leaves the U.S. playing trade catch-up.

The CPTPP is just one sign of that. Come Feb. 1 an even vaster deal between the European Union and Japan will take effect that gives carmakers on both sides preferential access to each other's markets, as well as the same access to European beef for Japan that was included in the TPP. That follows another EU deal with Canada already in place and comes alongside talks Brussels has held with Australia, Mexico, New Zealand, and one of Latin America's biggest trading blocs, Mercosur, among others.

"My view, and Europe's view, is that closing up is not the answer," said Cecilia Malmstrom, the EU's trade commissioner, in a Jan. 10 speech in Washington in which she laid out Europe's push for continuing trade liberalization. "Shortly, the vast majority of economic growth will be taking place outside the West," she said, in a thinly disguised dig at the U.S. "We need to factor that into our strategies."

It's not just the EU. Besides the "Belt and Road" infrastructure push, which gets most of the attention, China is pursuing its own trade agreement that includes Southeast Asian economies, India, and U.S. allies Australia, Japan, and South Korea. And Africa's economies are hammering out a new trade pact that would cover the entire continent.

Trump's argument is that trading partners have taken advantage of the U.S. for decades, and he says he can get a better deal through smaller, bilateral agreements than regional ones such as the TPP. And he insists that he's delivering on that promise. "The greatest harvest is yet to come. The future for America's farmers is bigger, better, bolder, and brighter than ever before," Trump told the American Farm Bureau's annual meeting on Jan. 14. As evidence that the approach is working, Trump's supporters cite a renegotiation of Nafta that still needs congressional approval but includes wage rules that the administration contends will encourage more auto production in the U.S. The president regularly claims he's winning the trade war with China and that negotiations there, which face a March 1 deadline, are going well. Talks with Japan and the EU are also due to start this year.

Yet there's plenty of evidence that Trump's efforts may in some cases only secure benefits U.S. businesses thought they already had in the bag because of prior negotiations. The updated Nafta won few meaningful concessions from Canada and Mexico for U.S. farm exports. Agriculture also remains a target of both countries' retaliation against Trump's steel and aluminum tariffs, which remain in place. Talks with China are focused in part on increased purchases of U.S. agriculture and energy exports. Yet their scale and how enduring they will be remains unclear.

With Trump's threat to impose tariffs on imported cars hanging over the parties, the EU and Japan talks are likely to be difficult. Japan got the U.S. to agree that Tokyo wouldn't have to give anything on politically sensitive agriculture beyond what was in the TPP as a precondition. The EU, with which the Obama administration launched comprehensive talks in 2013 that Trump set aside, insists it won't even discuss agriculture.

Kester says many of his fellow ranchers supported the president in 2016 and still do. But they've yet to feel the impact of Trump's trade policies. In the case of beef and Japan, he says, the U.S. industry is being spared for now thanks to a drought that's reduced Australia's herd. Ranchers there will need at least two years to ramp up production.

But Kester is still betting on globalization. "Trade going out into the long term is our future profit center," he says. "If we don't have a bilateral deal with Japan in three years, we are going to have some problems." —*Shawn Donnan*

THE BOTTOM LINE Trump's trade wars have left the U.S. playing catch-up with the EU, Japan, and other economic powers, which are moving ahead with trade deals that benefit their companies and farmers.

Choosing Sides In Davos

The U.S. and China are pulling multinational companies and other countries in different directions

The rivalry between the U.S. and China is complicating the lives of companies and countries that would prefer to stay on the good side of both superpowers. Those caught in the crossfire range from U.S. airlines, which were threatened last year if they didn't indicate on their websites that Taiwan is part of China, to Canada, which ran afoul of the Chinese when it detained a prominent Chinese tech executive at the Americans' request.

The tensions are likely to be palpable at the annual World Economic Forum. In recent years each country has used Davos to zing the other. In 2017, Chinese President Xi Jinping issued a veiled attack on Donald Trump, who'd just begun his presidency, saying,

ILLUSTRATION BY NEJC PRAH

"Pursuing protectionism is like locking oneself in a dark room." In 2018, Trump said, "The United States will no longer turn a blind eye to unfair economic practices."

U.S.-Chinese trade negotiations may occur on the sidelines in Davos ahead of the March 1 end of a 90-day cease-fire in their trade war. China's delegation will be led by Vice President Wang Qishan. His counterpart will be U.S. Treasury Secretary Steven Mnuchin. Trump was planning to attend but tweeted on Jan. 10 that he was staying home because the fight over the wall on the Mexican border hadn't been settled.

Collateral damage in the contest between the U.S. and China has been heavy because both are employing hard power—economic and military might—rather than the soft power of persuasion. Trump's "America First" rhetoric has rubbed many nations the wrong way, but China hasn't managed to take advantage of the situation, because it's been even rougher to other countries at times, essentially demanding they make room for its ascent. "U.S. soft power has not been good for the last 20 to 30 years, and China's soft power is close to nonexistent," says Robert Ross, a political science professor at Boston College.

Canada has suffered the consequences of getting caught between the giants. On Dec. 1, Canadian authorities arrested Meng Wanzhou, chief financial officer of China's Huawei Technologies Co., on behalf of the U.S., which wants to try her on charges that she misled banks about the telecom equipment maker's dealings with Iran. China responded by threatening consumer boycotts of Canadian products and detaining two Canadians in China. On Jan. 15 a Chinese court sentenced a third Canadian to death for drug smuggling. David Mulroney, a former Canadian ambassador to China, told CBC News that the strong reaction seemed to be a warning to others based on a strategy of "kill the chicken, scare the monkey."

Last year, when Chinese aviation authorities pressured airlines to list Taipei as a Chinese destination on their flight schedules, the White House urged them not to cave to what it called "Orwellian nonsense," and U.S. carriers dragged their heels. But at the July 25 deadline, United Airlines, American Airlines, and Delta Air Lines compromised by taking Taiwan off the city name without adding China, leaving the destination "Taipei."

The U.S., equally intent to recruit countries to its side, has lobbied Europe and Japan to join in getting the World Trade Organization to crack down on Chinese subsidies and the country's requirements that foreign companies turn over technology as the price of admission. The Group of 20 at its Buenos Aires summit in late 2018 agreed to work to change the WTO's procedures to get tougher on China.

The U.S. is pressing poor countries to take assistance from it rather than China, says Scott Morris, a senior fellow at the Center for Global Development in Washington. National security adviser John Bolton said in a Dec. 13 speech that the U.S. is a better choice for African nations in need of loans. China, in contrast, is happy to have recipients of its aid also take money from the U.S. and other Western sources because "it helps them reputationally" to have partners, Morris says.

The downside to relying on China is that its loans come with strings attached. Recipients frequently must use Chinese suppliers and labor, and the lending terms are often harsh. In his December speech, Bolton accused China of practicing "debt trap" diplomacy in Djibouti and Zambia. Ecuador, Sri Lanka, and other countries have also become highly indebted to China.

Navigating a superpower rivalry is nothing new for Klaus Schwab, the WEF's founder and executive chairman. He launched the conference in Davos in the 1970s because Switzerland was neutral territory between the West and the Soviet bloc. In a Dec. 31 op-ed in the *Washington Post*, Schwab advised the U.S. not to give up on diplomacy. "The old order that the U.S. founded and maintained appears to be crumbling," he wrote, "but if Mr. Trump leverages his first-mover advantage in negotiations then the U.S. could actually come out of the current dispute stronger than before." —*Peter Coy*

THE BOTTOM LINE The rivalry between the U.S. and China is likely to be apparent at this year's World Economic Forum.

What They're Worried About

Extreme weather tops the list of long-term risks facing the world, according to the 2019 *Global Risks Report*. Produced annually by the World Economic Forum, the survey also points to shorter-term challenges: 91 percent of respondents expect economic confrontations among major powers to multiply this year, and 88 percent believe there will be an erosion of multilateral trade agreements. Problems such as slowing growth, increased debt, and trade tensions "are independently daunting challenges," Borge Brende, president of the WEF, said at a press conference on Jan. 16. Addressing them requires collaboration, he said, but "collaboration is not necessarily taking place."

Top Five Risks by Likelihood

For the third year in a row, extreme weather events top this list. Respondents are increasingly worried about environmental policy failure: Inability to mitigate or adapt to climate change leapfrogged to the second spot.

1. Extreme weather
2. Failed climate change mitigation
3. Major natural catastrophes
4. Massive data fraud or theft
5. Cyberattacks

Top Five Risks by Impact

Environmental risks dominate this list as well. The report notes that growing urbanization and the effects of climate change are making more people vulnerable to the threat of rising sea levels.

1. Weapons of mass destruction
2. Failed climate change mitigation
3. Extreme weather
4. Water supply crises
5. Major natural catastrophes

Top Five Trends

The report highlights the human side of the risks—a sense of insecurity and, for many people, increasing anxiety, unhappiness, and loneliness—and calls on governments to do more to address rising psychological strain.

1. Climate change
2. Rising cyber dependency
3. Increasing polarization of society
4. Rising income/wealth disparity
5. Increasing national sentiment

ILLUSTRATION BY NEJC PRAH. DATA: WORLD ECONOMIC FORUM'S GLOBAL RISKS REPORT 2019, GLOBAL RISKS PERCEPTION SURVEY

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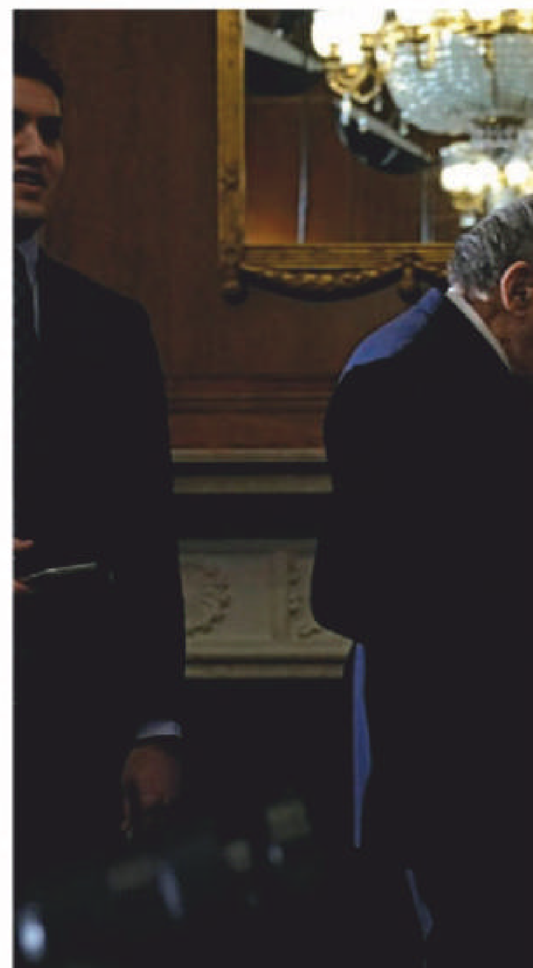
Tax



How Alexandria Ocasio-Cortez is breaking the tax-hike taboo in Washington

D

By Peter Coy and Katia Dmitrieva

ALEXANDRIA OCASIO-CORTEZ MIGHT NOT HAVE SEEN EYE to eye with Joseph Overton, the late free-market advocate. But she has a firm grasp of the concept for which he is best known: the Overton Window. The term refers to the range of ideas that are at any given time considered worthy of public discussion. Thanks largely to her, the Overton Window on tax rates has just been moved significantly to the left.

Ocasio-Cortez, the mediagenic 29-year-old from the Bronx, N.Y., is the youngest woman ever elected to the House of Representatives. In an appearance on *60 Minutes* with Anderson Cooper that aired on Jan. 6, she was talking up the Green New Deal, a plan to move the U.S. to 100 percent renewable energy by 2035. Cooper challenged her by saying the program would require raising taxes. “There’s an element, yeah, where people are going to have to start paying their fair share,” she replied. Asked for specifics, she said, “Once you get to the tippy tops, on your 10 millionth dollar, sometimes you see tax rates as high as 60 or 70 percent.”

AOC on Capitol Hill after her swearing-in

JOSHUA ROBERTS/REUTERS

Seventy percent! For perspective, the top rate under the tax law that passed in December 2017 is 37 percent. And now, suddenly, a number so extreme that no one in polite society dared utter it became a focal point of debate. Ocasio-Cortez’s fans—she has 2.4 million followers on Twitter alone—loved it. Some pundits dug up economic research defending rates in the 70 percent range. Others pointed out that Ocasio-Cortez was actually lowballing the historical comparison: Top rates were 90 percent or higher as recently as the 1960s. Defenders of low tax rates heaped abuse on her, which backfired on them by inflaming her supporters.

What Ocasio-Cortez understands is that getting an idea talked about, even unfavorably, is a necessary, if insufficient, step on the path to adoption. (President Trump also gets this.) “It’s the easiest thing to say, ‘No, we can’t change anything,’ ” says Eric Foner, a Pulitzer Prize-winning historian who recently retired from Columbia University. “Most of the big ideas in American history started among radical groups who were told, ‘No, you’re never going to be able to achieve that.’ ” Foner sees parallels between the strategies of today’s left-leaning Democrats and the radical Republicans who fought slavery before the Civil War, “which was put out an agenda, be aware that you can’t just accomplish it all at once, obviously, but change the political discourse by pushing your agenda and then work with those who are willing to do some of it.”

Ocasio-Cortez was actually less radical than she could have been on *60 Minutes*. She passed up the opportunity to move the Overton Window on another of her pet issues: budget deficits. She adheres to a doctrine called Modern Monetary Theory that’s catching on among young, left-leaning politicians and older policymakers alike. Its counterintuitive core idea is that deficits don’t matter if you borrow in your own currency, just as long as they don’t cause inflation. Unless the economy is at risk of overheating, MMTers say, paying for a new government program doesn’t require cutting another or raising taxes.

Ocasio-Cortez could have said, “No, Anderson, we ▶

river

"This is the kind of plan where you can't go to Wall Street executives first to try to get

wouldn't need to raise taxes to pay for the Green New Deal. But I want to raise taxes anyway, because I believe in redistributing money from the rich to the poor." That really would have lit up the internet. Randall Wray, an MMT theorist who's a senior scholar at the Levy Economics Institute of Bard College, wrote in an email that he was "a bit disappointed" that Ocasio-Cortez connected tax hikes to the Green New Deal. Stephanie Kelton, another MMT theorist and Bernie Sanders's economic adviser during his race for the Democratic nomination in 2016, says she thinks reducing inequality is the real reason Ocasio-Cortez favors higher rates on the rich: "It's kind of a recognition that levels of income and wealth inequality parallel those of the 1920s."

Whatever the particulars, Ocasio-Cortez wants to raise tax rates—by a lot. Since the Reagan Revolution of the 1980s, Democrats have been almost as allergic as Republicans to raising taxes. Hillary Clinton didn't advocate increasing rates on top incomes at all during her 2016 presidential campaign. Even Sanders, that wild socialist from Vermont, dared propose a top rate of only 52 percent when he ran for president. But with Ocasio-Cortez, antitax conservatives immediately sensed that a taboo was being broken, that a crack has opened up in the dam they'd spent decades building and reinforcing. Grover Norquist, the president of Americans for Tax Reform, who in 1986 devised the famous Taxpayer Protection Pledge that commits signers to vote against any net increases in taxes, on Twitter likened her proposal to slavery. "Slavery is when your owner takes 100% of your production. Democrat congresswoman Ocasio-Cortez wants 70% (according to CNN) What is the word for 70% expropriation?" he tweeted.

Norquist now says he remains confident that tax rates won't rise to 70 percent, because "it's such a bad idea." In fact, he says he thinks Democrats are hurting only themselves by entertaining it. Ocasio-Cortez, he says, is a "pied piper" leading her party to its demise. It's not at all clear, though, that higher taxes on the rich are a losing issue for Democrats. A Hill-HarrisX poll conducted on Jan. 12 and Jan. 13 found that 59 percent of registered voters supported the idea of raising the top rate to 70 percent. That included 45 percent of Republican voters. Thanks perhaps to the presidential campaign of Sanders, who like Ocasio-Cortez calls himself a democratic socialist, even "socialism" is no longer a dirty word: Gallup reported in August that 57 percent of Democrats and those leaning Democratic had a positive view of socialism, while only 47 percent had a positive view of capitalism.

What would a 70 percent top tax rate do to the U.S. economy and businesses? The rap on high rates is that they discourage work and promote wasteful tax-sheltering. Even many economists who think the rich pay too little say the better solution is to eliminate loopholes—subjecting more income to taxation rather than taxing a narrow base at a high rate.

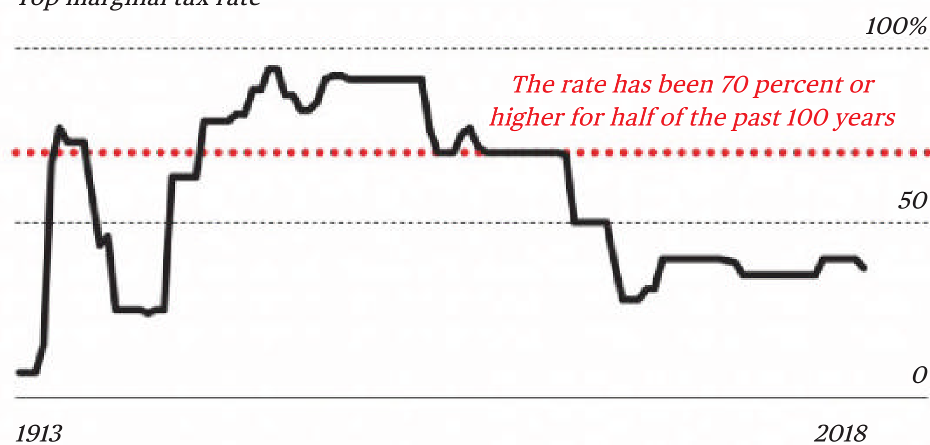
Norquist argues that a 70 percent top rate would trigger an exodus of high-earning individuals from the U.S., saying that the last time U.S. rates were that high, they were also high in other nations, reducing the incentive to move. The Tax Foundation, a right-of-center think tank, said on Jan. 14 that a 70 percent top rate on ordinary income (not capital gains) exceeding $10 million "would not raise much revenue." "Not much revenue" in this case means an estimated $189 billion in total over 10 years—or $292 billion before accounting for the likelihood that people in that tax bracket would work less and invest less in their noncorporate businesses.

On the other hand, economists supportive of Ocasio-Cortez were quick to point out that Denmark has among the world's highest living standards despite a 56.5 percent tax rate on incomes above about $80,000 a year, a far lower threshold than her $10 million. A 2011 paper by Nobel laureate Peter Diamond of MIT and Emmanuel Saez of the University of California at Berkeley advocated top total tax rates (federal plus state) for the richest Americans of 73 percent on ordinary income (again, not capital gains). They assumed that an extra dollar of income for someone in that bracket has very little value in comparison to a dollar received by a lower-income person. Critics of their research have said Diamond and Saez treat the rich as sheep to be shorn and underestimate how much high tax rates would discourage people from getting advanced degrees or starting businesses. Diamond rejects the criticism, cites the need for more public investment, and says, "I'm perfectly comfortable" with Ocasio-Cortez's 70 percent rate.

ONE THING THAT MOST PEOPLE DON'T KNOW ABOUT Ocasio-Cortez is that she was a science nerd in high school in Westchester County, N.Y. In 2007, out of almost 1,500 students from 46 countries competing in the Intel International Science and Engineering Fair, she was one of four second-place winners in the microbiology category. (Her research was on the effect of antioxidants on roundworms.) It's a biographical detail that adds another dimension to the story of a young woman born in the Bronx to parents of Puerto Rican descent who became the first in her family to attend college. While she was away at school her father died, pushing the family to the brink of financial ruin. "When you come from a working-class background, it often feels like you're just one disaster away from everything

Tax the Rich

Top marginal tax rate



DATA: TAX POLICY CENTER

them to buy into it. You gotta show 'em"

falling apart," she said in an Instagram video about a year ago.

Like former President Barack Obama, Ocasio-Cortez became a community organizer after graduating from college, in 2011, and supported herself as a waitress and bartender. She worked for Sanders's campaign in 2016. After that, things happened fast. She ran for the Democratic nomination in her Bronx-Queens congressional district and upset Joe Crowley. Chairman of the House Democratic Caucus, Crowley had been seen as a candidate to succeed Nancy Pelosi of California as speaker. He outspent Ocasio-Cortez 18 to 1 and had endorsements from New York Governor Andrew Cuomo, New York City Mayor Bill de Blasio, and both New York senators. She won huge.

No one shifts the Overton Window on any subject without strong communications skills, and Ocasio-Cortez is ninja-level in that department. She thrills supporters by going after critics hard on social media, which she uses the way an older generation used street rallies. "I'm a firm believer that organizing never stops," she told Cooper in the *60 Minutes* interview. One of her first acts after her election was to visit the office of Pelosi—not to seek her blessing but to support climate change activists who were occupying the soon-to-be speaker's office. Now Ocasio-Cortez works two doors away from Pelosi—but not for her. She's floated the idea of creating a progressive caucus among the Democrats, modeling it on the powerful Freedom Caucus on the right. Among her allies are new members Ilhan Omar of Minnesota, the first Somali-American elected to Congress; New Mexico's Deb Haaland, one of the first American Indian women elected to Congress; and Rashida Tlaib of Michigan, the first Palestinian-American in Congress. "This is a movement; this is not me," Ocasio-Cortez said in an Instagram video last year.

Both Ocasio-Cortez and Trump are social media virtuosos. They excel at turning back attacks on their credibility. Attempts to challenge them on facts come across to their supporters as mean-spirited and unfair—the knee-jerk reaction of an establishment trying to suppress outside voices. So it was when Ocasio-Cortez mistakenly said on social media last year that the Pentagon had lost track of $21 trillion in funds, a figure that was about 30 times the Department of Defense's annual budget. Unlike Trump, she corrects her mistakes. "The thing that's hard is that you're supposed to be perfect all the time on every issue and every thing," she said on Instagram last year.

Implicit in that statement: Ocasio-Cortez has plenty more Overton Windows to shift and no intention of slowing down for the critics. Aside from the Green New Deal and higher taxes on the rich, she favors Medicare for all, a federal guarantee of a job, abolition of the U.S. Immigration and Customs Enforcement bureau, and tuition-free college or trade school. She also wants to slash military spending, ban assault weapons, and bring back Glass-Steagall, the Depression-era law that separated commercial and investment banks.

That may all sound like tail risk to American businesses, which have been enjoying deregulation under Trump. Saikat Chakrabarti, Ocasio-Cortez's chief of staff, says, "This is the kind of plan where you can't go to Wall Street executives first to try to get them to buy into it. You gotta show 'em."

The question is whether she'll be able to show them, or anyone. A week after Ocasio-Cortez came to Washington, fellow Democrats complained that she was disruptive and not a team player. Chief among her sins: threatening to back the primary opponents of members of Congress who aren't liberal enough for her. "I'm sure Ms. Cortez means well, but there's almost an outstanding rule: Don't attack your own people," Representative Emanuel Cleaver II, a Missouri Democrat, told *Politico*. "We just don't need sniping in our Democratic Caucus."

TO PASS ANY OF THEIR INITIATIVES, OCASIO-CORTEZ AND her allies will have to defeat the proven Republican strategy of using budget deficits as a justification for opposing new spending. That's where Modern Monetary Theory comes in. It says a government can spend money without raising taxes—indeed, without even borrowing from the public via bonds. The government simply creates new money to pay its bills. The only constraint on spending under MMT is that the government could use up too much of the nation's productive capacity, which would result in high inflation. As long as inflation remains low, as it is now, deficits are no problem. The usual reply from other economists is that even a nation that owes debt in its own currency can suffer a crisis if investors lose faith in its ability to service the debt without resorting to the printing press.

One precinct where deficits still matter, and MMT most certainly does not, is the office of House Speaker Pelosi. On Jan. 3, under Pelosi's direction, the House passed a set of rules including pay-as-you-go, which requires legislation that would increase the deficit to be offset by tax increases or spending cuts. PAYGO, as it's known, is contrary to the spirit of MMT and hamstrings liberal Democrats by making most of their spending initiatives impossible. Ocasio-Cortez was one of only three Democrats to oppose the provision, along with Ro Khanna of California and Tulsi Gabbard of Hawaii.

Ocasio-Cortez had another setback when she was passed over for a coveted seat on the Ways and Means Committee, which oversees taxes, Social Security, and Medicare. But she recovered nicely by getting a seat along with other progressives on the powerful House Financial Services Committee, headed by Maxine Waters of California. Carolyn Maloney, a fellow New York Democrat, says, "I was once that young woman who others tried to rein in. I certainly don't believe in doing that to anyone else. Representative Ocasio-Cortez is bringing new energy and a new approach, and we should all embrace that."

Ocasio-Cortez's disregard for political niceties is both her strongest quality as an activist and potentially her Achilles' heel as a representative. She shows no sign of dialing back. One way or another, says Kelton, the economic adviser, "the conversation is shifting. The space is opening up." Ⓑ

The Jamaican stock market is so obscure, even emerging-markets funds don't invest there. And it's booming

BIG UP

By Michael P. Regan
Photographs by Brad Ogbonna

At the world's best-performing stock market, things operate a bit differently than they do on Wall Street.

No one complains about short sellers swooping in to drive down share prices or high-frequency traders eking out an unfair edge, because neither exist here. And forget about premarket or after-hours sessions that stretch the trading day around the clock. At the Jamaica Stock Exchange on the waterfront of Kingston Harbour, investors have just three and a half hours a day to buy and sell.

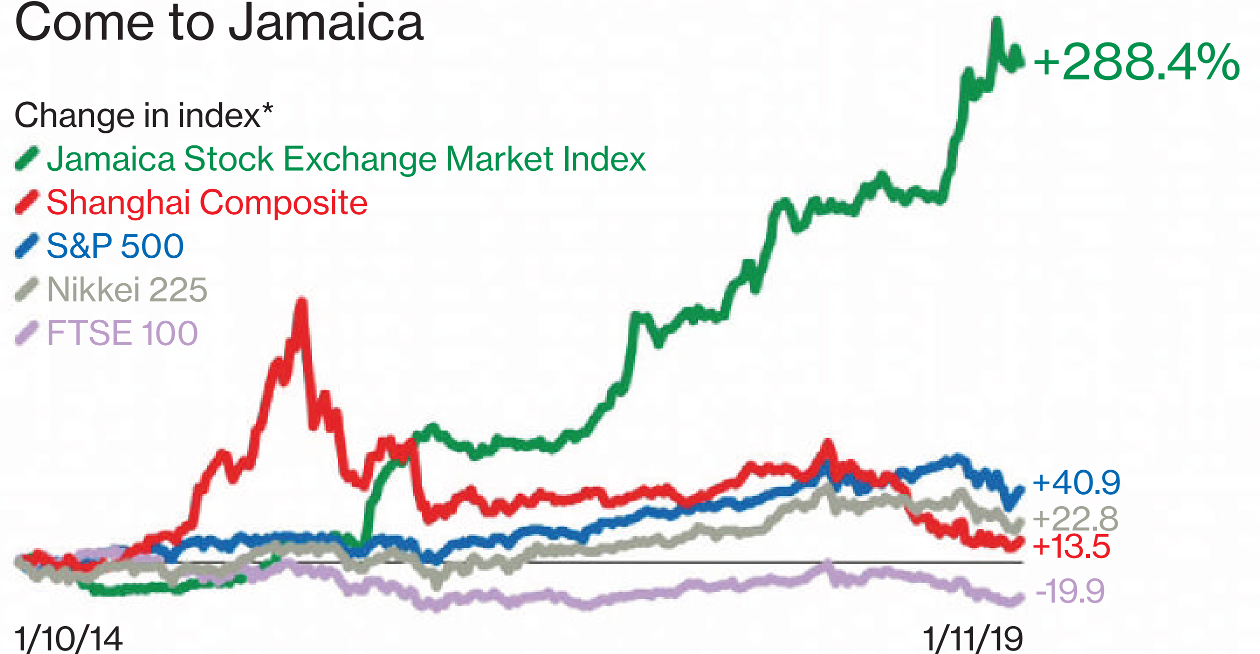
So this market isn't ready to plug into the hyperactive trading desks of New York and London. Not yet. There are zero Jamaican stocks in U.S. exchange-traded funds, even those tracking "frontier" countries such as Kazakhstan, Sri Lanka, and Vietnam, the most emerging of the emerging markets.

Still, Jamaica's stock returns are the sort that tend to be a beacon for adventurous global investors—a flash of bright green digits on computer screens that have lately been lit up in red. In 2018 the nation's main index rose 29 percent in U.S. dollar terms, the most among 94 national benchmarks tracked by Bloomberg. Its outperformance over the past five years is even more striking. Jamaican stocks have surged almost 300 percent, more than quadrupling the next-best-performing national benchmark and septupling the S&P 500's advance.

What explains these gains? A Caribbean economic miracle the world has overlooked? Not exactly: Real growth in Jamaica has averaged less than 1 percent the past four years, and it's expected to come in at 1.7 percent for 2018. The bull market is partly a matter of math. It doesn't take much investment to make a tiny market boom, and the total value of the 37 stocks in the main Jamaica index is less than $11 billion, smaller than the valuation of Chipotle Mexican Grill Inc. But it's also a story about Kingston's nascent attempts to reinvent itself as a financial hub, even as it works to reduce the heavy debt load that brought the country to the brink of crisis a decade ago. "Clearly, capital goes where it's comfortable," says Paul Simpson, a 36-year-old banker and investor in Kingston. "To see capital coming here means people must be comfortable."

Jamaica's financial industry is mostly headquartered in the neighborhood of New Kingston, which is nothing like the caricatures that dominate global perceptions of the island. You won't see a lot of hard-partying tourists, or the poverty of places like Trench Town. Instead, Audi and Porsche dealerships are here, along with one of the Starbucks stores that have sprouted up on the island, selling Blue Mountain coffee brewed from beans grown on nearby hillsides. Over the past decade, Jamaica's financial sector assets have tripled and the number of institutions has grown eightfold, according to International Monetary Fund figures. While Kingston still regularly appears on global lists of dangerous cities, the World Bank now ranks Jamaica as the

Come to Jamaica



*PRICE-ONLY INDEXES DENOMINATED IN U.S. DOLLARS, PLOTTED WEEKLY. DATA: COMPILED BY BLOOMBERG

The Jamaica Stock Exchange began operations in 1969

Exchange managing director Street Forrest

sixth-best nation in terms of ease of starting a business.

"If I could hold a megaphone and tell investors now's the time, I'd do it," says economist Uma Ramakrishnan, the IMF's Jamaica mission chief. Some investors have already received the message. China's Jiuquan Iron & Steel plans to spend about $6 billion to expand output at an aluminum refinery and develop an industrial park. Foreign corporations have also bought the producers of Red Stripe beer and J. Wray & Nephew rum in recent years. And the share of Jamaicans with brokerage accounts has gone from less than 5 percent to more than 10 percent in the past decade.

But for investors within earshot of Ramakrishnan's megaphone, there are still enormous limitations to consider, starting with the equity market's minuscule size. The number of shares available to the public is even smaller, because many companies are majority-owned by conglomerates, in particular foreign companies tapping into Jamaica's capital markets. NCB Financial Group Ltd., the dominant bank, which accounts for almost a third of the stock index by market value, is more than half-owned by Jamaican-Canadian billionaire Michael Lee-Chin's investment company. Scotia Group Jamaica Ltd., the second-biggest stock, is about three-quarters-owned by Bank of Nova Scotia. It's common for some Jamaican stocks not to trade for days or even weeks. When the list of gainers and losers is tallied on any given day, the number of unchanged stocks often outnumbers both.

The exchange's managing director, Marlene Street Forrest, has heard the criticisms and says things are improving. The time it takes to settle trades has been shortened to two days from three to comply with international standards. The exchange is planning to introduce market making this year, a way to ensure stocks have a ready buyer and seller. It's also exploring adding other tools familiar to traders in bigger markets, from margin accounts allowing people to invest with borrowed money to short selling so they can bet on prices falling. But it's approaching change gingerly. Street Forrest sees no need to extend trading hours if the demand from investors isn't there yet. "We ensure that we are going to get it right before we move," she says.

Street Forrest already has a lot on her plate. She's preparing for more than 20 new listings this year, including an initial public offering for a government-owned power supplier, Wigton Windfarm Ltd., as part of a privatization effort, and several smaller companies coming to the exchange's junior market, which includes companies even smaller and less liquid than those in the main index.

The exchange was created 50 years ago, spearheaded by Edward Seaga, a Harvard-educated Jamaican who started his career as a record producer in the 1950s and '60s and was among the first to press ska music onto vinyl. He later got into politics and was appointed finance minister. In the '70s, Seaga went on to lead the Jamaica Labour Party, the capitalist rival to the charismatic socialist leader Michael Manley, who was moving Kingston closer to Havana and further from Washington. Jamaican politics in that era could be mistaken for civil war, with frequent deadly confrontations between supporters of Seaga and Manley. Such political violence is largely a thing of the past. Another legacy—a buildup of debt—has been harder to shake.

Perhaps the key factor in the stock market's rise has been the country's approach to taming that debt, a project not without cost for many Jamaicans. For a long time, the most obvious way to earn a return from Jamaica has been to lend to it. In the wake of a national banking crisis in the '90s and the global financial panic a decade later, the government's debt pile swelled to 145 percent the size of the economy. Interest payments consumed more than half the government's revenue, choking off funding for important social and infrastructure projects. Jamaican bonds paid such high yields, they crowded out other investment options, making it more difficult for companies to raise money.

Jamaica had a perfect record of paying off government debt, but the financial crisis of 2008 threatened that, ▶

Inside the exchange, which has 37 stocks on its main index

as key pillars of the economy—tourist spending, foreign remittances, bauxite and alumina exports—all started to shrink. The country's debt ratings were cut, the Jamaican dollar plunged, and the interest rates demanded by investors on short-term government bills jumped to a punishing 25 percent. To get help, the nation was forced to turn to the IMF, with which it had had a dysfunctional, on-and-off relationship for most of its five decades of independence.

IMF and World Bank financing comes with conditions, and they can be harsh. In the 1970s they included opening up the economy to international competition, which decimated the agricultural industry, as Jamaican farmers struggled to compete with corporate American producers. This time, the international financiers recommended shrinking the government workforce and reining in wages. This led to what the Center for Economic and Policy Research called "the most austere budget in the world."

The IMF worked with Jamaica on a "unique experiment" to restructure its bond debts—but it didn't reduce the principal owed, which could have destabilized the Jamaican banks that held the securities. Instead, starting in 2010, it did debt exchanges, reducing the average interest rate while extending the life of the loans. Making payments easier has helped to reduce the debt to about 100 percent of GDP over the past four years, which is still a burden but a more manageable one. The lower interest rates and shrinking supply of bonds have boosted confidence in the country's financial health and led to a classic "search for yield"—with bonds offering less, investors are looking for other opportunities. Including in the stock market.

Jamaica has also had some luck. The global economy keeps humming along, and hurricanes have spared the island the worst of their wrath in recent years. The result is a whiff of optimism in Kingston that things might be turning a corner. Unemployment reached a record low of 8.4 percent in 2018. The Jamaican dollar has been relatively stable over the past two years, after decades of depreciation. Inflation has dropped from more than 9 percent to less than 4 percent in the past five years. The central bank has been touting its success with a nod to national pride, tweeting a music video with the lyrics "low and stable inflation is to the economy what the bass line is to reggae music."

Simpson, the Kingston investor, is responsible for last year's best-performing stock. His Cornerstone United Holdings Jamaica Ltd. took over a controlling stake in brokerage Barita Investments from the latter's 82-year-old founder, Rita Humphries-Lewin—the only woman whose picture hangs in the exchange boardroom's gallery of past chairs. The changing of the guard fueled a 630 percent gain in Barita's shares. Simpson raised 8 billion Jamaican dollars—about $61 million—in the local capital market to fund the deal and expand Barita as well as Cornerstone's other holding, MF&G Merchant Bank.

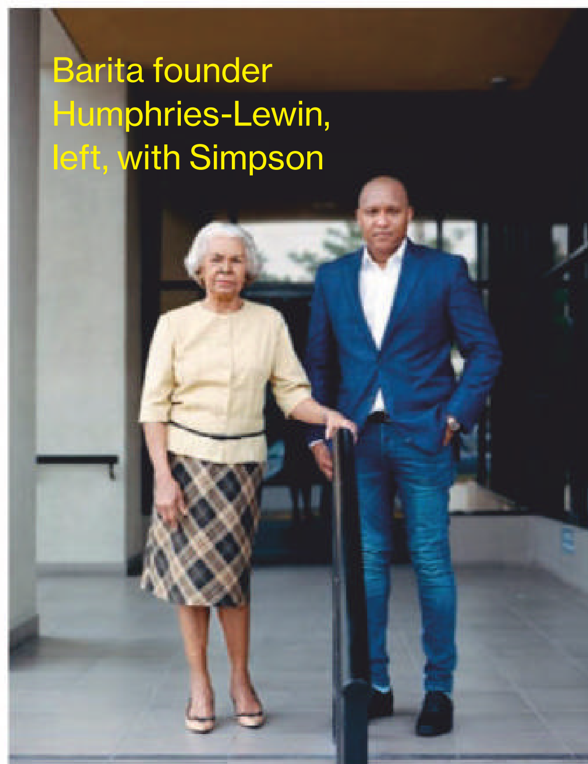
Like millennial dealmakers the world over, Simpson thinks of business opportunities in terms of "disruption"—his vision for Cornerstone is to be a low-cost, high-tech upstart shaking up the island's banking industry. He's also engaging in another, subtler form of disruption: helping to halt the flow of people leaving the island in search of a better life elsewhere. He's recruited Jamaican bankers with Ivy League and Wall Street credentials for his management team. "We feel the fundamentals are strong here," Simpson says. "We

had 18 years of stagnation. So what you see now is all that pent-up gray matter being exposed through our capital markets, because people just want to have their skill sets shown here."

This type of talk is manna to the government and the IMF alike. Remittances from the global diaspora of Jamaicans account for almost one-fifth of the island's GDP. "If you're thinking of the potential of an economy like this, imagine these people coming back," says Constant Lonkeng Ngouana, the IMF's resident representative in Jamaica.

Gauging Jamaica's economic potential is a common pastime for many here, but not everyone is convinced the turnaround is real. At Sterling Asset Management, trader Marian Ross's computer is plugged into markets all over the world–and she's finding a lot to like outside Jamaica. The firm, run by her father, largely avoided Jamaican government paper because of the risk of currency depreciation–even when it was yielding north of 20 percent. It put clients into lower-yielding U.S.-dollar fixed income instead. Ross pulls up a chart that shows how Jamaican currency worth $1 million in 1974 is now worth less than $8,000.

While Sterling has its own equity listed on the exchange–it climbed 39 percent in 2018–Ross isn't sure how sustainable the rally will be for the index as a whole. Despite the success the government has had with its finances, she says, "I am not necessarily convinced there's a path for real economic growth. What's going to take this to the next level?" She doesn't see an obvious answer.


Barita founder Humphries-Lewin, left, with Simpson

Jamaica must tackle corruption, says economist Haughton

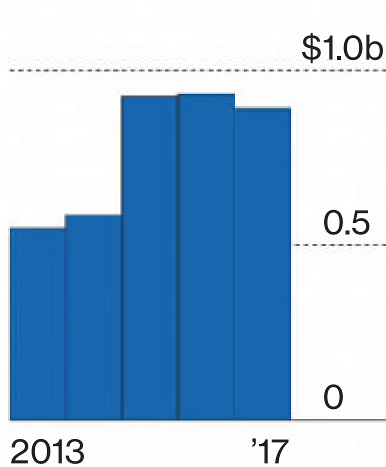
Vision 2030, a far-reaching national project embraced by both Prime Minister Andrew Holness's Jamaica Labour Party and the opposition People's National Party, aims to steer the country to developed-nation status in 11 years by beefing up its services, mining, and manufacturing industries, while capitalizing on its location along the Panama Canal shipping route to expand Kingston's role as a logistics hub. It's ambitious, to say the least, and will need to overcome plenty of risks. Along with hurricanes, an oil-price shock or a U.S. recession are lingering threats. And with IMF programs drawing major protests in Argentina, Jordan, and other countries last year, there's no guarantee Jamaica's people and politicians will continue to countenance aggressive austerity. In its latest stability assessment, the IMF concedes as much. (It also notes that economic growth is still disappointing.)

Andre Haughton, an economist at the University of the West Indies in Kingston, says the government also needs to tackle the perception that there's too much crime and corruption in Jamaica for outsiders to do business here. While the U.S. State Department ranks the country's homicide rate of 60 per 100,000 people among the five highest in the world, Haughton points out that foreign visitors are almost never the victims. He also notes that governance reform is possible, invoking Lee Kuan Yew, the former leader of Singapore, who transformed that country into an international financial center in large part by weeding out corruption.

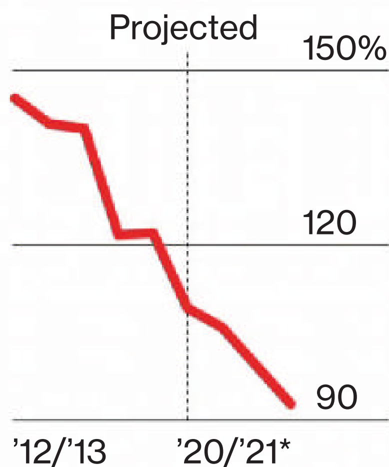
Lately the Jamaican news has been dominated by a scandal at the state-run refinery Petrojam, where tens of millions of dollars' worth of oil went missing and a variety of questionable spending has come under scrutiny. How the probe is handled could send a signal that Jamaica is holding important people accountable. "It's all good and well we have a very good stock market," Haughton says. But "if we don't deal with the level of corruption, then we won't be able to solve our problems. It's going to continue to be a country with different assets, different facets, but never a properly coordinated economic trajectory." Ⓑ

The Island's Economic Vital Signs

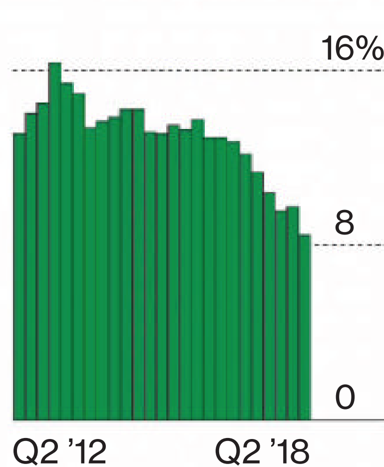
Foreign direct investment, net inflow



Public debt as a share of GDP



Unemployment rate



*FISCAL YEAR RUNS FROM APRIL 1 TO MARCH 31. DATA: WORLD BANK; IMF; STATISTICAL INSTITUTE OF JAMAICA

EX-ESPN PREZ TRIES TO OUT-ESPN ESPN

JOHN SKIPPER IS TAKING ON HIS FORMER EMPLOYER AS HEAD OF A STARTUP THAT WANTS TO BE THE NETFLIX OF SPORTS

BY IRA BOUDWAY
PHOTOGRAPH BY BENEDICT EVANS

ON A RECENT FALL MORNING, JOHN SKIPPER IS BACKSTAGE at Madison Square Garden's Hulu Theater, a 5,600-seat space tucked beneath the famous New York City arena. He's there to greet Canelo Alvarez, the red-headed Mexican boxer whose only loss in 53 professional fights was to Floyd Mayweather in 2013. Skipper, the executive chairman of sports media startup DAZN Group, has just signed Alvarez to the richest athlete contract in sports history, a $365 million agreement for the rights to broadcast his next 11 fights. In a few minutes the two will wind through hallways and stairwells to the stage, where Alvarez will pose chest-to-chest before the press with his upcoming opponent, Rocky Fielding of Liverpool.

In the meantime, Alvarez, in a dark vest and white button-up shirt, is autographing boxing gloves, pulling them from a pile of 300 and dropping each finished pair into a large cardboard box. When Skipper approaches, Alvarez pauses. "Thank you for being here. We are very excited about the deal," Skipper says, shaking hands. "*Muchas gracias*."

It's a big moment for Alvarez, yet Skipper seems the more thrilled of the two. For him, the hoopla marks a big step forward in his comeback from a public stumble. "Today is a lot of adrenaline," he says prior to heading onstage.

A year earlier, Skipper was president of ESPN and one of the most powerful people in television. In his six years on the job and 20 at the network, he helped build it into a $10 billion juggernaut for Walt Disney Co., cutting massive checks to the NBA and NFL and running the machinery that helps turn professional athletes into household names.

Skipper had signed a contract that November to stay on for three more years. ESPN was starting to look vulnerable as consumers abandoned cable TV, and Disney Chief Executive Officer Bob Iger wanted him at the helm as the network began the shift to a digital streaming economy. A month later, at ESPN's headquarters in Bristol, Conn., Skipper sat in front of about 450 on-camera reporters, analysts, and anchors and told them his plans. "I want to lead an ESPN that strives purposely and confidently into a new world, which is not scary but exciting," he said.

Less than a week later, he resigned. "I have struggled for many years with a substance addiction," Skipper said in a statement announcing his departure. "I have decided that the most important thing I can do right now is to take care of my problem."

The sudden exit fueled speculation that the addiction story was cover for a sexual harassment scandal. The #MeToo movement had already ended the careers of Charlie Rose, Matt Lauer, and other media stars. Fox Sports radio personality Clay Travis, an ESPN critic, tweeted a surreptitious photo of Skipper at a bar with a martini glass at his elbow less than two weeks after his resignation. "ESPN lied about John Skipper's substance addiction to cover up the real reason he was being fired," Travis wrote, suggesting that if Skipper had an issue, he wouldn't be drinking in public. Skipper tried to set the record straight in a March 2018 interview with the *Hollywood Reporter*. "Someone from whom I bought cocaine attempted to extort me," he said. When he met with Iger about it, they agreed he should resign.

Backstage at the Garden, Skipper makes clear that he's not interested in rehashing the extortion plot—which, he says, was the sole reason he left. "What I told people was the truth," he says in a slight drawl, a remnant of his North Carolina upbringing. "Why they don't choose to believe it, I have no clue."

What does interest him is an article about his ambitious second act, which is why he's letting me hang around. Skipper, 63, spent his early career at *Rolling Stone* and *Spin* and helped start *ESPN the Magazine*. He knows a little scenery helps a story, so he's chosen this dressing room chat as a table setter for two later interviews.

Skipper with Alvarez in October

DAZN'S REACH (SO FAR)

Properties by market
Forthcoming

Soccer

	Asian Football Confederation	beIN Sports**	Copa Del Rey (Spain)	Copa Libertadores (South America)	Copa Sudamericana	DFB Pokal (Germany)	English Football League	Eredivisie (Netherlands)	FA Cup (England)	J League (Japan)	La Liga (Spain)	Ligue 1 (France)	MLS	Premier League	Primera Division (Bolivia)	Primera Division (Chile)	Primera Division (Ecuador)	Primera Division (Peru)	Serie A (Italy)	UEFA Champions League	UEFA Europa League
U.S.	●									●						●					
Canada	●	●					●			●			●						●	●	●
Germany*				●	●		●	●	●		●	●		●	●		●	●	●	●	●
Japan			●			●				●	●			●					●	●	●
Italy				●	●		●		●	●	●	●							●		
Spain														●							
Brazil					●							●							●		

Combat Sports

	Combate Americas	Bellator MMA	Golden Boy Promotions	Matchroom Boxing	Showtime Boxing	Ultimate Fighting Championship	World Boxing Super Series	World Wrestling Entertainment
U.S.	●	●	●	●			●	
Canada		●	●	●			●	
Germany*		●						
Japan		●						●
Italy		●		●	●	●		
Spain								
Brazil								

Rugby

	Autumn Internationals	England Rugby	European Professional Club Rugby	European Rugby Challenge Cup	Heineken Champions Cup
U.S.					
Canada	●				
Germany*		●			●
Japan		●	●	●	●
Italy				●	●
Spain					
Brazil					

The story he hopes to tell is about how “the old guy who ran ESPN” is now working at a startup that aims to take its place as the “worldwide leader in sports.” He wants to talk about DAZN (pronounced “da zone”), a subscription streaming service with an odd name and big plans to disrupt sports broadcasting. It’s a neat narrative—incumbent turned insurgent—but Skipper knows he’s entering a brutal contest with one of two outcomes: win by knockout or get knocked out.

SKIPPER WON’T CALL DAZN A “NETFLIX FOR SPORTS,” at least not publicly, but it’s useful shorthand. DAZN offers live sports on the internet for a monthly fee. It started in Germany and Japan in summer 2016 and now also operates in Canada, Italy, and the U.S. The German service (which is also available in Austria and Switzerland) offers four of the top European soccer leagues plus the NBA and NFL for about $10 per month. In Japan, subscribers get domestic soccer and baseball, plus MLB, the NFL, three European soccer leagues, and UEFA Champions League, for about $15. U.S. service began in September, offering boxing and mixed martial arts at $10 a month. There are plans to start up in Spain and Brazil later this year.

The goal is to become an indispensable part of sports fans’ entertainment budget. It’s a wildly expensive project. Rights packages for top leagues make the cost for a season of *Game of Thrones* look like pocket change. And DAZN is competing against many of the biggest media companies in the world, including Disney.

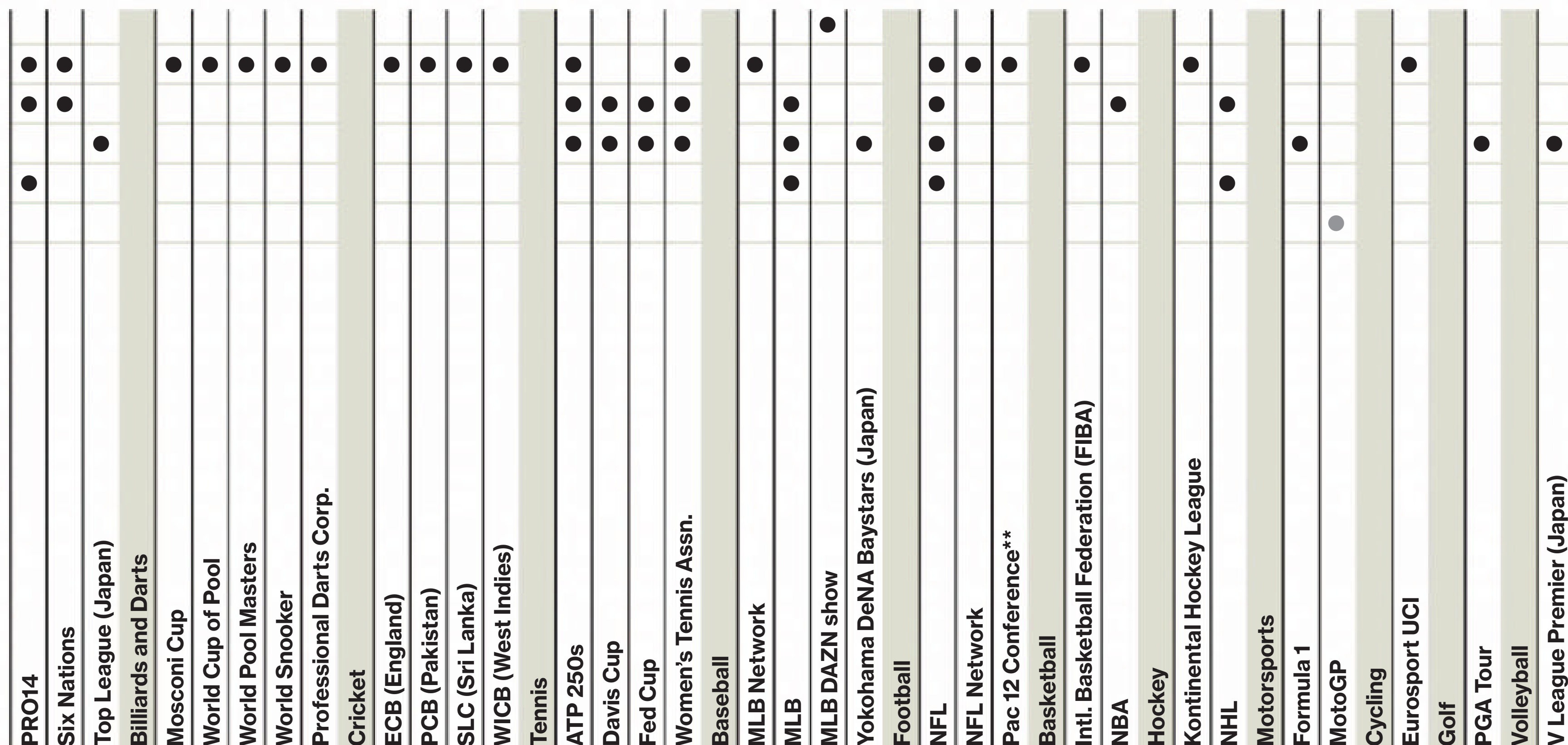
DAZN has a puncher’s chance because it’s backed by Len Blavatnik. The Ukrainian-born media tycoon built a fortune from oil and aluminum dealings in Russia and now oversees a $20 billion empire that includes Warner Music Group. Skipper joined the management team in May, six months after his ESPN exit. The departure was a stroke of good fortune for DAZN: The most plugged-in executive in the business was suddenly available right as the company was looking to crack the U.S. market. “Everybody better be taking them seriously,” says Rich Greenfield, a media analyst at research company BTIG LLC. “They’ve got large amounts of capital and a talented management team that understands all of the problems of the legacy ecosystem.”

DAZN began as part of Perform Group Ltd., a London-based company Blavatnik formed in 2007. Perform built a $450 million business as a middleman for sports content, buying rights to games and data from teams and leagues, then packaging them for broadcasters and bookmakers. In 2014, Perform decided to create its own direct-to-consumer product, setting aside several hundred million dollars to get it off the ground. Consumers were moving to online subscription services for movies, TV, and music. Sports seemed an obvious next step.

Perform picked the name DAZN because it stood out and was available as a trademark across dozens of markets, says Joseph Markowski, executive vice president for North America. And yes, the company is aware that people can’t pronounce it: DAZN’s Twitter feed includes a video of heavyweight fighter Anthony Joshua and other athletes struggling with the name, saying “duh-zin” and “day-zin.” That’s OK, Markowski says—it helps make the name memorable.

DAZN soon went on a multibillion-dollar spending spree. In Japan alone, it committed $3 billion to rights. The splurge didn’t go unnoticed at ESPN, where Skipper was figuring out the direct-to-consumer business. “We were studying the world of platforms that could deliver simultaneous live streams at scale,” he says at DAZN’s Lower Manhattan offices a few weeks after the Alvarez event. The two best in the business, he decided, were Perform Group and BAMTech LLC, a streaming provider that Major League Baseball began developing in 2000.

During the same month that DAZN started in Germany and Japan, Disney paid $1 billion for a one-third share of BAMTech and announced that ESPN would soon operate its first standalone subscription streaming service using BAMTech ▶



DATA: DAZN; *ALSO INCLUDES AUSTRIA AND SWITZERLAND. **PROPERTY INCLUDES ADDITIONAL SPORTS. PHOTO: AMANDA WESTCOTT/DAZN

"I LOVED BEING THE PRESIDENT OF ESPN

◀ technology. Then Disney paid an additional $1.6 billion to become BAMTech's majority owner. Skipper now had the tools to make ESPN a streaming power.

It promised to be a heavy lift. The network couldn't simply vacuum up rights to the most in-demand sports, put them on a slick online platform, and start charging customers. Although it owned the most valuable portfolio in the U.S.—Skipper himself assembled it, spending about $8 billion annually for Monday Night Football, the NBA, MLB, and many of the most-watched college football and basketball games—ESPN was already selling this programming to pay-TV providers for about $8 per month for every home that got the network. These carrier contracts prevented Skipper from selling the same games directly to consumers.

The number of homes getting ESPN, meanwhile, had fallen from 100 million in 2011 to 87 million in 2017, according to Nielsen Holdings Plc. Even if Skipper could offer the full firehose of ESPN programming via a streaming service, there was little chance of matching the revenue that had flowed through the fast-decaying cable business model. This was the predicament he'd been alluding to when, just before he resigned, he tried to reassure the network's on-air talent about the "not scary" very scary new world.

IN THE* HOLLYWOOD REPORTER *STORY, SKIPPER SAID THAT after he resigned, he checked himself into a facility where he got to "understand a bit more about substance use." He told the interviewer, James Andrew Miller, co-author of the bestselling oral history of ESPN, *Those Guys Have All the Fun*: "I enjoy a martini, I enjoy a bottle of wine with friends for dinner. I've never had an issue with alcohol. You know, I'm an old hippie, and then an old New Yorker from the '80s." His addiction, he told Miller, had been cocaine.

Skipper's first job after he finished a master's in English literature at Columbia University was as a secretary at *Rolling Stone* in 1979. Over the next decade, he rose to become publisher of *US* magazine, which was under the same ownership. "He had a lot of friends," *Rolling Stone* co-founder Jann Wenner said in *Those Guys Have All the Fun*. "In those days it was quite the socially intertwined organization, and people had major parts of their social life totally interconnected with the place, you know, free-flowing cocaine, young people intensely involved with their work. And John fit right in with everybody." Later, when Skipper became one of the most powerful people in sports, an industry full of former jocks and B-school squares, his *Rolling Stone* background became part of his persona. He was the charismatic Southerner with a countercultural streak.

At a diner on the Upper East Side, not far from where he lives, Skipper remains reluctant to say more about what led to his exit from ESPN. "I regret using the word 'addiction,'" he says. "I had some inappropriate behavior." As he sees it now, buying cocaine was a manifestation of a deeper set of problems: "I had some underlying matters I needed to deal with, which had created a health problem, which I feel that I've satisfactorily resolved." Is the treatment over? "I've turned a new leaf. I feel quite confident in my ability to manage my life in a responsible manner."

After leaving ESPN, Skipper laid low for a couple of months. He read *Under the Volcano* by Malcolm Lowry, the story of an alcoholic British diplomat in Mexico, and a Ulysses S. Grant biography. "Taking off is great," he says, "but when you're not taking off from anything, you're not really taking off, you just don't have anything to do." When media friends began coming to him for advice, Skipper thought he could make a business of that, but he abandoned the idea after a few days. He didn't want to tell other people what to do, he realized; he wanted to be the one doing.

In April he had breakfast at the Greenwich Hotel in Manhattan with Simon Denyer, Perform's CEO and co-founder, who broached the idea of Skipper coming aboard to help run DAZN. "When I looked at what they've been able to do in Japan, Germany, and Canada, and thought about being able to try to replicate that around the world, I thought, this is kind of a unique beast," Skipper says. "We may have the disruptor and the potential winner in this space." His quick return to the industry was a deliberate statement that he wouldn't cower. "I wanted to march right back in the room as a chairman of a company and say, 'I'm fine,'" he says.

While he was negotiating his contract with Perform, ESPN introduced its long-awaited standalone streaming service. For $5 a month, subscribers to ESPN+ would get games from MLB, Major League Soccer, and the NHL, as well as some college sports and documentaries and other shows not found on the TV network. The grab bag of second-rate programming highlighted the difficulty ESPN faces as it tries to build a new business while protecting its old one. In September, Disney announced that ESPN+ had a million subscribers.

At DAZN, Skipper faces the flip side of ESPN's problems. He has the freedom to sell sports directly to viewers but little to sell. ESPN and the other incumbents have locked up the most-watched leagues into the next decade. The NFL's slate of Sunday games is next available in 2023. NBA games won't hit the market until 2025. So two days after Skipper's hire, Perform announced a $1 billion deal with British promoter Matchroom Boxing that would serve as the foundation of its U.S. service.

The $365 million agreement with Alvarez and his representatives at Golden Boy Promotions Inc., which came five months later, is part of a larger deal that includes other top boxers in Golden Boy's stable and could reach a half-billion dollars if the fights draw enough subscribers. "I didn't know what DAZN was until John Skipper got a hold of me," says Oscar De La Hoya, the former prizefighter and Golden Boy co-founder. HBO had announced recently that it was dropping boxing coverage from its network. "I have to admit we

BUT THE CHANGE HAS BEEN GOOD TO ME"

were pretty desperate at the time," says De La Hoya. During negotiations in Los Angeles, he says, Skipper asked what the magic number was to get Alvarez: "I threw out a number, and he didn't blink. What I see in John is ambition—and a little revenge. When he mentioned, 'Look, we want to compete with ESPN,' I said, 'Of course. Bingo.' "

A former colleague of Skipper's who's spoken with him since he left ESPN (and also is no longer at the network) says Skipper was hurt by how Disney treated him at the end: "He felt like his long service might have suggested a different outcome than 'goodbye and good luck.' " Disney declined to comment.

Skipper says he bears no ill will toward his former employer. His focus is expanding DAZN. "If I have gained some perspective from years of working in sports and years of living," he says, "it is that you better do things that you enjoy, and you better do them for positive reasons."

For now the battle for streaming supremacy is happening at the margins of the U.S. market. ESPN has deep cuts from its vast portfolio. NBC Sports has a variety of "gold" packages for fans who can't get enough English Premier League soccer, PGA Tour golf, or figure skating. AT&T Inc.'s WarnerMedia offers UEFA Champions League and Europa League soccer on B/R Live for $10 per month. Then again, ESPN got its start on the margins. In 1979 it had bowling, billiards, slow-pitch softball—and plenty of doubters who said a 24-hour sports cable network would never work.

Skipper says DAZN is ready to bid on anything and everything that becomes available in the U.S., including the NFL. He expects that leagues will eventually start carving out exclusive rights packages for online-only bidders. In November, DAZN signed a three-year, $300 million agreement with MLB for a nightly show that will feature live look-ins at games starting this coming season. Between boxing and baseball, DAZN has committed about $2 billion in the U.S., and it's prepared to spend billions more. To help pay for it, Perform reorganized, changing the company name to DAZN Group and splitting it into the streaming service and the digital sports agency. It's hired a banker to explore a sale of the latter.

In the long run, success depends on whether DAZN can make more money in subscriber fees than it spends on rights. Regulatory statements filed in the U.K. show that Perform had operating losses of almost $275 million in 2017, mainly because of spending on DAZN, and that was before costs associated with the U.S. introduction. The company doesn't release subscriber numbers, but Japan, Skipper says, already counts more than a million payers. At the dollar equivalent of about $15 per month per subscription, that's about $180 million in annual revenue. The global subscriber tally, he says, is past a million by "some multiples." The goal is to reach profitability in new markets in four or five years, he says.

The closest thing DAZN has to a global rival at the moment is Eleven Sports Network Ltd., a subscription-streaming service in London that operates in 11 markets including the U.K. and the U.S., offering mostly soccer, motor sports, and fights. Eleven, however, lacks Blavatnik's deep pockets. In December, after reports that it might have to close in the U.K. because of low demand, the company said it was trying to renegotiate its deals with Spanish and Italian soccer leagues.

The real worry for DAZN comes from bigger competitors. Disney's $71 billion purchase of 21st Century Fox Inc. includes sports channels in India, Latin America, and Asia. "I don't think it will be very long before ESPN+ becomes a global, standalone sports offering," says Daniel Cohen, a media rights consultant at the Octagon Inc. sports agency. There's also the threat that a tech giant will go all-in on sports. If Amazon.com or Facebook Inc. decides to swing for the fences, even Blavatnik's billions might not be enough to win the day.

ON DEC. 15 AT MADISON SQUARE GARDEN, ONE YEAR TO the night after the cocaine buy that cost Skipper his ESPN job, Alvarez pounds Fielding into submission in three rounds. The capacity crowd includes Bruce Willis and John McEnroe but not Skipper. A bad back keeps him home for DAZN's big night. The choice not to push it is part of his new approach to work.

At ESPN, Skipper says, his response to every challenge was the same: "I just worked harder, worked more, worked all the time." And if he hadn't slipped up, he probably would have kept at it. "I don't think I was wise enough to stop," he says. "I loved being the president of ESPN. But the change has been good to me. Not working for a little while was good to me."

He exercises more now, he says, and eats better. He's lost 30 pounds. And even though he's thrown himself into his job, traveling the world in search of rights, he no longer immerses himself in every detail. "I'll decide that I'm going to put a little hole in my day and go ride my bike around the park," he says. "One thing they talk a lot about in therapy is mindfulness. Just be aware of what you're doing. I was barely aware of what I was doing."

A friend at ESPN says that after Skipper left the network, he confided that his life there had been lonely; his exit, as embarrassing as it might have been, was a blessing. "He's happier than I've ever seen him," the friend says. Skipper's departure led to introspection about his home life, too. In November he and his wife of 39 years divorced. "He's broken free from both his personal and professional past," the friend says.

"It's not anything you would wish on anybody," Skipper says of the ordeal. He didn't need the pain it caused his ex-wife and two grown sons, the disruption he caused at ESPN, or the public exposure. Still, he's comfortable with where he is now. "If I'm in the great gyroscope in the sky somewhere and someone asks, 'Would you like to turn back and something different happens that day, but you haven't gotten any smarter?'... I'd say, 'Nah.' I wouldn't do it. It worked out OK." Ⓑ

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Come Together, Right Now

A simple solution to get off our social media islands

By Ben Steverman

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January 21, 2019

Edited by Chris Rovzar

Businessweek.com

You should host a party. Our civilization depends on it.

If that sounds overly dramatic, know that I'm not the only one sounding the alarm that society is falling apart because we've forgotten how to hang out.

Sociologists have been fretting over our fraying social bonds for a while, but the warnings are getting more dire. Research last year in the *Public Policy & Aging Report* considered social isolation a public-health threat worse than obesity or smoking. In October an American Cancer Society study of 580,000 people found that the most isolated white Americans were up to 84 percent more likely to die from all causes than the least isolated. The most isolated black people had a twofold higher risk.

In the U.K., Prime Minister Theresa May—otherwise quite busy—in 2018 appointed a minister of loneliness for the more than 9 million adults there who are "often or always lonely." In the U.S. an AARP survey from the same year found that 1 in 3 adults older than 45 is lonely; life expectancy has stopped rising; and a prime culprit is "deaths of despair" from suicide, alcohol, and drug abuse.

It wasn't always like this. Last century, people got good at building community. They put up Elks Lodges and union halls, organized bowling leagues and civic groups. Their taxes built pools, parks, community centers, and libraries, with philanthropists such as Andrew Carnegie pitching in. Your community wasn't a few close friends and family members or a couple of tolerable co-workers. It was a whole bunch of people who made you feel less lonely on a regular basis. Community was where we went for advice, intel, juicy gossip. It's where we found people to date and marry. And in a crisis, it came together.

The biggest reason things have changed? "The internet," says Julia Bainbridge, creator and host of the popular podcast *The Lonely Hour*. "Yes, it can alleviate loneliness—social connectivity with a click!—but that's only a temporary form of self-soothing." Our innate desire for community and connection is why we rushed onto social media in the first place. We friended, shared, liked, argued. The smartphone let us reach anyone at any time.

At the very least, let's agree: The more time we spend with our devices, the more time we need with actual human beings

After studying the spiritual lives of millennials, a group of scholars at Harvard Divinity School called How We Gather describes how that worked out: "Young people are both more globally connected and more locally isolated than ever."

A year ago, Mark Zuckerberg acknowledged Facebook Inc. was falling short in the community-building department. Content on the site "is crowding out the personal moments that lead us to connect more with each other," he wrote, vowing to shift Facebook's focus "to helping you have more meaningful social interactions."

Sociologist Eric Klinenberg isn't as convinced that the internet is the root of the problem. For one thing, he's not sure we really have a "loneliness epidemic." (Perhaps some percentage of us has always been lonely.) Instead, his new book, *Palaces for the People: How Social Infrastructure Can Help Fight Inequality, Polarization, and the Decline of Civic Life*, argues that the bigger reason for our societal ungluing is that we've neglected the institutions that once supported our communities. Also, plenty of other social trends are making us feel more untethered than previous generations: People are less religious, marrying later, having fewer kids at older ages, and more likely to live alone.

And yet, Klinenberg allows that "people are exhausted and unhappy when they spend too much time on their screens." Ideally, social media serves as a supplement to—not a replacement for—our social lives, he says. "One really big problem is that people are distracted even when they're with each other."

One technology company that's trying to increase real-life community-building is Nextdoor, a social network that reduces the creepiness of connecting with strangers by verifying names and addresses, then nudging neighbors to connect over common interests, such as book clubs or barbecuing.

"While we are clearly a technology company, it's with a goal of: 'How do we get people off their phones and off their apps?' " says Nextdoor Chief Executive Officer Sarah Friar. Usage has surged during recent hurricanes and wildfires, she says. "In the moment of crisis, people see the real benefit of community."

ILLUSTRATION BY LORENZO GRITTI

At the very least, let's agree: The more time we spend with our devices, the more time we need with actual human beings as well—with people who look at us, not down at their phones every three minutes. Moreover, let's stipulate that our jobs and our spouses can't fill this community-size hole in our lives. The sociologist Ray Oldenburg has argued that the missing ingredient is what he's coined the "third place"—spots beyond home or work—where people can gather and connect.

This realization is starting to hit some unlikely corners of society. Brick-and-mortar retailers, for example, are figuring out how to make themselves into gathering places to accentuate one advantage over online competitors. Apple Inc., for example, is turning stores into "town squares" that encourage customers to linger. Starbucks Corp., which bills itself as one of these third places, has begun opening mammoth Roastery outlets that are part theme park, part coffee shop/bar, and, it hopes, part hangout. Meanwhile, upscale apartment buildings are betting residents will pay higher rent or give up private space in exchange for shared amenities such as outdoor terraces, grilling stations, pools, gyms, lounges, and party rooms.

Gehl, an architecture firm that's pioneered an "observational approach" to social urban spaces in San Francisco, Shanghai, and Copenhagen, has done extensive research on solutions that foster real interaction, and it's not easy. Public plazas that look fantastic in a mock-up often aren't anywhere you'd want to spend a lunch hour—too noisy, windy, or lifeless. "You have to be intentional about making this happen," says Matthew Lister, director of Gehl's New York office. The key, he says, is constantly experimenting with the smallest details. Is there enough shade? How far apart are the benches? If there's a place for the kids to play, is there a place for their parents also?

Tishman Speyer, a global real estate investor and developer, is doing something similar in its office buildings. At New York's Rockefeller Center complex, where 18,000 employees work for companies large and small, Tishman built a 33rd-floor clubhouse with a cafe, foosball tables, nap pods, and an event space for gaming or photography groups to gather. "Even though it was in an office building, we wanted it to feel like your living room," says Tishman managing director EB Kelly. There's lots of greenery, soft seating, and even carefully chosen scents and music. It's been so popular, the company is creating similar spaces in other buildings around the world and converting office lobbies so they look more like hotel lobbies, inviting tenants and guests to interact.

There's "this desire and need for a space where humans can come together and interact face-to-face," Kelly says. "There is a significant unmet demand for a place that feels both private—in that it's not the middle of Grand Central Terminal with a zillion people running around—and isn't your office and your home."

These ideas are all great. But the most urgent need right now is for people who assertively take on the role of host. "Every time people gather, they are being brought into the opportunity to help one another, to do what they couldn't do or think up or heal alone," argues Priya Parker in her recent book, *The Art of Gathering: How We Meet and Why It Matters*. Too often, gatherings are on autopilot and leave attendees feeling disconnected. The job of the host, she says, is "to fuse people, to turn a motley collection of attendees into a tribe."

At the Wing, a co-working space and social club aimed at women, event attendees are asked to introduce themselves to everyone around them. "It might feel cheesy in the moment, but it helps take that social anxiety out of the air," says Marianna Martinelli, the Wing's head of community. The startup, which has five locations in three cities and plans to double that this year, has also created an app where members can connect and arrange to meet in person. "If you might not have the guts to approach someone you admire, you might have courage to email them to ask for advice," she says.

So while a city can build community with a thoughtfully designed dog park or a well-funded library, only you can knit together your own community. Parker suggests embracing "the power of the stranger" at a gathering. Invite new people and make them welcome among your old friends. Expand the tribe.

Your mileage may vary. You might even borrow an approach from Lister, the architect: Experiment, observe, then tweak. Country music or jazz? Tuesday evening potluck or Sunday picnic? Board games, dance-off, or just a friendly chat? Do whatever works to create something increasingly rare: a group of people laughing and talking, phones safely secured in their pockets and purses.

Too many potential hosts are scared off by outdated standards, left over from an era when women were expected to stay home and deliver the perfect party. I say: Put out some food and a punch bowl. Turn the lights down, and they won't see the dust. Wine and beer snobs can BYOB. A casual party is better than none at all.

The only ingredient you really need is someone willing to step up. When the Elks Lodge in Meadville, an industrial town in northeastern Pennsylvania, closed two years ago, it spelled the end of not only a community center but also its annual Jimmy Moore Christmas Party, which had been a popular benefit for needy children in the area since 1946. Then Nancy Mangilo-Bittner, the town's 66-year-old deputy mayor and City Council member, decided to take charge and organize it on her own. (She also has a day job.)

"It's obvious the community wants [the party] to continue," she says. But she worries about its future in a town where younger adults don't participate in civic groups and volunteer as much. "We're a tightknit community here," Mangilo-Bittner says. "If they hide behind their phones, how much longer will that last?" At least the Jimmy Moore Christmas Party is still going strong because she assumed the responsibility of hosting it. This year, one citizen gave out hundreds of pairs of socks. Another baked 35 dozen cookies. And all told, 260 children received presents and other goodies. And Mangilo-Bittner? She's a local legend. B

Have Your Cake And Drink It, Too

Beers that are high in alcohol and taste like dessert are a worthy winter indulgence. *By Spike Carter*
Photograph by Sarah Anne Ward

A frosty mug of fizzy yellow pilsner might not sound like the most luxurious post-dinner drink, but what about an imperial stout that's twice as strong as a regular brew and tastes like pistachio-chocolate ice cream?

Certain boozy subgenres of sweet beer–porters, stouts, and barleywines, particularly–are increasingly popular as dessert drinks. Defined by their high alcohol content, they do the work of a nightcap while doubling as a dose of sugary satisfaction before bed. Some of their potency comes from aging in used spirit barrels, but clever beermakers have discovered ways of coaxing wine-level alcohol content out of yeast as well.

Goose Island's Bourbon County Brand stout is generally recognized as the first of the style aged in whiskey barrels. Greg Hall, the Chicago company's brewmaster in the mid-'90s, wanted something memorable for its 1,000th batch of beer. A chance acquisition of spent Jim Beam barrels led to the proverbial lightbulb: What flavors would surface if you filled the barrels with stout? "It's not a normal beer," says Mike Siegel, Goose Island's research and development manager. "You can take 10 sips over 10 minutes and taste something new every time."

Another dessert beer with the punch of an after-dinner digestif comes from California's Firestone Walker. Its anniversary ale changes every year but always spotlights the decadent enjoyability of sweeter, "stickier" beers. This year's XXII release is heavy on malt while packing notes of dark fruit and an herbal, spicy edge.

Some dark dessert beers are brewed with the ingredients of a favorite sweet, giving them the name "pastry stouts." The Willy Wonka of this category is Sweden's Omnipollo. "If I didn't make beer, I'd be a pastry chef," says co-owner Henok Fentie. "One thing that fascinates me with pastry stouts is how one element instantly signals a dish. Put maple in a beer, and chances are you'll think of pancakes. Add coffee, and it's as if you just woke up." Lorelei Extra Maple–the world's second-highest-ranked imperial porter on the RateBeer website–provides one such Proustian memory flood.

Maine brewer Barreled Souls, founded by duo Chris Schofield and Matthew Mills, has created unorthodox pastry stouts using anything from bacon to marshmallows. Their secret to making a superlative meal ender? "With dessert beers," Schofield says, "it's all about the first impression." Ⓑ

1. Mexican Donut This imperial stout from Barreled Souls is finished with roasted Fresno chiles as well as vanilla, chocolate, and cinnamon doughnuts from Maine's beloved Holy Donut shop. *10.1 percent ABV; $12 per bottle.* **2. XXII Anniversary ale** For its 22nd anniversary, Firestone Walker in Paso Robles, Calif., blended miscellaneous strong ales aged in bourbon, rum, and even gin barrels. *12.7 percent ABV; $13.* **3. Lorelei Extra Maple** The mad scientists at Omnipollo add sweet sap to barrel-aged imperial porter to create "the closest thing to drinkable maple syrup." *10.5 percent ABV; $11.50.* **4. Bourbon County Brand coffee barleywine** This Goose Island limited release, aged in Heaven Hill whiskey barrels, adds flavors from Guatemalan coffee beans. *15.1 percent ABV; from $16*

PROP STYLIST: PAOLA ANDREA

The 18th green and PXG House at Scottsdale National in Arizona

Weekend at Bob's

At a billionaire's golf nirvana, you can spend three days getting fitted for the most coveted set of clubs in the game. *By John Paul Newport*

It's not unusual for golf-addicted billionaires to drop a couple of hundred million dollars on the ancient game. Herb Kohler (of the Kohler Co.) built the famous Whistling Straits and Blackwolf Run courses in Wisconsin. Paul Fireman (Reebok International Ltd.) created Liberty National Golf Club on a former Superfund site opposite the Statue of Liberty. Julian Robertson (Tiger Management) carved out two spectacular clifftop courses in New Zealand. Then there's Donald Trump.

Bob Parsons has gone a different route. In 2013 the founder of GoDaddy Inc. (estimated wealth: about $2 billion) purchased a down-on-its-luck country club in Scottsdale, Ariz., and set about transforming it into a golf paradise, adding two courses, a second clubhouse, and luxurious overnight accommodations. Total cost when it's all done later this year: $300 million.

Then in 2015 he started PXG (for Parsons Xtreme Golf LLC), a golf-equipment company that markets drivers, irons, and putters the way Rolex sells watches. Now Parsons is using his high-desert oasis, christened Scottsdale National Golf Club, as a tool for selling his luxury goods. For $17,500, PXG customers can buy a three-day "Xperience." The sum includes a set of PXG clubs, custom-fitted at an on-site hyperdeluxe practice facility, and the opportunity to use them on the club's courses. Wining and dining at the club is also part of the deal, though customers stay at the nearby Four Seasons resort; the sumptuous on-site villas are reserved for the club's 139 members.

PXG equipment is the result of Parsons's own frustrated search for clubs to help his midhandicap game. He poached a few key staffers from Phoenix-based golf brand Ping Inc. and challenged them to design irons, cost be damned, that look like the minimalist clubs elite players use but are as forgiving as the chunkier game-improvement clubs that assist many amateurs. Woods, wedges, putters, and more irons followed. By all accounts, PXG clubs work well, especially because customers can't buy them without personalized fittings by authorized professionals. Matching a player's swing with the right shaft and clubhead can make a huge difference in performance.

Parsons was aggressively unapologetic right out of the gate about the price. Drivers sold for $850, irons for $400 or more each. A 14-club set could come to $6,000-plus—more than double what premium sets from mass-market companies go

COURTESY PXG

for, and four or fives times the cost of the lowest-priced ones. “These clubs are for those who can afford the best in everything they do and for people who aspire to that level,” Parsons told me in November during a media event at Scottsdale for PXG’s new lineup of Gen2 woods. So it was a little surprising when the two models of the Gen2 driver went on sale on Jan. 1 with a list price of only $575. Still, it’s among the most expensive golf clubs sold by an American company.

The preview event also provided a glimpse at the club and the PXG Xperience. The primary clubhouse—Southwest architecture, exposed timber, blazing hearths—looks as if it dates from the 19th century, albeit with every modern convenience. The vibe is extravagant (Parsons used the word “insane”) but not pretentious. “There’s only one rule here, and that’s that no member shall ever get in the way of another member’s good time,” he said. “If you want to play golf in a T-shirt, fine. If you want to talk on your cellphone, fine.”

At the reception, Parsons, 68, wore black shorts, a black tee, and a black PXG wind vest. His arms are tattooed with tributes to the U.S. Marine Corps, in which he served during the Vietnam War. He prides himself on defying expectations. At one point he showed off cellphone photos of a Rolls-Royce he recently sold; he’d replaced the Rolls nameplate with a big Chevy bowtie badge. Now he drives only Dodges.

Among the first things Parsons did when he acquired the property (initial investment: $600,000) was to entice many of its most active local members to resign by dangling a full refund of their initiation fees and laying out his expensive vision of the club’s future. That dream was to be an Augusta National of the West, with a limited number of mostly national, invitation-only members who’d visit a few times a year, usually with guests, and stay in the posh villas. Joining now costs $300,000; annual dues are $60,000.

These members can rest assured they’ll never need a tee time. The three courses, one of them a nightmarishly difficult par-3 specifically designed to encourage “taunting and smack talk,” in Parsons’s words, average 90 rounds a week in season, combined. (For purposes of comparison, the single Pebble Beach Golf Links course, which is at or near the top of most golfers’ bucket lists, sees more than 1,000 rounds of play a week.) Members will also never need to rake a bunker. Hiding amid the tall cactus near most greens are laborers, rakes in hand, waiting to do that job for you. Service across the 700-acre property, bordered on three sides by protected wilderness, is impeccable. While chipping one day at the world-class short-game practice area—five separate greens, dozens of bunkers—I paused to chat with another visitor. When I turned back around, the balls I’d been chipping were stacked in a neat pyramid, I never saw by whom.

A PXG Gen2 driver, which was released this month

COURTESY PXG

At one end of the 400-yard-long driving range, PXG’s fitters had set up a station. They had an assortment of driver, fairway wood, and hybrid clubheads they could screw into shafts of different lengths and flexes. They could make additional adjustments to the clubhead, such as increasing or decreasing the effective loft, or adding or subtracting weight plugs to the sole. Every shot was tracked and measured by radar. The goal: to get the optimal launch angle, spin rate, and ball speed for each golfer’s unique swing.

Blake Smith, PXG’s head teaching and fitting pro, set me up with a new 0811X Gen2 driver, as well as a fairway wood and hybrid. (Yes, I paid for them; Bloomberg journalists don’t accept gifts.) An experienced fitter like Smith could tell from watching me warm up approximately what shaft and clubhead I’d need. He was as interested in my mis-hits as my best swings, because that revealed where I could use the most help. For the driver, he changed clubheads only once—and then went back to the original—but we experimented with three shafts before getting the right one. The club Smith ultimately built for me was a half inch shorter than most manufacturers’ standard driver length, for better control, but I swung it three miles per hour faster than my old club and got five extra yards of carry distance.

Parsons said he hopes to expand PXG substantially. The lower pricing is part of the strategy. But profit doesn’t seem to be the main point, certainly not when it comes to Scottsdale National. “More than anything, this place is for me,” he said. “I know I’ll never get back all the money I’ve put into it, but that’s fine. I’ve busted my chops all my life, and this is where I want to be.” Just the way you’d imagine a golf-addicted billionaire would think. B

#OscarsSoWoke

For women and minorities, award-show season remains an effective protest platform
By Melissa Silverstein

After actor Natalie Portman braved the stage at the 2018 Golden Globes to introduce the nominated directors as "all male," it wasn't hard to find mocking stories in the media. Critics also went after the many women that night who wore black in solidarity with Time's Up, the movement against sexual harassment that had begun a few days earlier.

Portman's deft bit of activism, however, was just an appetizer for the Academy Awards two months later, when best actress winner Frances McDormand used her speech to promote "inclusion riders," a provision in an actor's or filmmaker's contract that allows for a certain level of diversity in casting and production staff.

Most people in the theater that night, or watching on television, had never heard of an inclusion rider. But soon enough, Matt Damon, Michael B. Jordan, and other powerful men announced they'd insist on their implementation. William Morris Endeavor Entertainment LLC and Warner Media LLC also committed to inclusion as a core value. "Years down the line, people will look back at this moment as being the start of real change," Jordan says. "It's going to take some time, but with Warner Brothers leading the charge, it's hard not to see other studios following suit."

Turns out that awards shows, for all their superficial interest in who's wearing what, can be powerful levers for change. For one, they offer a chance to break through the noise when the world is paying attention—how often do moviegoers think about a film's director before Oscar season? The nominations and awards themselves also confer significant influence. Consider an actor such as Brie Larson, who won an Academy Award for *Room* as a relative newcomer in 2016. She's now using her press junket for the superhero flick *Captain Marvel* to push for gender parity. An award, especially an Academy Award, gives an actor, director, or producer more power over which projects they work on, what they get paid, and whom they hire.

Activism has been a touch point around awards events—think of #AskHerMore, which addresses the double standard of red carpet questions for men and women, or #OscarsSoWhite, which highlights the lack of minority nominees in film. But the current level of deliberate focus and action has continued to shift the tectonic plates of post-Harvey Weinstein Hollywood.

At the Cannes Film Festival in May, 82 women from across the industry (including yours truly) walked the world's most prestigious red carpet to shine a spotlight on the event's inviting only 82 female directors, compared with 1,727 male ones, to present films there in its 71-year history. Just one woman, Jane Campion, has won the festival's highest honor, the Palme d'Or—for *The Piano* in 1993—and even then she shared it with a man.

At this year's Golden Globes, *If Beale Street Could Talk* star Regina King used her winning moment as best supporting actress to announce that women would account for at least half of the staff on future projects she produces. It caused a stir, which was the intention: She made her declaration at a moment when she had the most leverage.

Representation is at the heart of this push for change. When most people think of a director, it's the image of a white guy in a baseball cap—no surprise, that's what Steven Spielberg looks like. We were presented with stories primarily from white men, so those narratives became the stories of our culture.

Little by little, though, these award-show speeches are making a difference. Over the last three years, the Academy of Motion Picture Arts and Sciences has increased the number of women in its directing branch, from 10 percent to about 20 percent, hoping to get more of them nominated.

And as we reach peak award season, audiences have shown they're on board with inclusion: *Black Panther* and *Crazy Rich Asians*, both directed by men of color, were huge successes this year. Along with more high-profile female-directed films, it's enough to hope that the white-male stranglehold on movies may be over once and for all. Ⓑ *—Silverstein is the founder of Women and Hollywood, an initiative that advocates for gender diversity in the film industry.*

ILLUSTRATION BY CYNTHIA KITTLER

Nice Spice

Seasonings from Burlap & Barrel make just about anything taste better
Photograph by Will Anderson

The path most spices take from the exotic places they're grown to your less exotic kitchen cabinet is a long one, both in miles traveled and time elapsed. Which is why the pepper you grind onto a rib-eye and the cinnamon you sprinkle over your oatmeal are already pale, tired shadows of their original selves. Burlap & Barrel, based in Queens, N.Y., bypasses the centuries-old, slow-moving supply chain and sources whole spices directly from growers. While "single origin" and "fair trade" are virtuous traits, it's the vividly fresh taste that has chefs from Manhattan's Eleven Madison Park and Blue Hill ordering Turkish black Urfa chile ($9 for 1.8 oz., bottom right) and delicate shavings of Zanzibar cinnamon verum ($7 for 0.3 oz., center).

THE COMPETITION

- Claire Cheney of Curio Spice Co. sources and blends delicious and unusual spice mixes. Edo ($9 for 1.5 oz.) is inspired by Japanese *shichimi togarashi* and highlights the lemony *sansho* pepper.
- Sichuan peppercorns are typically heat-treated before import, blunting their flavor and character. Mala Market's peppercorns ($10 for 2 oz.) are not, so they retain more herbal hints.
- The benefits of turmeric, the bright yellow cousin to ginger, diminish with poor handling and storage. Diaspora Co. imports directly and mills quarterly, so its product ($15 for 3.5 oz.) is fresh and potent.

THE CASE

Burlap & Barrel co-founder Ethan Frisch left his job as a pastry chef in New York to work for a nongovernmental organization in northern Afghanistan in 2012. But even while he dealt with the construction of roads and schools, his chef's sensibility remained. The Wild Mountain cumin seeds ($10 for 1.5 oz., center right) he discovered there are tiny, but they pack powerful fragrances of pine and mint. Friends at other NGOs put him in touch with a farm co-op in Zanzibar, where sun-dried black pepper ($8 for 2 oz., atop cinnamon) punches through with fruitiness and heat—and totally redefines a spice you thought you knew. *All spices available at burlapandbarrel.com*

Can China's Banks Handle a Rate Cut?

By Nisha Gopalan

Bank stocks in China are underperforming, a sign the market is worried about them. Should you be? Banks make up a big part of indexes for onshore Chinese stocks and are therefore in many portfolios whether investors know it or not.

Beijing has been cutting banks' reserve requirements to release more cash into the financial system. At some point, central bankers will have to decide whether to start cutting interest rates—which can juice the economy but has done serious harm to the banking sector in the past. This time, though, investors needn't fear.

ILLUSTRATION BY GEORGE WYLESOL

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● SEEING ISN'T BELIEVING
China's financial stocks have traded at less than their price-to-book ratio since May, indicating investors have doubts about their reported results.

● LESS COULD BE MORE
The meager price-to-book ratio could mean that Chinese bank stocks are undervalued, an opportunity for risk takers.

China last lowered lending rates in October 2015, only two months before the U.S. Federal Reserve began its series of rate hikes. The cut—plus the devaluation of the yuan—triggered an exodus of foreign money. The current slowdown isn't severe enough that a cut is imminent, but a shift in the language from the People's Bank of China indicates it may be open to lowering rates. Ahead of a conference in December, PBOC chief Yi Gang said it would seek an "appropriate balance between tight and loose" monetary policy. The last time it used that language was November 2014, right before it unleashed a series of six rate cuts.

Chinese banks are more capable of handling lower net interest margins than they've ever been, because they've reduced their risky business loans and added safer mortgage loans. Unlike in the U.S., where reckless home lending led to the 2008 financial crisis, mortgages in China aren't securitized, and the paperwork is more rigorous. As many as 90 percent are first mortgages, on which homebuyers have to make a down payment of at least 30 percent.

Bad debts will probably rise as the trade war heats up and the economy slows, which has already led Beijing to call on banks to perform "national service." Even as President Xi Jinping ratchets up pressure on banks to extend more loans to the struggling private sector, they're more likely to find ways to get around the request (or at least do the bare minimum) than to suddenly open the floodgates. For now, Beijing will continue to cut banks' required reserve holdings, but if that isn't enough to prop up the economy and the PBOC begins slashing interest rates, the resulting increase in bad loans will be a lot less than the sector's current underperformance indicates. Ⓑ
—Gopalan is a finance columnist for Bloomberg Opinion

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